Cooperativa de Ahorro y Crédito Roosevelt Roads

AUDITED FINANCIAL STATEMENTS

For the years ended
June 30, 2020 and 2019

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CONTENT

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cooperativa de Ahorro y Crédito Roosevelt Roads
Fajardo, Puerto Rico

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying statements of financial statements of the Cooperativa de Ahorro y Crédito Roosevelt Roads ("the credit union") as of June 30, 2020 and 2019 and the related statements of financial condition, statements of income and expenses, changes in members' equity, comprehensive net income, and cash flow for the years then ended and the corresponding 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 generally accepted accounting principles 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 audit. We conducted our audit in accordance with generally accepted auditing standards in the United States of America. These standards require that we plan and perform the audit 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 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 enough and appropriate to provide a basis for our adverse opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

BASIS FOR ADVERSE OPINION IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA

The credit union management decided to continue with the presentation that is promulgated by the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico (COSSEC) in accordance with Law 255 of 28 October 2002 amended by Law 220 of December 15, 2015 of the Commonwealth of Puerto Rico (statutory basis), which is considered a different basis to the generally accepted accounting principles in the United States of America.

The effect on the financial statements of the variances between the statutory basis and generally accepted accounting principles in the United States are significant. If the items described in Note 3 had been classified in accordance with the generally accepted accounting principles, the total assets would decrease by $9,786,315 and $10,424,881, liabilities would increase by $54,929,296 and $53,490,753, and members' equity would decrease by $64,715,611 and $63,915,634 as of June 30, 2020 and 2019, respectively. Additionally, net income would decrease by $10,552,932 and $11,468,247, for the year ended June 30, 2020 and 2019, respectively.

ADVERSE OPINION ON GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA

In our opinion, because of the significance of the matters discussed in the paragraph of the Basis for Adverse Opinion at June 30, 2020 and 2019, according to generally accepted accounting principles in the United States, the financial statements referred to above do not present fairly, in all material respects, the financial position of the Credit Union as of June 30, 2002 and 2019, the results of operations, changes in member's equity, comprehensive net income and cash flows for the years then ended, in accordance with generally accepted accounting principles in the United States.

OPINION ON REGULATORY BASIS OF ACCOUNTING

In our opinion, the financial statements accompanying present fairly, in all material respects, the financial position of the Credit Union as of June 30, 2020 and 2019 and the results of operations, changes in members' equity and cash flows for the years then ended, in accordance with the regulatory basis described in Note 2 of the financial statements.

San Juan, Puerto Rico
October 15, 2020

Stamp No. E-421066
Was affixed to the original.

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Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF FINANCIAL CONDITION
June 30, 2020 and 2019

ASSETS	**2020**	**2019**
Cash and cash equivalent	$ 44,009,249	$ 23,858,942
Savings certificates (due over three months)	16,939,241	15,772,953
Investment securities, available for sale	22,086,409	23,067,404
Special Investments	2,637,384	2,639,097
Loans, net of allowance for loan losses	104,239,033	103,438,106
Investment in cooperative entities	4,783,989	4,758,989
Property and equipment, net of accumulated depreciation	2,550,502	2,569,384
Other Assets	12,359,740	14,860,755
Totals assets	$ 209,605,547	$ 190,965,630
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Deposits	$ 99,804,558	$ 82,465,262
Certificate of deposits	29,592,644	31,204,946
Accounts payable and accrued expenses	3,213,945	3,237,228
Total Liabilities	132,611,147	116,907,436
Members' equity:		
Shares, par value of $10	54,529,296	53,190,753
Reserve for undistributed capital	8,380,179	7,880,179
Special temporary reserve	8,207,438	7,207,438
Reserve for social capital	868,746	761,198
Reserve for contingencies	3,817,231	3,817,231
Other reserves	672,706	672,706
Accumulated comprehensive gain	298,311	128,689
Undistributed earnings	220,493	400,000
Total Members' Equity	76,994,400	74,058,194
Total liabilities and Members' equity	$ 209,605,547	$ 190,965,630

The accompanying notes are an integral part of the financial statements.

Cooperativa de Ahorro y Crédito Roosevelt Roads

STATEMENTS OF INCOME AND EXPENSES

For the years ended June 30, 2020 and 2019

	2020	2019
Income of financial operations:		
Interest income:		
Loans	$ 8,712,577	$ 9,064,594
Investments, certificates and savings accounts	943,272	891,654
Total interest income	9,655,849	9,956,248
Interest expense:		
Deposits and certificates of deposits	(827,091)	(812,082)
Net interest income	8,828,758	9,144,166
Allowance for uncollectible loans	(300,000)	(300,000)
Income after allowance for uncollectible loans	8,528,758	8,844,166
Other income	1,884,553	3,078,144
General and administrative expenses	(7,677,503)	(8,014,166)
Net income before losses under special amortization	2,735,808	3,908,144
Losses under special amortization	(1,015,315)	(1,015,524)
NET INCOME	$ 1,720,493	$ 2,892,620

The accompanying notes are an integral part of the financial statements.

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the years ended on June 30, 2020 and 2019

	Shares	Reserve for Indivisible Capital	Special Temporary Reserve	Reserve for Social Capital	Reserve for Contingencies	Other reserves	Accumulated Comprehensive Income (Loss)	Undistributed Earnings
Balance at June 30, 2018	$ 52,958,706	$ 7,387,559	$ 5,207,438	$ 621,761	$ 3,817,231	$ 672,706	$ (156,183)	$ 300,000
Additional investment from members	8,809,034	-	-	-	-	-	-	-
Capitalized dividends	300,000	-	-	-	-	-	-	(300,000)
Withdrawal of members	(8,876,987)	-	-	-	-	-	-	-
Inactive unclaim account transfer	-	-	-	139,437	-	-	-	-
Change net comprehensive loss	-	-	-	-	-	-	284,872	-
Contribution to special temporary reserve	-	-	2,000,000	-	-	-	-	(2,000,000)
Contribution to reserve for indivisible capital	-	492,620	-	-	-	-	-	(492,620)
Net income	-	-	-	-	-	-	-	2,892,620
Balance at June 30, 2019	53,190,753	7,880,179	7,207,438	761,198	3,817,231	672,706	128,689	400,000
Additional investment from members	7,982,162	-	-	-	-	-	-	-
Capitalized dividends	400,000	-	-	-	-	-	-	(400,000)
Withdrawal of members	(7,043,619)	-	-	-	-	-	-	-
Inactive unclaim account transfer	-	-	-	107,548	-	-	-	-
Change net comprehensive loss	-	-	-	-	-	-	169,622	-
Contribution to special temporary reserve	-	-	1,000,000	-	-	-	-	(1,000,000)
Contribution to reserve for indivisible capital	-	500,000	-	-	-	-	-	(500,000)
Net income	-	-	-	-	-	-	-	1,720,493
Balance at June 30, 2020	$ 54,529,296	$ 8,380,179	$ 8,207,438	$ 868,746	$ 3,817,231	$ 672,706	$ 298,311	$ 220,493

The accompanying notes are an integral part of the financial statements.

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF COMPREHENSIVE NET INCOME
For the years ended June 30, 2020 and 2019

	2020	2019
Net income	$ 1,720,493	$ 2,892,620
Other comprehensive income (expense):		
Change in unrealized gain (loss) on investment securities available for sale	169,622	284,872
Net comprehensive income	$ 1,890,115	$ 3,177,492

The accompanying notes are an integral part of the financial statements.

Cooperativa de Ahorro y Crédito Roosevelt Roads

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

	2020	2019
Cash flow from operating activities:		
Net Income	$ 1,720,493	$ 2,892,620
Adjustment to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	406,647	419,300
Provision for uncollectible loans	300,000	300,000
Amortization of loss on special investments-Law220	1,015,315	1,015,524
Provision for disposition of repossessed properties	1,100,000	1,200,000
Deferred cost in the origination of loans	56,645	255,203
Gain on sale of investment securities	-	(41,058)
Collection of loans previuosly reserved	156,549	155,568
Increase (decrease) in other assets	1,401,016	(1,472,550)
Increase in account payable and accrued expenses	84,265	(21,134)
Net cash used in operating activities:	6,240,930	4,703,473
Cash flow from investing activities:		
(Increase) decrease in loans, net	(1,314,121)	1,272,383
(Increase) decrease in savings certificates	(1,166,288)	2,249,998
Purchase of property and equipment, net	(387,766)	(131,430)
(Increase) in investment in cooperatives entities	(25,000)	(68,992)
(Increase) decrease in investment securities, net	137,015	(6,364,102)
Net cash used in investing activities:	(2,756,160)	(3,042,143)
Cash flow from financing activities:		
Increase (decrease) in deposits, net	17,339,296	(1,460,041)
Decrease in certificate of deposits	(1,612,302)	(2,554,412)
Increase (decrease) in shares, net	938,543	(67,953)
Net cash used in financing activities:	16,665,537	(4,082,406)
Net increase (decrease) in cash and equivalents	20,150,307	(2,421,076)
Cash and equivalents at beginning of the year	23,858,942	26,280,018
Cash and equivalents at end of year	$ 44,009,249	$ 23,858,942

The accompanying notes are an integral part of the financial statements.

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF CASH FLOW
For the years ended June 30, 2020 and 2019

Additional Disclosure to the Statement of Cash Flows

For the years ended June 30, 2020 and 2019, respectively, the payment of interest on deposits and certificates amounted to $813,322 and $818,458. In addition, the following transactions were recorded, which did not represent cash transactions:

	2020	2019
Dividend in shares	$ 400,000	$ 300,000
Undistributed earnings transferred to indivisible capital	$ 500,000	$ 492,620
Undistributed earnings transferred to special temporary reserve	$ 1,000,000	$ 2,000,000
Undistributed earnings transferred to reserve for contingencies	$ -	$ -
Change in net comprehensive income (loss)	$ 169,622	$ 284,872
Net transfer to inactive accounts	$ 107,548	$ 139,437
Decrease not temporary in investments	$ -	$ 557,829

The accompanying notes are an integral part of the financial statements.

1. ORGANIZATION

The Credit Union is regulated by Law 255, approved on October 28, 2002, known as "Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002", as amended, and by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC by its acronym in Spanish). It is a nonprofit organization and is primarily dedicated to receiving savings from its members in the form of shares and deposits, from non-members in the form of deposits and to provide them financial and investment resources.

2. REGULATORY MATTERS

Law Number 114 of August 17, 2001

The Law 114 of August 17, 2001, *Public Corporation for the Supervision, and Insurance for Credit Unions of Puerto Rico Law*, as amended, it provides, among others that:

a. The maximum combined number of shares and deposits insured by a member or depositor will be two hundred and fifty thousand dollars ($250,000).

b. The Corporation has the obligation to decree and to take effect the increases in the maximum limits of the coverage insured established, in the dates which are provided in the law referred.

c. Although, the Board of COSSEC will have the authority to cease the effect, when the experience of losses from the shares and deposits insurance, the economic condition of the Corporation, the accepted actuarial determinations by the Board, indicated that no increase could be dictated, as soon as the circumstances that have obstruct its effectiveness on the corresponding date are overcome.

d. Each insured Credit Union must maintain in the Corporation, as capital contribution, an amount equal to one percent (1%) of the total of their holding members' shares and deposits as of June 30 of each operating year, as stated in the certified statement of members' shares and deposits or in the certified statement of financial condition as required by this Law.

e. The Corporation will establish the standards and procedures to determine annually the amount of deposit for capital contribution, that each insured Credit Union must maintain, as their shares and deposits vary. In addition, it will establish the standards and procedures to determine the annual increase that should be required in the amount of such capital contribution due to an increase in the shares and deposits insured.

f. When the sum of the unrestricted reserves, not compromised for payment of losses and total equity of the Corporation, exceed two percent (2%) of the total of members' shares and deposits insured, the Corporation will use such exceed for the payment of interest over capital. This interest will be determined based on the rate of the average return of total asset of the Corporation for twelve (12) months prior to the date the payment is made, reduced by one percent (1%).

g. Each Credit Union will pay an annual premium using a rate that fluctuates based on an indicator obtained from the total capital and insured deposits held by the Credit Union as of June 30 of each year. The Board of Directors of COSSEC may determine higher rates if they have the actuarial studies that support them.

Law Number 255 of October 28, 2002

The Law No. 255 of October 28, 2002, Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002, establishes the following requirements, among others:

Restricted Cash

The Credit Unions will maintain an amount of restricted cash of to be determined in the following manner:

a. The thirty five percent (35%) of the indivisible capital reserve must be maintained in liquid assets.

b. All Credit Union whose indivisible capital reserve is less than eight percent (8%) of its total risk assets will separate and incorporate annually to the indivisible capital, a twenty five percent (25%) from the net income until the reserve reaches and maintains the eight percent (8%) from the total assets subject to risk. All Credit Union, whose reserve for indivisible capital have reached and maintained an eight percent (8%) their assets subject to risk, will have discretion to reduce to no less than five percent (5%) the contribution to be transferred to the indivisible capital reserve. As of June 30, 20120 and 2019, the Credit Union reserve the amount of $500,000 and $492,620, respectively, as indivisible capital, which represents a twenty nine percent (29%) and five percent (5%) of their net income, respectively.

c. Must maintain in liquid funds fifteen percent (15%) of the deposit's accounts.

d. Must maintain in liquid funds fifteen percent (15%) of the total certificates, excluding those that the maturity date is within the next thirty (30) days, in which case, the twenty five percent (25%) must be maintained and, the certificates that are pledged, in which case, there will be no need to maintain liquid funds.

e. Must maintain eight-point thirty three percent (8.33%) of the monthly accumulative for those deposits of specific accounts until reaching a one hundred percent (100%).

As a result of the requirements the Law 255 mentioned above, the Credit Union maintained as of June 30, 2020 and 2019, the approximately amount of $23,000,613 and $20,421,222, respectively, in cash, saving certificates and investment securities acceptable for liquidity, that are not available to be used in the current and normal operations. The required liquidity calculation is presented as follows:

	2020	2019
Required funds:		
Reserve for indivisible capital (35% required)	$ 2,933,063	$ 2,758,063
Deposits and certificates with maturity greater than 30 days	18,162,642	15,796,088
Certificates of deposits with maturity less than 30 days	1,333,436	1,233,441
Deposits for special events	571,472	633,630
Total required	23,000,613	20,421,222
Total of available funds	86,274,703	64,239,985
Liquid funds in excess of require by Law	$ 63,274,090	$ 43,818,763

Reserve for Indivisible Capital

The credit unions must maintain an irrepartible capital reserve that will be known as indivisible capital. The thirty-five percent (35%) of the indivisible capital reserve will be held in liquid assets.

Each Credit Union must maintain a minimum indivisible capital of eight percent (8%) of the total assets subject to risk. It will consider as elements of the indivisible capital reserve (to determine the percentage over the total risk assets) the following, in accordance the Law 255, as amended:

1. The reserve for indivisible capital, including the sum the Credit Union has accumulated until the effective date of this Law, after subtracting any accumulated or current loss;

2. Any capital reserves made by the Credit Union, except the reserve for unrealized losses or gains from available-for-sale securities as required by the pronouncement issued by the Financial Accounting Standard Board (FASB);

3. The fifteen percent (15%) of the undistributed retained earnings by the Credit Union;

4. The portion of the reserves established by the Credit Union to absorb the possible future losses on loans or financing that are not delinquent;

5. The capital obligations issued by the Credit Union and those financial instruments authorized by the Corporation (COSSEC) expressly for their inclusion as part of the indivisible capital;

6. Other elements established by the Corporation (COSSEC) through ruling or administrative determination.

The indivisible capital rate of its total assets subject to risk is determined as follows:

Elements of Indivisible Capital	2020	2019
	Amount	
Indivisible capital reserve	$ 8,380,179	$ 7,880,179
Other reserves	13,566,121	12,458,573
15% of the Credit Union's undistributed retained earnings	33,074	60,000
Portion of allowance for loan losses for non-delinquent loans	268,599	266,675
Total elements of the indivisible capital	$ 22,247,973	$ 20,665,427

Determination of Assets Subject to Risk	Amount	
Assets without risk with consideration of 0.00%		
100% cash in change fund, petty casha nd change in fund in transit	2,582,522	2,255,960
100% Obligations and debt securities, including portions from all of this, issued, insured or guanteed unconditionally by the Commonwealth of Puerto Rico or its agencies, or by the United States Government or its agencies, including Federal Reserve Banks, Government National Mortgage Association (GNMA), Veterans Administrarion (VA), Federal Housing Administration (FHA), Farmers Home Administration (FmHA), Export-Import Bank (Exim Bank), Overseas Private Investment Corporation (OPIC), Commodity Credit Corporation (CCC) and Small Business Administration (SBA)		1,040,589
100% loans fully secured with first mortgage loans on one to four family residential properties. These loans must qualify to be sold in the secondary mortgage market, not show delinquency in excess of ninety (90) days and have a maximum ratio Loan to Value of eighty percent (80%); Provided that the Corporation may, by regulation or administrative determination, authorize total loan ratios greater than Loan to Value that are consistent with the parameters of the secondary market.	5,381,684	6,191,931
100% the amount of members' loans guaranteed by shares, deposits or both which could not be withdraw from the Credit Union.	26,019,256	26,421,751
100% the Credit Union's investment in COSSEC	1,827,323	1,827,323
Total assets without risk with consideration of 0.00%	$ 35,810,785	$ 37,737,554
Assets subject to risk with consideration of twenty percent (20%)		
80% of items in process of collection	27,821,382	12,082,386
80% of interest in process of collection	188,642	201,539
80% of the portion of the loans to non-members guaranteed by liquid assets that are held as collateral of the loans as provided in Section 2.03 (a) (2)	585,315	652,525
80% Obligations and debt securities, including amounts from all of them, issued, secured or guaranteed by the Commonwealth of Puerto Rico or their agencies , or by the Government of the United States whose instruments are not explicitly bacled by the entire faith and credit of the Government of the United States or Puerto Rico, including Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Farm Credit System, Federal Home Loan Bank System, and Student Loan Marketing Association (SLMA)	19,779,034	19,732,730

Determination of Assets Subject to Risk	Amount	
80% of the deposits, loans, liabilities and debt securities, including amounts from all of them, issued, secured or guaranteed by the depository institutions of United States and Puerto Rico, inclusing the Banco Cooperativo of Puerto Rico. Shares from non-profit entities are excluded.	18,871,393	17,818,362
80% of the historical cost of the real state ot the appraisal value as certified by a qualified appraiser, whichever is less, that is being used or is projected to be used as offices, branches, service centers, parking areas or other facilities, net from any liability directly guarantedd by a mortgage lien on said property.	2,647,439	2,647,439
80% of the prepaired insurances which are risks for the Institution.	19,871	34,241
80% of the common or preferred shares from investments of Banco Cooperativo, Cooperativa de Seguros Múltiples and Cooperativa de Seguros de Vida (COSVI), subject to maintainning the pair value, as reflected in their financial statements and that they are redeemable.	1,957,270	1,937,270
Total assets subject to risk with consideration of twernty percent (20%)	71,870,346	55,106,492
Assets subject to risk with consideration of fifty percent (50%)		
50% of loans fully secured by first mortgage loans on residential properties. These loans do not meet the parameters of the secondary mortgage market and do not show delinquency in excess of ninety (90) days.	10,452,115	11,775,940
50% of commercial loans fully secured by first mortgages on real property, whether residential or non-residential. These loans do not meet the parameters of the secondary mortgage market and do not show delinquency in excess of ninety (90) days.	2,477,201	511,558
50% of investment in shares of Central Credit Union that have not current or accumulated losses.	5,890	5,890
Total assets subject to risk with consideration of fifty percent (50%)	12,935,206	12,293,388
Total assets not subject to risk	$ 120,616,337	$ 105,137,434

Rate of Indivisible Capital to Assets Subject to Risk	Amount	
Total assets (excluding the allowance for uncollectible loans)	$ 215,334,014	$ 196,993,009
Total assets not subject to risk	(120,616,337)	(105,137,434)
Total assets subject to risk	$ 94,717,677	$ 91,855,575
Rate of indivisible capital to total assets subject to risks	**23.49%**	**22.50%**

Law 220 of December 15, 2015, Accounting Requirements for Special Investments.

On December 15, 2015, Law 220 was approved to add to Law 255, Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002, as amended, a chapter entitled, accounting requirements to special investments. The Act requires that:

- The Credit Unions denominate all its investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies, and public corporations (ELA) acquired on or before March 31, 2015 as special investments.

- Requires special investments be recorded in the books of credit unions at amortized cost regardless of their classification as available for sale or held to maturity in the financial statements and unrealized losses related to special investments would not be presented.

- Any loss attributable to special investments in the disposition, withholding or related to the application of a statement of generally accepted accounting principles may be amortized over a period not exceeding 15 years, to be named as Losses under Special Amortization.

- Also requires a note to the financial statements with a specific language.

- The creation of a special temporary reserve of 10% of the unrealized loss of special investments plus other minimum contribution to the temporary reserve or the indivisible capital reserve that may vary between 5% to a 100% of the undistributed earnings subject to the levels of indivisible capital and the Credit union's CAEL index.

- Consider the annual amortization of special investments in the calculation of CAEL index. In addition, it allows the transfer of voluntary reserves not committed by the Credit Union to the special temporary reserve and to release the excesses of the temporary reserve above the losses under special amortization to indivisible capital, voluntary reserves, undistributed earnings and operational income.

- The creation of a special investment committee by the Board of Directors of the Credit Union for risk management of special investments.

Regulation No. 8665, **Regulation on Accounting Standards for Credit Unions**

On November 20, 2015, the Regulation on accounting standards for credit unions was established. The purpose of the regulation is to promulgate the standards and procedures of accounting, financial disclosure and internal controls that shall establish, maintain, and use all the credit unions of Puerto Rico. Among several aspects, the Regulations require management's assessment on internal controls in the preparation of the financial statements and the preparation of an analysis report and discussion of management that should accompany the audited financial statements.

Regulation Number 8664, Regulatory Accounting Statement Pronouncement

In November 2015, the regulatory accounting pronouncement was established, which includes the accounting requirements for special investments that Law 220 of December 15, 2015 incorporated and was previously described. During the fiscal year ended December 31, 2017, COSSEC issued the following circular letters, 2017-01 and 2017-02. Circular Letter 2017-01 specifies the accounting treatment of special investments according to the provisions of Act No. 220 of December 15, 2015 and Circular Letter 2017-02 mentions the applicable disclosure in the audited financial statements and its notes following the provisions of Act No. 220 of December 15, 2015.

Note of Special Investment Required by Act 220

The investment portfolio of the Credit Union includes a material amount of debt instruments issued by the Government of Puerto Rico and its agencies and public corporations (ELA). As of June 30, 2020, and 2019 the adjusted amortized cost was $2,637,384 y $2,639,097, respectively and the market value of these investment was $3,004,001 and $3,382,463, respectively. The Legislature of Puerto Rico adopted Act 220 of December 15, 2015, which, among other, provides that credit unions accounted bonds of the Commonwealth, its agencies and public corporations uniformly as investments held to maturity and if any loss is incurred in these special investments, it may be amortized for a period of up to 15 years. Also, it required in certain circumstances, an additional contribution to the capital structure of the credit union. The Credit Union established a Special Investment Committee as required by Law 255 of 2002, as amended, known as the “Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002”, to continuously monitor and evaluate the bond portfolio that resulted in the disposition of all these investments.

Participation of Undistributed Earnings

The Board of Directors will make available for distribution the net undistributed earnings accumulated by the Credit Union at the end of each year, after the amortization of the accumulated losses, if any, followed by the contribution to the reserve for indivisible capital, mandatory and voluntary reserves, in accordance with Law 255, as amended. There shall be no distribution of undistributed earnings accumulated as the Credit Union maintains accumulated losses, except for an exception as established by Law 255.

The undistributed earnings could be distributed as a reimbursement or return, computed considering the equity sponsorship of the interests collected, or a combination of such reimbursement for sponsorship along with the payment of dividends over the shares paid and non-withdrew at the end of the calendar year, in the proportion and amounts determined by the Board of Directors. All distribution of undistributed earnings shall be made in shares, never in cash.

The distribution of the unassigned earnings is approved by the Board of Directors according to the procedures established by Law 255 mentioned above. Only those shares totally paid and non-withdrew at the year-end have the right for such distribution.

Unclaimed Accounts

The amounts of money and other liquid assets held by the Credit Union that have not been claimed or that is not subject of any transaction during five (5) consecutive years, except for those quantities coming from shares accounts, will be transferred to a reserve of social capital of the Credit Union or to its indivisible capital, at the option of the Credit Union. Neither the imposition of service charges nor the payment of interest or dividends shall be regarded as a transaction or activity in the account.

In or before the sixty (60) days after the close of the fiscal year of the Credit Union, it shall be obliged to notify the owners of the inactive accounts that the account will be transferred. This will be done through the publication of a list in a visible place in the branches and service offices of the Credit Union for a period of ninety (90) consecutive days. At the same time, a notice will be published in a newspaper of general circulation in Puerto Rico, which will be entitled "Aviso de Dinero y Otros Bienes Líquidos No Reclamados en Poder de la Cooperativa de Ahorro y Crédito de Roosevelt Roads". The expenses incurred by the Credit Union in relation with the publication of the notice will be deducted proportionally from each unclaimed account balance.

Any person who, during the period of ninety (90) days mentioned above, present irrefutable evidence of ownership of one or more accounts identified in the list, shall have the right that the same be removed from the list and not be subjected to the transfer to the capital reserves.

After the transfer of an account or other liquid assets to capital reserve, they will only admit claims presented no later than five (5) years from the transfer. In such cases the Credit Union may impose administrative charges for procedures of investigation and analysis of the claim.

In conformity with these dispositions, according to Law 255, the Credit Union, its share accounts and deposits and its reserves shall be exempt from the dispositions of the Law Number 36 of July 28, 1989, as amended, known as the "Ley de Dinero y Otros Bienes Líquidos Abandonados o No Reclamados".

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies that the Credit Union follows are in conformity with the practices in the industry, the Law 255, regulations issued by COSSEC, and with the generally accepted accounting principles in the United States of America. The most significant policies are as follows:

Use of Estimates

The management of the Credit Union uses estimates to determine certain accumulations and provisions in the accompanying financial statements. However, the use of estimates in the financial statements may present information that does not agree with the actual items that will affect the financial statements.

Reclassifications

Certain reclassifications area made in the Credit Union’s financial statements to adjust assets and liabilities related to the presentation required in accordance with Law No. 255, amended by Law 220, and generally accepted accounting principles in the United States of America.

Tax Exemption

The Credit Unions, its subsidiaries or affiliates will be exempt from any kind of taxation on income, property, arbitration, patent, or any other tax imposed or that would later be imposed by the Commonwealth of Puerto Rico o any political subdivision thereof. All the shares and securities issued by the Credit Union and by any of its subsidiaries or affiliates will be exempt, both at their total value and in the dividends or interest paid under them, from any kind of taxation on income, property, arbitration, patent or any other tax imposed or that would later be imposed by the Commonwealth of Puerto Rico or any political subdivision thereof.

The credit unions and their subsidiaries or affiliates will be exempt from the payment of rights, arbitration or state or municipal taxes, including the payment of charges for licenses, patents, permits and registrations, the payment of charges, rights, stamps or internal revenue vouchers related with the inscription of them in the Property Registry, among other exemptions in accordance with the Article 6.08 from Law 255.

Enforcement Tax Effective Mechanisms Law

On December 25, 2013, Law No. 163 was approved, **"Ley de Mecanismos Efectivos de Fiscalización Contributiva"** this law is intended to address the fiscal situation of Puerto Rico in a responsible and fair way for citizens and achieve a tax system in which all components have simple dispositions to facilitate compliance, but also maximize the capture of each taxes (income tax, sales and use tax, municipal patent, tangible property). The Law requires credit unions and other taxpayers, under certain conditions, to submit supplemental information underlying to the financial statements, which have been subjected to the auditing procedures applied in the audit of the financial statements by a Certified Public Accountant (CPA), with valid license in Puerto Rico. The supplemental information is provided in the form of annexes, covered by the Law and from the accounting records for a specific accounting period and that nourish the audited financial statements. The annexes will be subject to the audit procedures of the financial statements using the generally accepted auditing standards in the United States of America for supplemental information. The Law is applicable to credit unions whose turnover is equal to or greater than $3 million and the taxable years started after December 31, 2012.

Cash and Cash Equivalents

The Credit Union consider as cash and equivalents, checking accounts held at local banks, petty cash, change in funds, savings accounts, cash investments and savings certificates with maturity of ninety (90) days from the date of the financial statements.

Loans to Members and Non-Members

The Credit Union grants personal loans to their members up to fifty thousand dollars ($50,000) and in mortgage loans without limits, and to non-members limited to the deposits held at the Credit Union. The loans granted to members and non-members are documented following the practices used in the administration of financial institutions, which are recognized as good practices and in protection of the public interest. The loans receivables are recognized upon disbursement of the loan and the transaction is supported with a promissory note or loan contract and upon compliance with the requirements established in the granting loans, subject to the policies or regulations approved by the Board of Directors or the corresponding directing bodies.

Independently of the guarantees and collaterals offered, any credit union would grant a loan to any person, without confirming and documenting the existence of reliable sources for the repayment of the loan in the terms agreed to, providing that such sources could be enough deposits maintained and withheld by the Credit Union, including the non-members, liquid assets as established in Article 2.03 of Law 255. The Credit Union could grant, among other services, personal loans, mortgages, auto, lines of credit, credit cards, collateralized and commercial, subject to the adoption and effectiveness of policies and procedures for the credit evaluation, specifically adopted for commercial lending implemented through commercial credit officials, properly qualified for that function.

Loan Origination Direct Costs

The Credit Union adopted the Accounting Standard Codification ("ASC") 320-10, *Non-Refundable Fees and Other Costs*, this standard establishes that the direct loan origination costs be deferred and amortized, and the revenues produced from the lending activity fees, be recognized over the life of the loan.

Investment in Negotiable Instruments

Investment in securities consist primarily of agency securities and obligations issued by the United States Government, obligations of corporations of the United States and securities collateralized by mortgages on residential, commercial property, and other assets of the United States. The Credit Union classifies investments in debt instruments as marketable securities available for sale.

The Credit Union records the investments in securities of United States in accordance with ASC 320 *Investments – Debt and Equity Securities*. Also, ASC 942-825, *Financial Instruments*, allows entities that elect to do so, have the option to report some financial assets and liabilities at their market value and establish the requirements of presentation and disclosure designed to ease the comparison between companies that choose different methods of measuring the same type of assets and liabilities.

Securities held-to-maturity

Investments securities held-to-maturity are those which Management has the intent and ability to held to maturity. These are register at cost, adjusted by the amortization of premiums or discounts, using the straight-line method. The cost of the securities sold for the purpose to determine gains or losses are based by the amortized value in books and are written down using the specific-identification method.

Securities available-for-sale

Securities available-for-sale are presented at fair market value. The gains or losses by the difference between the book value and market value are presented in the section of the participation of members of the Credit Union. The Institution uses the specific-identification method to write-down those securities sold or held.

The gain or loss realized on the sale of marketable securities available for sale is determined using the specific-identification method to determine the cost of the instrument sold. In addition, management, assesses individually all the marketable securities in the portfolio to determine whether any decrease in market value is temporary or not. Any other than temporary impairment is reflected in the operations of the current period and reduces the value of the investment in the books.

Amortization of Premiums and Discounts

The premiums and discounts on debt securities are amortized over the remaining life of the related instrument as an adjustment on its performance using the straight-line method. The dividends and interest income are recognized when accrued.

Other than Temporary Impairment in the Fair Market Value

The management of the Credit Union evaluates investments for other than temporary impairment in fair market value on an annual basis. To determine if the deterioration in the value of the instrument is of a temporary nature or not, the Credit Union considers all relevant and available information about the collectability of the instrument, including past events, current conditions and projections and reasonable estimates that supports the amount of cash receivables from the instrument. Within the evidence of this estimate, are the reasons for the deterioration, the duration and severity of these, changes in valuation following the close of the fiscal year, the projected performance of the issuer and the general condition of the market in the geographical area or industry where it operates. This evaluation is realized annually by the Credit Union's management. Once the decrease is determined to be other than temporary impairment or is impaired, the value of the debt instrument is reduced, and the corresponding charge is recognized in the statement of income and expense for the anticipated credit losses.

The analysis of losses requires the management of the Credit Union to consider several factors that include but are not limited to the following: 1) the time period and severity in which the market value is below the amortized cost of the investment 2) the financial condition of the issuer of the debt instrument 3) the attributes of collateral and guarantees 4) the structure of payments of principal and interest of the investment's value and the collectability of the instrument 5) changes in the credit rating granted by the major credit rating agencies 6) adverse conditions of the debt instrument, industry or geographical area 7) management's intention to sell the investment, or if it is more likely than not, the Credit Union will be required to sell the debt instrument before there is a recovery in the value of the instrument.

Comprehensive Net Income

The management of the Credit Union applied ASC 220, *Comprehensive Income*, where the disclosure of comprehensive net income is required. Comprehensive net income is the total of: (1) operating benefit plus (2) other changes in net assets arising from other services.

Special Investments

The Credit Union records the special investment according to the requirements of Law 220, *Accounting requirements for the special investment*. The Law requires that the Credit Union denominated all its investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies, and public corporations as special investments.

Also, it requires that special investments are recorded in the books of credit unions at amortized cost regardless of their classification in the financial statements and unrealized losses related to special investments are not presented. Any loss attributable to special investments may be amortized over a period not exceeding 15 years.

Investments in Cooperative Entities

Investments in credit union entities represent deposits made in entities and credit union organizations of Puerto Rico. The Credit Union records its investments in other credit unions at cost, increasing them by equity in income of the credit unions once they are distributed through dividends in shares. The Credit Union evaluates the impairment of investments in cooperative entities based on the financial statements issued by said entities.

Property and Equipment

Property and equipment are recorded at their acquisition cost. The improvements that prolong the life of the asset are capitalized. Maintenance and repairs that do not prolong the useful life of such assets are charged to operations. The depreciation and amortization are calculated using the straight-line method over the estimated useful life of the related asset.

Management evaluates the book value of the property and equipment when events or changes in circumstances indicate that the asset´s book value may not be recoverable. The recoverability of the assets that will be used and retained is determined by comparing the book value with the future cash flows, without discounting, which is expected to be generated by the asset. If it is determined that an impairment in the value of a fixed asset has occurred, the difference between future cash flows, without discounting, and the book value of property and equipment is recognized against the operations of the year. As of June 30, 2020, and 2019, the Credit Union did not recognize losses by impairment in the value of fixed assets.

Repossessed Properties

The properties acquired by foreclosure, or in other types of liquidation are classified as available for sale and are recorded at the fair market value of property received at time of the acquisition less the cost to sell on the date of the acquisition.

Shares

The shares are recognized using the cash basis method. This method is generally accepted in the credit unions in Puerto Rico. The Credit Union do not issue certificates that represent common social capital. However, they maintain an account statement for each member that shows their participation in the Credit Union's capital. The Credit Union's capital is not limited in amount and consists of payments made by members to subscribe shares and the distribution of dividends in shares. In accordance with the Credit Union's regulations, the shares par value is ten dollars ($10). In virtue of such regulations, each member must subscribe at least twelve shares (12) annually.

Mandatory and Voluntary Reserves

The Credit Union maintains several mandatory and voluntary reserves: Reserve of Social Capital, Special Temporary Reserve, Reserve for Contingencies, Reserve for Retired Employees, Reserve for Institutional Development, Reserve for Possible Losses on Investment in Negotiable Securities and Reserve for Advertising and Promotion. The use of these reserves must fulfill the purpose established in the Internal Regulations of the Credit Union. Below is a brief description of the mentioned reserves:

Reserve for Social Capital

This reserve was created to transfer those inactive accounts of more than five (5) years. If any person claims that account before five (5) years of been reserved, the Credit Union will return this amount less an administrative fee which will be deducted from the member's balance at the time of the claim. The balance of the reserve for social capital was $868,746 and $761,198 as of June 30, 2020 and 2019, respectively.

Special Temporary Reserve

This reserve is required by Law 220 of December 15, 2015 as the Credit Union maintain losses under special amortization and is composed of 10% of the unrealized loss of special investments plus other minimum temporary reserve contributions that may vary from 5% to 100% of undistributed earnings subject to the indivisible capital levels and the CAEL index of the Credit Union. The Credit Union established the special temporary reserve required by Law 220. As of June 30, 2020, and 2019, the balance of the special temporary reserve was $8,207,438 and $7,207,438, respectively.

Reserve for Contingencies

This reserve is aimed at strengthening the capacity of the institution to respond to adverse or emergency situations that may arise in the future. As of June 30, 2020, and 2019, the balance of the reserve for contingencies was $3,817,231, for both years.

Other Reserves:

Reserve for Retired Employees

This reserve was created for those employees who take retirement and have more than five (5) years of service. The Credit Union grants them five hundred ($500) for each year of service up to a maximum of thirty (30) years and fifteen thousand ($15,000).

Reserve for Possible Losses on Investment in Negotiable Securities

This reserve was created to absorb possible future losses on investments of negotiable securities, as established by the Board of Directors.

Reserve for Advertising and Promotion

This reserve was created for the advertising and promotion of events where the Credit Union is promoted, as established by the Board of Directors.

Reserve for Institutional Development

This reserve was created to reduce the economic impact on operations related to investments in the development of the industry and the implementation of new projects.

The balance of the other reserves as of June 30, 2020 and 2019 is presented below:

Other Reserves:	2020	2019
Reserve for Retired Employees	$ 470,000	$ 470,000
Reserve for Possible Losses on Investment in Negotiable Securities	1,388	1,388
Reserve for Advertising and Promotion	1,318	1,318
Reserve for Institutional Development	200,000	200,000
	$ 672,706	$ 672,706

Recognition of Interest Income and Expenses

The interest income from loans are recognized using the accumulation method up to sixty (60) days. The interests are computed over the unpaid balance. The interest expense of certificates of deposits is computed and paid periodically in accordance with the agreement between the Credit Union and the member or client at the time of opening. The interest expense of deposit accounts is computed daily from the average daily balance of the account.

Advertising and Promotion

The Credit Union had expenses for advertising and promotion which are recognized at the time they are incurred. The expense for the year ended June 30, 2020 and 2019, was $155,371 and $246,442, respectively.

Operational Leases

The Credit Union recognizes rent expense using the straight-line method over the life of the lease contract, which includes estimated periods of renewal, where is appropriate to include them. As a result of the rent expense recognition through the straight-line method, a deferred rent amount could be recognized in the statement of financial condition.

Fair Value of Financial Statements

The Credit Union adopted accounting code number 820. The ASC 820 defines the concept of fair value, establish a consistent framework for measuring fair value and expanded the disclosures about fair value measurements. In addition, this statement amended the ASC 825, "Disclosure about the Fair Value of the Financial Instruments", and in such a way, the Credit Union follows ASC 820 in the determination of the disclosure of the amount of the fair value.

Determination of the Fair Value

By disposition of the ASC 820, the Credit Union determines the fair value by the price to be received at the sale of the asset, or that would be paid to transfer a debt in an ordinary transaction between participants of the market at the date of measurement. The Credit Union seeks to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value, in accordance with the fair value hierarchy provided by ASC 820.

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). In some cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. The level in the hierarchy of fair value within which the measurement at fair value falls completely, will be determined based on the input of lower level that is significant for all the measurement made at fair value.

The following is a summary of the hierarchy used by the Credit Union to classify various financial instruments:

- *Level 1 Input* - Correspond to quoted prices (unadjusted) in active markets for identical assets and liabilities to which the entity can have the capacity to access at the date of measurement.

The active market for the asset or liability is the market in which transactions for the asset or liability occur frequently and enough volume to continuously offer information about pricing.

- *Level 2 Input* **-** Correspond to quoted prices for similar assets or liabilities in active markets, quoted prices for assets or liabilities that are identical or similar in markets that are not active, this is, markets in which there are few transactions for the asset or liability, the prices are not current, price quotations vary substantially, either in time or between those who make the market (for example, a principal-to-principal market); different inputs to the quoted prices that are observable in the asset or liability (for example, interest rates, yield curves, speeds of pre-payment, severity of losses, credit risks, and failure to pay rates); and inputs that are mainly derived from or are corroborated by observable data through correlation and other means (inputs confirmed by the market)

- *Level 3 Input* **-** They are unobservable inputs for the asset or liability. Non-observable inputs are used only for the measurement of fair value in the way that observable inputs are not available, which happens in situations where there is little activity in the market, if any, for the asset or liability at the measurement date.

Accounting Practices which Differ from the Generally Accepted Accounting Principles in the United States of America

The Credit Unions of Puerto Rico present the shares of members in the members' equity section in the statement of financial condition. The accounting principles require that the shares be presented in the deposits' section of these same statement. Also, require the recognition of the distribution of its undistributed earnings as charges to the accumulated benefits and the accounting principles require that those distributions be recognized as interest expense.

The Credit Union introduced Law 220, *Accounting Requirements for Special Investments* (Note 2). This Law required the adoption of its mandatory and immediate dispositions. This Law requires an accounting and other aspects that differ from generally accepted accounting principles in the United States of America (US GAAP). Accounting principles require that investments be recorded in accordance with the requirements of *ASC 320, Investments - Debt and Equity Securities*.

The items described in Note 3 had been classified in accordance with generally accepted accounting principles in the United States of America, total assets would decrease by $9,786,315 and $10,424,881, liabilities would increase by $54,929,296 and $53,490,753, and members' equity would decrease by $64,715,611 and $63,915,634 as of June 30, 2020 and 2019, respectively. In addition, the net income would decrease in the amount of $10,552,932 and $11,468,247 for the years ended June 30, 2020 and 2019, respectively.

The following tables show a comparison and the most significant differences in the condensed statement of financial condition as of June 30, 2020 and 2019 and the condensed statement of income and expenses for the year ended in the refer date of the Credit Union in accordance with the accounting practices required by Law No. 255, as amended, and the Corporation (statutory financial statements) and generally accepted accounting principles in the United States of America (US GAAP).

Condensed Statement of Financial Condition as of June 30, 2020	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Assets:			
Cash and savings certificates	$ 60,948,490	-	$ 60,948,490
Investmets in securities	22,086,409	-	22,086,409
Special investments	2,637,384	366,617	3,004,001
Loans, net	104,239,033	-	104,239,033
Loss under special amortization	10,152,932	(10,152,932)	-
Property, equipment and other assets	9,541,299	-	9,541,299
Total assets	$ 209,605,547	$ (9,786,315)	$ 199,819,232
Liabilities:			
Deposits	$ 129,397,202	54,529,296	$ 183,926,498
Other Liabilities	3,213,945	400,000	3,613,945
Total liabilities	$ 132,611,147	$ 54,929,296	$ 187,540,443
Members' Equity			
Shares	54,529,296	(54,529,296)	-
Indivisible capital and other reserves	13,738,862	(500,000)	13,238,862
Special temporary reserve	8,207,438	(1,000,000)	7,207,438
Accumulated comprehensive net income	298,311	366,617	664,928
Undistributed earnings (deficit)	220,493	(9,052,932)	(8,832,439)
Total members' equity	76,994,400	(64,715,611)	12,278,789
Total liabilities and members' equity	$ 209,605,547	$ (9,786,315)	$ 199,819,232

Condensed Statement of Income and Expenses for the years ended June 30, 2020	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Interest income	$ 9,655,849	$ -	$ 9,655,849
Interest expense	(827,091)	(400,000)	(1,227,091)
Net interest income	8,828,758	(400,000)	8,428,758
Allowance for uncollectible loans	(300,000)	-	(300,000)
Income after allowance	8,528,758	(400,000)	8,128,758
Other income	1,884,553	-	1,884,553
General and administrative expenses	(7,677,503)	-	(7,677,503)
Other than temporary impairment of investments	(1,015,315)	(10,152,932)	(11,168,247)
Net income (loss)	$ 1,720,493	$ (10,552,932)	$ (8,832,439)

Condensed Statement of Financial Condition as of June 30, 2019	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Assets:			
Cash and savings certificates	$ 39,631,895	-	$ 39,631,895
Investment in securities	23,067,404	-	23,067,404
Special investments	2,639,097	743,366	3,382,463
Loans, net	103,438,106	-	103,438,106
Losses under special amortization	11,168,247	(11,168,247)	-
Property, equipment and other assets	11,020,881	-	11,020,881
Total assets	$ 190,965,630	$ (10,424,881)	$ 180,540,749
Liabilities:			
Deposits	$ 113,670,208	53,190,753	$ 166,860,961
Other Liabilities	3,237,228	300,000	3,537,228
Total liabilities	$ 116,907,436	$ 53,490,753	$ 170,398,189
Members' Equity			
Shares	53,190,753	(53,190,753)	-
Indivisible capital and other reserves	13,131,314	(492,620)	12,638,694
Special temporary reserve	7,207,438	(2,000,000)	5,207,438
Accumulated comprehensive net income	128,689	743,366	872,055
Undistributed earnings (deficit)	400,000	(8,975,627)	(8,575,627)
Total members' equity	74,058,194	(63,915,634)	10,142,560
Total liabilities and members' equity	$ 190,965,630	$ (10,424,881)	$ 180,540,749

Condensed Statements of Income and Expenses for the year ended June 30, 2019	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Interest income	$ 9,956,248	$ -	$ 9,956,248
Interest expense	(812,082)	(300,000)	(1,112,082)
Net interest income	9,144,166	(300,000)	8,844,166
Allowance for uncollectible loans	(300,000)	-	(300,000)
Income after allowance	8,844,166	(300,000)	8,544,166
Other income	3,078,144	-	3,078,144
General and administrative expenses	(8,014,166)	-	(8,014,166)
Other than temporary impairment of investments	(1,015,524)	(11,168,247)	(12,183,771)
Net income (loss)	$ 2,892,620	$ (11,468,247)	$ (8,575,627)

Recent Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, CECL impairment model (subtopic 326-20). This ASU eliminates the "probability" condition for the initial methodology contemplated in the current "incurred loss" model and requires entities to reflect the current estimate of all expected credit losses during the contractual term of financial assets in the provision. constituted for such losses. In addition to past events and present conditions, entities are required to also incorporate reasonable and justifiable forecasts in the measurement of expected credit losses. For the Credit Union, this ASU No. 2016-13 is effective for periods beginning after December 15, 2022. The Credit Union will be evaluating the impact of this standard on its financial statements.

In January 2016, the FASB issued ASU No. 2016-1, Financial Instruments-Global: Recognition and Measurement of Financial Assets and Financial Liabilities. Among other aspects, the new standard requires that changes in the fair value of financial liabilities measured under the fair value option, resulting from a change in the credit risk of the specific instrument, be recognized in Other comprehensive income or comprehensive income.

In February 2016, the FASB issued ASU No. 2016-2, Leases (Topic 842) to increase transparency and comparability between organizations by requiring the recognition of substantially all leases as assets and liabilities in the statement of financial condition. Subsequent amendments and improvements to ASU 2016-2 were issued in the form of additional ASUs. For the Credit Union, ASU No. 2016-2 is effective for years beginning after December 15, 2019.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This update clarifies how entities should classify certain cash receipts and payments in the statement of cash flows to reduce any discrepancies in current and future applied practice. This ASU is effective for the Credit Union for years beginning after December 15, 2018. The adoption of this ASU did not have a significant impact on the Credit Union’s financial statements.

Effects of the Fiscal Plan of the Public Corporation for the Supervision and Insurance of Credit Unions of Puerto Rico, hereinafter, COSSEC.

COSSEC fiscal plan (page 21), submitted and approved by the Fiscal Oversight Board on June 29, 2020, under the PROMESA Law, mentions, among other things, the following:

- In June 2025, amendments will be presented to Law # 255 of 2015, to allow Credit Union to change or replace the accounting of a regulatory basis (RAP) to the Generally Accepted Accounting Principles in the United States of America (GAAP).

- In June 2025, Credit Unions must implement the ASC 320-10-35 Coding Standard for investment in accordance with GAAP.

- Based on ASC 320-10-35, Credit Unions must eliminate the assets Loss Under Special Amortization (PAE) as of June 30, 2025.

- Recommends that the *Capital (calculated on GAAP basis) to Total Assets* of the Credit Unions should be closed to 6% as of June 30, 2025.

4. CASH AND CASH EQUIVALENTS

As of June 30, 2020, and 2019, the balance of cash and cash equivalents consisted of the following:

	2020	2019
Cash in banks	$ 1,678,604	$ 3,100,410
Savings accounts	33,098,123	12,002,572
Change in funds and petty cash	2,582,522	2,255,960
Savings certificates - maturity less than ninety days	6,650,000	6,500,000
Total of cash and cash equivalents	$ 44,009,249	$ 23,858,942

Concentration of risk

The Credit Union maintains cash in various financial institutions (banks and credit unions) of Puerto Rico. The bank accounts in each institution are insured by the Federal Deposit Insurance Corporation (FDIC) for two hundred and fifty thousand ($250,000) and by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC by its acronym in Spanish), for up to two hundred and fifty thousand ($250,000) in each institution. As of June 30, 2020, and 2019, the Credit Union maintains deposits for $30,271,821 and $14,707,579, respectively, in the Banco Cooperativo of Puerto Rico, which balances are not insured. However, in virtue of Article 2.04 of Law 255, the credit unions are authorized to make deposits in that institution. Also, the Credit Union complies with the requirement to maintain deposits in the Banco Cooperativo of Puerto Rico whose percentage is defined in Law Number 79 of September 25, 1992. Such law amends Law Number 88 of June 21, 1966, which created the Banco Cooperativo of Puerto Rico. As of June 30, 2020, and 2019, the Credit Union maintained cash deposited over the amount covered by the insurance in FDIC by $9,989,902 and $8,251,333, respectively and in COSSEC by $8,101,658 for both years.

5. INVESTMENT IN SECURITIES

As of June 30, 2020, and 2019, the amortized cost and fair market value of the investment securities available for sale are as follows:

Available for sale

	June 30, 2020			
Type of Investments	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S Municipal Bonds and Notes	$ 6,080,002	$ 265,727	$ (37,892)	$ 6,307,837
Federal Farm Credit Bank	4,738,071	18,831	-	4,756,902
Federal Home Loan Bank	500,301	5,299	-	505,600
"Federal Home Loan Mortgage Corporation"	1,502,475	7,370	-	1,509,845
U.S Treasury Notes	7,965,576	35,749	-	8,001,325
Fannie Mae	1,001,673	3,227	-	1,004,900
	$ 21,788,098	$ 336,203	$ (37,892)	$ 22,086,409

	June 30, 2019			
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S Municipal Bonds and Notes	$ 4,795,374	$ 125,491	$ (31,827)	$ 4,889,038
Federal Farm Credit Bank	6,002,187	13,464	(1,626)	6,014,025
Federal Home Loan Bank	4,128,591	6,132	(4,897)	4,129,826
"Federal Home Loan Mortgage Corporation"	500,000	930	-	500,930
U.S Treasury Notes	7,512,563	21,047	(25)	7,533,585
	$ 22,938,715	$ 167,064	$ (38,375)	$ 23,067,404

The amortized cost and estimated market value of the investment in securities on June 30, 2020 and 2019, according to their maturity are presented below. Investment expected maturities may differ from the original contract since the borrower has the right to cancel or prepay the obligation.

	2020		2019	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
one to five years	$ 15,583,005	$ 15,674,414	$ 16,213,192	$ 16,197,539
more than five years to ten years	6,205,093	6,411,995	6,725,523	6,869,865
	$ 21,788,098	$ 22,086,409	$ 22,938,715	$ 23,067,404

6. SPECIAL INVESTMENTS

The Credit Union adopted Law 220 of December 15, 2015, which, among other things, provides that the Credit Unions record the bonds of the Commonwealth of Puerto Rico, its agencies and public corporations uniformly at amortized cost and that they be classified as Investments to be held to maturity and no unrealized losses Will be presented in the financial statements related to special investments (see Note 2).

As June 30, 2020 and 2019, the amortized cost, the impairment or other than temporary impairment of active investments, adjusted cost, fair market value and unrealized gain of special investments were as follows:

2020

Issuer of debt instrument	Amortized Cost	Total Impairment Active Investment	Adjusted Cost	Market Value	Unrealized Gain (Loss)
PRIDCO	$ 3,005,975	$ (903,341)	$ 2,102,634	$ 2,833,950	$ 731,316
Corporación para el Financiamiento Público (PFC)	10,695,000	(10,160,250)	534,750	170,051	(364,699)
	$ 13,700,975	**$ (11,063,591)**	**$ 2,637,384**	**$ 3,004,001**	**$ 366,617**

2019

Issuer of debt instrument	Amortized Cost	Total Impairment Active Investment	Adjusted Cost	Market Value	Unrealized Gain
PRIDCO	$ 3,007,688	$ (903,341)	$ 2,104,347	$ 2,767,500	$ 663,153
Corporación para el Financiamiento Público (PFC)	10,695,000	(10,160,250)	534,750	614,963	80,213
	$ 13,702,688	**$ (11,063,591)**	**$ 2,639,097**	**$ 3,382,463**	**$ 743,366**

As of June 30, 2020, and 2019, the movement of the impairment of the special investments are as follows:

2020

Issuer of debt instrument	Total Impairment Active Special Investments 6/30/2019	Additions	Retirements	Total Impairment Active Special Investments 6/30/2020
PRIDCO	$ (903,341)	$ -	$ -	$ (903,341)
Corporación para el Financiamiento Público (PFC)	(10,160,250)	-	-	(10,160,250)
	$ (11,063,591)	**$ -**	**$ -**	**$ (11,063,591)**

	2019			
Issuer of debt instrument	**Total Impairment Active Special Investments 6/30/2018**	**Additions**	**Retirements**	**Total Impairment Active Special Investments 6/30/2019**
Banco Gubernamental de Fomento	$ (2,671,490)	$ (117,325)	$ 2,788,815	$ -
ELA - Obligaciones Generales	(127,500)	(440,504)	568,004	-
PRIDCO	(903,341)	-	-	(903,341)
Corporación para el Financiamiento Público (PFC)	(10,160,250)	-	-	(10,160,250)
	$ (13,862,581)	**$ (557,829)**	**$ 3,356,819**	**$ (11,063,591)**

The following table shows unrealized losses, estimated market value and how long the investments have been on the Credit Union's books in an unrealized loss position as of June 30, 2020:

	2020					
	Less than 12 months		**12 Months or more**		**Total**	
Issuer of debt instrument	Market Value	Unrealized Loss	Market Value	Unrealized Gain (Loss)	Market Value	Unrealized Loss
Corporación para el Financiamiento Público (PFC)			$ 170,051	$ (364,699)	$ 170,051	$ (364,699)
	$ -	$ -	$ 170,051	$ (364,699)	$ 170,051	$ (364,699)

PROMESA Law, Evaluation and Adjustment for other than temporary impairment in the Fair Value in the market of special investments

PROMESA Law

On June 30, 2016, the President of the United States signed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). This Act grants the Commonwealth access to an orderly mechanism to restructure its debts in exchange for significant federal supervision over its finances. Broadly speaking, PROMESA intends to provide fiscal and economic discipline by creating a Fiscal Oversight Board appointed by the United States Congress with plenary authority over the finances of Puerto Rico. In addition, it provides relief from potential creditor claims through the enactment of a temporary moratorium on litigation and provides two alternative methods (Title III and Title V1) to adjust the debt of the Commonwealth.

Sales of Special Investments

During the year ended June 30, 2020, the Credit Union sold several of its special investments of the Government of Puerto Rico or its agencies that were in a state of impairment and that are covered by Law No. 220. The fiscal and economic situation of Puerto Rico, together with other factors such as the moratoriums declared on the payment of principal and interest on these debt obligations of the Government of Puerto Rico, including those issued or guaranteed by the Commonwealth, led the management of the Credit Union to conclude that the unrealized losses on these securities were non-temporary in nature. During the years ended June 30, 2020 and 2019, the Credit Union recognized impairment or other than temporary impairment for the amounts of $0 and $557,829, respectively.

Some of these special investments for which impairments had been recorded in previous years were sold during the year ended June 30, 2019, which resulted in the recording of additional losses under special amortization that will be amortized in future periods as permitted by the Act No. 220. The proceeds from the sale of these special investments were approximately $2,995,881, the amortized cost net of impairment was $3,553,710 and the additional losses under special amortization were $557,829.

Unrealized losses in excess of impairments

In addition, unrealized losses of investment in excess of the impairment adjustment recorded for impairment investments and classified as special as of June 30, 2020, were not recorded in the statements of comprehensive net income as required by generally accepted accounting principles in the United States of America. These require that this excess in the investments classified held to maturity over the market value is recorded as a decrease in the participation of members and in special investments and must be amortized until the maturity of each of the corresponding investments. This adjustment, however, must be presented as a difference between the financial statements in accordance with the accounting practices required by Law No. 255 (Regulatory) and the generally accepted accounting principles in the United States of America. Management decided not to present such difference as a deviation from GAAP, since in aggregate the special investments show an unrealized gain of $366,617 as of June 30, 2020.

Adoption of Law 220 and Losses under Special Amortization

Law No. 220 adopted by the Credit Union during the year ended December 31, 2015 allows that any loss attributable to special investments in the disposition, retention or related to the application of a pronouncement of generally accepted accounting principles can be amortized for a period not to exceed 15 years, to be named Losses under Special Amortization. The other than temporary impairment in the debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations classified as special investments were recorded as losses under special amortization and classified within the other assets as of June 30, 2020 and 2019. As of June 30, 2020, and 2019, the balance of losses under special amortization was $10,152,932 and $11,168,247, respectively (Note 10). These losses will be amortized for a period that will not exceed 15 years. During the years ended June 30, 2020 and 2019, the Credit Union recorded amortization of losses on special investments of $1,015,315 and $1,015,524, respectively.

Also in relation to the adoption of Act No. 220, the Credit Union created a special temporary reserve of 10% of the unrealized loss of special investments plus other minimum contributions that vary subject to indivisible capital levels and the CAEL composite index of the Credit Union. The special temporary reserve as of June 30, 2020 and 2019 was $8,207,438 and $7,207,438, respectively, and is presented in the statement of changes in participation of members. The calculation of the special temporary reserve as of June 30, 2020 and 2019 was as follows:

	2020			2019		
	Amount	%	Determined Reserve	Amount	%	Determined Reserve
Fiest Reserve - Unrealized Losses						
Unrealized losses	$ -			$ -		
Loss under special amortization	10,152,932			11,168,247		
Total	10,152,932	10%	$ 1,015,293	11,168,247	10%	$ 1,116,825
Second Reserve - Undistributed earnings						
Undistributed earnings net of annual contribution to indivisible capital	$ 1,220,493	50%	610,247	$ 2,400,000	50%	1,200,000
Total special temporary reserve required			1,625,540			2,316,825
Additional special temporary reserve			6,581,898			4,890,613
Total special temporary reserve as of June 30			$ 8,207,438			$ 7,207,438

Expected Maturity of Special Investments

The amortized cost without considering the assigned impairment and the estimated market value of special investments as of June 30, 2020 and 2019, according to their maturity, are presented below. The expected maturities of the investments may differ from the original contract because the borrower has the right to cancel the obligation or prepay it.

	2020		2019	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
Expire investments	$ 5,695,000	$ 90,551	$ 2,000,000	$ 115,000
One to five years	8,005,975	2,913,450	11,702,688	3,267,463
	$ 13,700,975	$ 3,004,001	$ 13,702,688	$ 3,382,463

7. LOANS

The following table shows the total of the loan portfolio of the Credit Union by type and class of financing as of June 30, 2020 and 2019:

	2020	2019
Commercial:		
Corporations	$ 4,375,542	$ 3,112,885
Non-profit entities	1,260,680	1,540,949
Total commercial	$ 5,636,222	$ 4,653,834
Consumer:		
Personal	$ 43,397,927	$ 42,603,250
Auto	28,574,049	28,287,713
Mortgage	29,036,156	30,263,577
Credit cards and line of credit	2,356,373	2,612,297
Restructured	231,983	366,669
Total consumer loans	$ 103,596,488	$ 104,133,506
Total loans	$ 109,232,710	$ 108,787,340
Less: Allowance for loan losses	(5,728,467)	(6,027,379)
Plus: Deferred costs in loan origination	734,790	678,145
Total loans, net	$ 104,239,033	$ 103,438,106

Allowance for Possible Loan Losses

The allowance for possible loan losses is an estimate prepared by management of inherent losses to the loan portfolio as of the date of the statement of financial condition. The process to determine the allowance for possible losses involves specific procedures that consider the characteristics of risk of the commercial and consumer portfolio of the Credit Union.

Methodology used for the Computation of the Allowance for Possible Loan Losses in Commercial Loans

Generally, commercial loans are evaluated for possible losses, by grading each loan and using various risk factors identified through periodic reviews. As of June 30, 2020, and 2019, the commercial loans were evaluated individually for impairment. The methodology used contemplated the present value of future cash flows discounted to the effective loan rate or the comparison of the fair market value of the collateral minus the costs for selling.

Methodology used for the Computation of the Allowance for Possible Loan Losses in Consumer Loans

The allowance for possible loan losses is determined after an evaluation of the Credit Union's actual loss experiences and a detailed evaluation of delinquent cases. The provision for the year is recorded through a charge to operations following the allowance method. The allowance for uncollectible loans is computed taking into consideration the parameters established according to Regulation 8665 issued by COSSEC. In addition, analysis of experience and risk factors developed by Management were compared. The restructured loans were evaluated using the present value of the cash flows discounted at the interest rate of the original loan.

The allowance for possible loan losses is increased by charges to operations and decreased by loans carried at a loss (net of recoveries). The evaluation of the adequacy of the reserve is based on the study of problematic loans, known and inherent risks in the loan portfolio, adverse situations that may affect the ability of the members to pay the loans, the estimated value of the collateral and the current conditions of the economy.

On those occasions when the Credit Union has in its loan portfolio, cases of loans whose holders have filed for the Federal Bankruptcy Law under Chapter 7 or 13 of the United States Code, the Credit Union segregated such cases and evaluated each one individually, in order to determine their possible collection according to the particularities of each case.

Said evaluation must consider, among other factors, the range of the loan, the Chapter under the Federal Bankruptcy Code to which the holder has applied, the amount of the loan and the previous payment history.

When the Management of the Credit Union understands that a loan is uncollectible, it will submit a report to the Board of Directors, which will authorize the charges against the reserve for those loans that it determines are uncollectible. The Credit Union's management understands that the accumulated allowance is adequate to absorb possible losses on existing loans that may become uncollectible.

The movement of the allowance for possible losses in the loan portfolio of the Credit Union as of June 30, 2020 and 2019, is as follows:

2020

	Commercial	Consumer	Total
Beginning balance	$ 436,045	$ 5,591,334	$ 6,027,379
Additional provision of the year	-	300,000	300,000
Recoveries of loans previously reserved	-	156,549	156,549
Loans charged against the reserve	-	(755,461)	(755,461)
Ending balance	$ 436,045	$ 5,292,422	$ 5,728,467
Evaluation of reserve			
Reserve evaluated individually	$ 436,045	$ -	$ 436,045
Reserve evaluated collectively	-	5,292,422	5,292,422
Total	$ 436,045	$ 5,292,422	$ 5,728,467
Loan balance:			
Evaluated individually	$ 5,636,222	$ -	5,636,222
Evaluated collectively	-	103,596,488	103,596,488
Total	$ 5,636,222	$ 103,596,488	$ 109,232,710

2019

	Commercial	Consumer	Total
Beginning balance	$ 436,045	$ 5,905,646	$ 6,341,691
Additional provision of the year	-	300,000	300,000
Recoveries of loans previously reserved	-	155,568	155,568
Loans charged against the reserve	-	(769,880)	(769,880)
Ending balance	$ 436,045	$ 5,591,334	$ 6,027,379
Evaluation of reserve:			
Reserve evaluated individually	$ 436,045	$ -	$ 436,045
Reserve evaluated collectively	-	5,591,334	5,591,334
Total	$ 436,045	$ 5,591,334	$ 6,027,379
Loan balance:			
Evaluated individually	$ 4,653,834	$ -	4,653,834
Evaluated collectively	-	104,133,506	104,133,506
Total	$ 4,653,834	$ 104,133,506	$ 108,787,340

Quality Indicators of the Commercial Loans Portfolio

In addition to reviewing the commercial portfolio concentration risk, the Credit Union implemented a process of evaluation of the quality of commercial credit. For commercial loans, management carried out an assessment of individual risk considering the probability of recovery and the quality of the collateral. The Credit Union used the following classifications for assessing the risk within the portfolio:

Without Exception – The debtor has adequate capital and the ability to repay the debt in the normal course of operations.

Follow-Up – The loan is protected at a collateral level in these moments but has the potential of deteriorating. The financial information of the debtor is not consistent or is under budget, presenting the possibility of short-term liquidity problems. Other typical features of this classification are lack of recent financial information, low capitalization, or industry risks. The main source of repayment is still good, but there is a possibility to use the collateral or the help of a guarantor to repay the debt. Although this type of loan is up to date and it is understood that the recovery is not in doubt, frequency of payments could be affected.

Substandard – This type of loan is not adequately protected due to deterioration in the net capital of the debtor or of the collateral pledge. The debtor presents clear weaknesses in their financial condition which affects the recovery of the loan. It is likely that the Credit Union will not recover the whole loan balance. Loans classified in this category are consider as impair and do not accumulate interest, so the payments received are applied to the principal.

Doubtful – The loan has the deficiencies of those presented in the category of "Substandard". In addition, the collectability of part or the entire loan is highly improbable. The possibility of loss is extremely high, but there are some specific conditions that could be resolved in favor of the debtor and therefore strengthen the probability of recovery of the loan. The loan has not been charged to loss until there is a clearer view of the effect of the specific conditions listed above. These conditions could include a further injection of capital, new collateral, and refinance or liquidation proceedings. Loans classified in this category are consider impair and do not accumulate interest, so the payments received are applied to the principal.

Below is the portfolio of commercial loans classified according to their risk as of June 30, 2020 and 2019:

	Without Exception	Follow-Up	Substandard	Doubtful	Total
June 30, 2020					
Corporations	$ 3,824,331	$ 217,924	$ -	$ 333,287	$ 4,375,542
Non-profit entities	1,130,071	-	9,963	120,646	1,260,680
Total commercial	$ 4,954,402	$ 217,924	$ 9,963	$ 453,933	$ 5,636,222

	Without Exception	Follow-Up	Substandard	Doubtful	Total
June 30, 2019					
Corporations	$ 2,790,422	$ -	$ 322,463	$ -	$ 3,112,885
Non-profit entities	1,420,303	-	-	120,646	1,540,949
Total commercial	$ 4,210,725	$ -	$ 322,463	$ 120,646	$ 4,653,834

The Credit Union monitors the maturity of its commercial portfolio with the purpose of managing credit risk. Below are the categories of maturity of the commercial portfolio as of June 30, 2020 and 2019:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 or more	90+ & Accumulating	90+ & Not accumulating	Total
June 30, 2020							
Corporations	$ 3,824,331	$ 217,924	$ -	$ 333,287	$ -	$ 551,211	$ 4,375,542
Non-profit entities	1,130,071	-	9,963	120,646	-	130,609	1,260,680
Total commercial	$ 4,954,402	$ 217,924	$ 9,963	$ 453,933	$ -	$ 681,820	$ 5,636,222
June 30, 2019							
Corporations	$ 2,790,422	$ -	$ 322,463	$ -	$ -	322,463	$ 3,112,885
Non-profit entities	1,420,303	-	-	120,646	-	120,646	1,540,949
Total commercial	$ 4,210,725	$ -	$ 322,463	$ 120,646	$ -	$ 443,109	$ 4,653,834

Quality Indicators of the Consumer Loans Portfolio

The Credit Union has various types of consumer loans which have different credit risks. The delinquency, the empirical and the loan value-to-collateral are indicators of quality that the Credit Union monitors and uses in the evaluation of the allowance for uncollectible loans in its consumer loan portfolio.

The main factor in the evaluation of the allowance for uncollectible loans in the portfolio of consumer loans is the delinquency presented by such portfolio. According to the Regulation 8665 of November 20, 2015, the percentage method, assigns the risk of consumer product according to its maturity. Below are the categories of maturity of the portfolio of consumer as of June 30, 2020 and 2019:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 or more	90+ & Accumulating	90+ & Not accumulating	Total
June 30, 2020							
Personal	$ 42,901,430	$ 214,391	$ 282,106	$ -	$ -	$ 496,497	$ 43,397,927
Auto	28,209,358	142,273	139,932	82,486	-	364,691	28,574,049
Mortgage	26,285,914	379,803	788,943	1,581,496	-	2,750,242	29,036,156
Credit cards and line of credit	2,264,344	67,217	24,812	-	-	92,029	2,356,373
Restructured	189,978	11,394	30,611	-	-	42,005	231,983
Total consumer	$ 99,851,024	$ 815,078	$ 1,266,404	$ 1,663,982	$ -	$ 3,745,464	$ 103,596,488
June 30, 2019							
Personal	$ 42,200,978	$ 287,526	$ 114,746	$ -	$ -	$ 402,272	$ 42,603,250
Auto	28,114,096	107,415	53,173	13,029	-	173,617	28,287,713
Mortgage	27,427,856	247,722	401,341	2,186,658	-	2,835,721	30,263,577
Credit cards and line of credit	2,556,335	26,566	29,396	-	-	55,962	2,612,297
Restructured	341,455	25,214	-	-	-	25,214	366,669
Total consumer	$ 100,640,720	$ 694,443	$ 598,656	$ 2,199,687	$ -	$ 3,492,786	$ 104,133,506

Following we present the types of loans that compose the portfolio of consumer classified according to their empirical at the time of the granting as of June 30, 2020 and 2019:

	Distribution by credit scores					
	< 600	601-650	651-700	701 +	Other	Total
June 30, 2020						
Personal	$ 4,506,037	$ 5,976,629	$ 10,780,482	$ 22,134,779	$ -	$ 43,397,927
Auto	8,181,648	5,503,525	4,691,679	9,206,710	990,487	28,574,049
Mortgage	6,301,575	4,851,403	6,653,055	11,230,123	-	29,036,156
Credit cards and lines of credit	48,382	24,027	136,678	23,436	2,123,850	2,356,373
Restructured	152,347	61,519	11,134	6,983	-	231,983
Total consumer	$ 19,189,989	$ 16,417,103	$ 22,273,028	$ 42,602,031	$ 3,114,337	$ 103,596,488
June 30, 2019						
Personal	$ 4,570,747	$ 6,099,526	$ 10,297,218	$ 21,635,759	$ -	$ 42,603,250
Auto	8,246,602	5,461,148	5,048,988	8,149,995	1,380,980	28,287,713
Mortgage	6,193,067	5,115,839	7,535,852	11,418,819	-	30,263,577
Credit cards and lines of credit	121,498	33,568	110,467	45,183	2,301,581	2,612,297
Restructured	209,875	127,928	21,298	7,568	-	366,669
Total consumer	$ 19,341,789	$ 16,838,009	$ 23,013,823	$ 41,257,324	$ 3,682,561	$ 104,133,506

The loan-to-value of the collateral is the proportion that compares the balance of the principal to the value of the collateral at the time of granting. Below is the distribution of the mortgage loan portfolio according to the proportion previously mentioned. In recent years, real estate markets in residential properties have experienced declines in their values.

The loan-to-value ratio of the collateral does not necessarily reflect the execution in the repayment of this but provides an indicator of the collateral value and exposure of the Credit Union. In case if the loan cannot be recovered, the loss that the Credit Union would assume should be limited to the excess of the net realizable value of the property compared to the loan balance.

	Loan-to-Value Classification				
	0-80%	80-90%	90-100%	>100%	Total
June 30, 2020					
First mortgage	$ 24,375,945	$ 2,495,156	$ 1,183,699	$ 981,354	$ 29,036,156
Total	$ 24,375,945	$ 2,495,156	$ 1,183,699	$ 981,354	$ 29,036,156
June 30, 2019					
First mortgage	$ 26,039,475	$ 2,216,373	$ 966,386	$ 1,041,343	$ 30,263,577
Total	$ 26,039,475	$ 2,216,373	$ 966,386	$ 1,041,343	$ 30,263,577

Impaired Loans

The following presents a summary of the portfolio of impaired loans as of June 30, 2020 and 2019:

	June 30, 2020		**June 30, 2019**	
	Unpaid Principal Balance	Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial:				
Corporations	$ 551,211	$ 122,875	$ 322,463	$ 64,493
Non-profit entities	130,609	116,708	120,646	116,217
Total commercial	$ 681,820	$ 239,583	$ 443,109	$ 180,710
Consumer:				
Personal	$ 496,497	$ 288,645	$ 402,272	$ 268,181
Auto	364,691	223,882	173,617	45,261
Mortgage	2,750,242	1,232,718	2,835,721	1,763,805
Credit cards and lines of credit	92,029	30,820	55,962	61,243
Restructured	42,005	33,632	25,214	7,595
Total consumer	$ 3,745,464	$ 1,809,697	$ 3,492,786	$ 2,146,085
Total	$ 4,427,284	$ 2,049,280	$ 3,935,895	$ 2,326,795

The following presents a summary of the loans modified and classified as restructured and those loans restructured that became impaired as of June 30, 2020 and 2019:

	Restructured loans			Delinquent restructured loans		
	Number of loans	Principal balance	Reserve assgined	Number of loans	Principal balance	Reserve assgined
June 30, 2020						
Consumer:						
Personal	22	$ 231,983	$ 39,846	2	$ 42,005	$ 33,632
Total consumer	22	$ 231,983	$ 39,846	2	$ 42,005	$ 33,632
June 30, 2019						
Consumer:						
Personal	32	$ 366,669	$ 16,946	3	$ 25,214	$ 7,595
Total consumer	32	$ 366,669	$ 16,946	3	$ 25,214	$ 7,595

The following is a summary of the type of concession granted to the restructured loans during the year ended June 30, 2020 and 2019:

	Type of concession
	Interest rate and maturity date
June 30, 2020	
Consumer:	
Personal	$ 231,983
Total consumer	$ 231,983
June 30, 2019	
Consumer:	
Personal	$ 366,669
Total consumer	$ 366,669

8. INVESTMENTS IN COOPERATIVE ENTITIES

The investments in cooperative entities represent deposits made in organizations and cooperative entities in Puerto Rico. The investment is recognized at cost, plus dividends received on said investments. Investment in cooperative entities as of June 30, 2020 and 2019 consist of the following:

	2020	2019
Banco Cooperativo de Puerto Rico	$ 1,116,555	$ 1,116,555
Investment in COSSEC	1,827,323	1,827,323
Cooperativa de Seguros de Vida	1,257,040	1,257,040
Fondo de Inversión y Desarrollo Cooperativo (FIDECOOP)	465,898	465,898
Cooperativa de Seguros Múltiples de Puerto Rico	72,993	47,993
Investment in CIMCO	31,400	31,400
Cooperativa de Servicios Fúnebres	10,200	10,200
Circuito Cooperativo	1,000	1,000
Liga de Cooperativas	1,580	1,580
	$ 4,783,989	$ 4,758,989

9. PROPERTY AND EQUIPMENT

As of June 30, 2020, and 2019, the property and equipment were composed of the following:

	Useful life (in years)	2020	2019
Buildings	50	$ 2,420,182	$ 2,420,182
Furniture & Equipment	1-8	1,170,956	1,240,949
Programming	1-5	1,303,155	1,175,584
Improvements	1-5	2,691,795	2,681,931
Vehicles	4-5	122,395	122,395
		7,708,483	7,641,041
Less accumulated depreciation		(6,047,098)	(5,960,774)
		1,661,385	1,680,267
Land		889,117	889,117
		$ 2,550,502	$ 2,569,384

10. OTHER ASSETS

As of June 30, 2020, and 2019, the other assets were composed of the following:

	2020	2019
Interest receivable on loans, certificate and others	$ 701,133	$ 495,982
Loss under special amortization (Law 220)	10,152,932	11,168,247
Prepaid deposits and insurance	170,860	160,586
Repossessed properties and cars	1,266,171	2,977,631
Materials inventory	31,135	34,238
Other accounts receivable	37,509	24,071
	$ 12,359,740	$ 14,860,755

The movement of the losses under special amortization of the Credit Union on June 30, 2020 and 2019 was as follows (See Note 6):

	2020	2019
Beginning balance	$ 11,168,247	$ 11,625,942
Additions	-	557,829
Amortization	(1,015,315)	(1,015,524)
Ending balance	$ 10,152,932	11,168,247

Special Investment Sales

During the year ended June 30, 2019, the Credit Union had investments in debt instruments issued by Commonwealth and classified as special investments, making a net loss on the sale. The Credit Union will to continue to amortize the net loss attributable to the disposal in the amount of approximately $557,829 for a period not to exceed 15 years as permitted by Law No. 220 of October 15, 2015 (See Note 2).

11. DEPOSITS AND CERTIFICATE OF DEPOSITS

The regular savings accounts accrue interest that fluctuates between 0.05% and 0.75% computed on the average daily balance and credited quarterly. It is the policy of the Credit Union to allow savings withdrawals on any operating day. However, when the Board of Directors deems it necessary, it may require the members to notify their intention to make withdrawals up to thirty (30) days in advance.

The interest rate on the certificates varies according to the amount and the time negotiated. The savings balances maintained in the Christmas and summer savings plan are payable in October and May, respectively. Interest on these accounts fluctuates between 2% to 3% and interest on certificates of deposit fluctuates between 0.30% to 1.50%. The deposits consist of the following:

	2020	2019
Members' and non-members savings accounts	$ 91,606,918	$ 75,313,107
Members' and non-members certificate of deposits	29,592,644	31,204,946
Checking accounts	6,311,150	5,413,578
Navi-Coop	1,746,893	1,617,734
Vera-Coop	139,597	120,843
	$ 129,397,202	$ 113,670,208

The reconciliation with the statement of financial condition as of June 30, 2020 and 2019 is as follows:

	2020	2019
Deposits	$ 99,804,558	$ 82,465,262
Certificate of deposits	29,592,644	31,204,946
	$ 129,397,202	$ 113,670,208

The following shows the maturity of the deposits and certificates of deposits in aggregated form for the following five years as of June 30, 2020 and 2019:

	2020	2019
Savings account without contract of maturity	$ 99,804,558	$ 82,465,262
Maturity of less than one year	20,652,404	21,058,534
Maturity between one and three years	4,714,072	5,876,998
Maturity between three and five years	2,503,854	2,500,664
Maturity over five years	1,722,314	1,768,750
Total deposits	$ 129,397,202	$ 113,670,208

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, 2020, and 2019 the accounts payable and accumulated expenses were the following:

	2020	2019
Account payable and accumulated expenses	$ 1,242,352	$ 1,264,802
Insurance and policies payable	255,439	272,391
Interest payable	90,094	76,325
Discounts and transfers of loans	203,380	192,467
Other accounts payable	1,422,680	1,431,243
	$ 3,213,945	$ 3,237,228

13. OTHER INCOME

The other income for the years ended June 30, 2020 and 2019 it consists of the following:

	2020	2019
Service charges	$ 1,060,666	$ 1,014,376
Service commissions	527,839	493,728
Rent	5,437	2,250
Dividends	-	110,134
Transactional Agreement Special Investments	-	414,292
Insurance claims	-	751,569
Other income grouped	290,611	291,795
	$ 1,884,553	$ 3,078,144

During the year ended June 30, 2020 and 2019, the Credit Union signe dan agreement with a New York law firm for the purpose of filing a complaint with the Financial Industry Regulatory Authority (FINRA) against the brokerage house that provided services to the Credit Union in relation to the acquisition of the Puerto Rico Bonds. The Credit Union reached a settlement agreement with the brokerage in the amount of $414,292.

On the other hand, the Credit Union received the amount of $751,569 from the Insurance Company for business interruption claims and property insurance for damages caused by Hurricanes Irma and María.

14. GENERAL AND ADMINISTRATIVE EXPENSES

The general and administrative expenses for the years ended June 30, 2020 and 2019 it is composed of the following:

	2020	2019
Salaries, bonus and vacations	$ 1,866,072	$ 1,622,703
Payroll contributions	219,099	214,177
Health insurance	195,773	177,963
Pension plan	48,938	76,152
Professional services	644,416	742,939
Insurance:		
COSSEC fee	288,433	377,100
Shares and deposits	252,328	257,846
Generals	313,161	261,453
Depreciation and amortization	406,647	419,300
Mail	21,480	26,859
Utility	228,508	236,476
Rent	36,000	36,000
Education	47,533	45,557
Executive expenses	31,050	42,586
Repair and maintenance	286,771	304,516
Annual Meeting	49,315	55,559
ATH and Mastercar maintenance	884,199	859,306
Office materials	85,696	69,634
Bank charges	133,641	136,130
Credit investigation	41,990	41,419
Donations	3,049	7,076
Advertising and promotions	155,371	246,442
Sales and Use Tax	109,956	86,470
Provision for disposition of repossessed properties	1,100,000	1,200,000
Other expenses grouped	228,077	470,503
	$ 7,677,503	$ 8,014,166

15. COLLECTIVE LIFE INSURANCE OF SHARES AND LOANS

Members who meet the eligibility requirements enjoy shares and deposit insurance. This insurance will pay up to a maximum of ten thousand dollars ($10,000) in the coverage of shares and deposits in the event of the death of the insured. The insurance is maintained with the Cooperativa de Seguros de Vida. The loan insurance premium is paid by the members and the one corresponding to shares and deposits is paid by the Credit Union. The insurance expense for the years ended June 30, 2020 and 2019 was $252,328 and $257,846, respectively.

16. HEALTH PLAN

The Credit Union has a health plan for the qualified employees, where the Credit Union contributes between 50% and a 100% of the cost of said plan for family groups, couples, and individuals. The health plan expense for the period ended June 30, 2020 and 2019 was $195,773 y $177,963, respectively.

17. PROVISION FOR COOPERATIVE EDUCATION

The Credit Union is obligated by Act 255, as amended, to annually separate for educational purposes and integration of the cooperative movement in Puerto Rico, no less than one tenth of one percent (0.1%) of the total volume of business. Within three (3) months following the close of its operations in each economic year, said credit unions will determine the amount resulting from the calculation, up to a maximum of four thousand ($4,000). All Credit Unions whose total volume of business exceeds four million dollars ($4,000,000) annually are obliged to contribute an additional amount of five percent (5%) of its annual undistributed earnings up to a maximum of six thousand dollars ($6,000). The Credit Union pay the corresponding expense to the provision for cooperative education as of June 30, 2020 and 2019.

18. RETIREMENT PLAN

The Credit Union has a defined contributions plan for all qualified employees. The Cooperativa de Seguros de Vida is the entity that administers the plan. Plan expense for the years ended June 30, 2020 and 2019 was $48,938 y $76,152, respectively. The minimum contribution, including administration costs, is calculated based on the salary of each covered employee. The percentage rate of employer contribution is 3%.

19. CONTINGENCIES, UNCERTAINTIES AND COMMITMENTS

Special Investments

As of June 30, 2020, and 2019, the Credit Union had in its special investment portfolio, debt instruments with an adjusted amortized cost of $2,637,384 and $2,639,097, respectively, issued by the Commonwealth of Puerto Rico, its agencies, and public corporations. The amortized cost in statements of financial condition is presented net of impairment, but there is uncertainty whether the Credit Union will have to assign an additional impairment.

Purchase of Participation in Loan Portfolio

During the year ended June 30, 2019, the Credit Union acquired a participation in an auto loan portfolio for approximately $1.5 million. The management of auto loans will be conducted by the selling entities, which will receive and retain a servicing fee of .25% of the average monthly balance of the loan portfolio. In addition, the Credit Union paid a commission of approximately $46,000 over the balance of the loans at the purchase date. Loans subject to these transactions were purchased without resource.

Agreement for Maintenance of Payment Order Accounts

The Credit Union maintains as part of other services to their members, the checking accounts or payment order, share draft. The Credit Union will be responsible for all the risk involved in the operation of payment order accounts, including, but not limited to, customer acceptance, account opening, acceptance of overdraft deposits, setting withholding on deposited checks, customer credit recording, and all inherent risks to this type of service. The administration cost of this account will be paid by the Credit Union. The Credit Union will set the charge for its customer services. The Credit Union maintains an agreement with Banco Cooperativo de Puerto Rico to represent it in the exchange or refund of checks, in accordance with the regulations of Puerto Rico Clearing House Association.

Operational Leases

The Credit Union maintains a lease agreement for the facilities used for offices of Canóvanas that expires on August 30, 2023. The following are the annual future rental payments for the next four (4) years for these contracts; $36,000 for the year ending June 30, 2020; $36,000 for the year ending June 30, 2021; $36,000 for the year ending June 30, 2020 and $36,000 for the year ending June 30, 2023. The rent expense for the years ended June 30, 2020 and 2019 was $36,000 for both years.

Lawsuits and Legal Claims

In 2013, the Credit Union was part of a substantial loss associated with dishonest acts that were covered by an insurance policy on acts of fidelity. In 2015, the Insurance Company recognized and subsequently paid the amount of $3,750,000 corresponding to the claim made by the Credit Union. The management and legal advisers of the Credit Union are of the opinion that the amount paid by the Insurance Company should have been greater than the amount granted, so they began a claim process through the courts after exhausting the administrative resources. Additionally, in November 2013, the Credit Union suffered a cyber-attack that resulted in the extraction of funds from the Credit Union totaling approximately $5.8 million. Management and legal advisers of the Credit Union have the opinion that the acts identified in the investigation should be covered under the $1 million policy issued by the Insurance Company. In November 2014, the Insurance Company objected to the claim under the Cyber Crime policy and the Credit Union requested a reconsideration. The reconsideration was denied, and the Credit Union filed a lawsuit for breach of contract and other damages. At the date of the financial statements, these claims were in due process of law in the corresponding courts.

The Credit Union is a party to and maintains several claims, mainly for money collection demands, as part of its normal and current operations as a financial institution.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Methodology and Assumptions

The following methods and assumptions were used to estimate the fair value of the financial instruments:

- The book value of cash and financial liabilities approximate their fair value due to their short-term nature.

- The book value of cash equivalents and certificate of savings was estimated by discounting the expected cash flows to its maturities using estimated market discount rates.

- The fair value of loans was estimated by discounting the expected cash flows to its maturities, using estimated market discount rates that reflect the credit risk and inherent interest to the loan. The discount rate was adjusted to consider the necessary expansion based on the new originations that contemplate the risk of liquidity, interest, and credit. The discount rates applied were based on the market rate for classes similar as of June 30, 2020 (Level 3). The estimated value of loans, advances and other accounts receivable is net of specific provision for impairment.

- The estimated fair value of the investments is based on the market prices when available (Level 1), market price quotations for similar investments (Level 2), or the market price of the last transaction for the instrument in an active market (Level 2), or proportional net assets of associates, as appropriate.

- The value of investments in cooperative entities represents the original costs of the realized investment plus the capitalized dividends, less withdrawals or returns. Managements understands that the fair value of these investments should approximate to the book value for to its particularities.

- Repossessed cars and properties are registered at the lowest cost (loan's book value) or fair value minus any estimated cost to dispose the property. Fair values are derived from appraisals of the properties. If the property is recently acquired, it is recorded in the books based on its market value less the cost to sell at the acquisition date. The Credit Union classified these properties as Level 3 within the fair value hierarchy.

Financial Assets recognized at Fair Value on a Recurring Basis

As of June 30, 2020, and 2019, the Credit Union had marketable securities available for sale and special investments for which it is required to measure the fair value recurrently:

	June 30, 2020			
Type of Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in negotiable securities	$ 22,086,409	$ -	$ -	$ 22,086,409
Special investments		3,004,001	-	3,004,001
	$ 22,086,409	$ 3,004,001	$ -	$ 25,090,410

	June 30, 2019			
Type of Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in negotiable securities	$ 23,067,404	$ -	$ -	$ 23,067,404
Special investments	-	3,382,463	-	3,382,463
	$ 23,067,404	$ 3,382,463	$ -	$ 26,449,867

Financial Assets Recognized at Fair Value on a Non-recurring Basis

The Credit Union may be required, from time to time, to measure certain assets at their fair value on a non-current basis in accordance with generally accepted accounting principles (GAAP). These fair value adjustments usually result from the application of the accounting of the lower of cost or market or impairment in value of individual assets decreases. The assessment methodology used for these fair value adjustments is describe above. The level of inputs used to determine each adjustment and the book value of the asset related as of June 30, 2020 and 2019 are summarized as follows:

	June 30, 2020				
	Book	**Fair Value**			
Type of Investment	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Repossessed properties and cars	$ 1,666,171	$ -	$ -	$ 1,666,171	$ 1,666,171

	June 30, 2019				
	Book	**Fair Value**			
Type of Investment	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Repossessed properties and cars	$ 2,977,631	$ -	$ -	$ 2,977,631	$ 2,977,631

The change in the fair value of the repossessed cars and properties, which was determined using Level 3 Inputs, as of June 30, 2020 and 2019 are presented as follows:

	2020	2019
Balance, at the beginning of the year	$ 2,977,631	$ 3,595,726
Acquisition of repossessed properties	1,337,639	2,068,659
Sales of repossessed properties	(1,949,099)	(1,486,754)
Provision and losses charged against operations	(1,100,000)	(1,200,000)
Balance, at the end of the year	$ 1,266,171	$ 2,977,631

Determined Fair Value

As of June 30, 2020, and 2019, the book value and estimated fair value of financial instruments were as follows:

	June 30, 2020		June 30, 2019	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Cash and cash equivalent	$ 44,009,249	$ 44,009,249	$ 23,858,942	$ 23,858,942
Certificate of deposits, due more than three months	16,939,241	16,939,241	15,772,953	15,772,953
Loans, net of allowance	104,239,033	101,148,466	103,438,106	100,509,598
Investment in securities	22,086,409	22,086,409	23,067,404	23,067,404
Special investments	2,637,384	3,004,001	2,639,097	3,382,463
Shares in cooperative entities, without COSSEC	2,956,666	2,446,588	2,931,666	2,421,588
Other assets - Loss under special amortization	10,152,932	-	11,168,247	-
	$ 203,020,914	$ 189,633,954	$ 182,876,415	$ 169,012,948
Financial Liabilities:				
Deposit accounts	$ 99,804,558	$ 99,804,558	$ 82,465,262	$ 82,465,262
Certificate of deposits	29,592,644	29,592,644	31,204,946	31,204,946
Shares	54,529,296	54,529,296	53,190,753	53,190,753
	$ 183,926,498	$ 183,926,498	$ 166,860,961	$ 166,860,961

The estimated fair value is determined at a moment in time and is not relevant in predicting future cash flow or earnings. The estimated fair value is based on subjective assumptions and they contain a significant degree of uncertainty. These do not reflect the effect of possible income tax or other expenses that may be incurred in the disposition of the financial instruments.

21. RISK FINANCIAL INSTRUMENTS NOT RECOGNIZED IN THE STATEMENT OF FINANCIAL CONDITION

In the normal course of operations, the Credit Union uses certain risk instruments that are not recognized in the statement of financial condition to meet the financing needs of the members. These financial instruments include commitments to extend credit and credit cards. These instruments have various levels, elements of credit risk in excess of the amount recognized in the statement of financial condition.

The normal or contract amount of those instruments, not included in the statement of financial condition, are indicative of the activities of the Credit Union in any instrument.

The Credit Union uses credit policies similar to those used for financial instruments included in the statement of financial condition when executing the commitments and conditional credit guarantees. The commitments to extend credit are contractual obligations to lend funds to members on a predetermined interest rate for a specified period. Since many of the commitments lapse without performing any disbursement, the total balance of the commitments does not necessarily represent future disbursement required.

The Credit Union evaluates separately the credit condition of its members before granting credit. Management determined through the evaluation of the applicant's credit, the amount of collateral to obtained as a condition of the credit requested. The amount of commitment to extend credit as of June 30, 2020 and 2019 is as following:

	2020	2019
Credit cards	$ 2,533,581	$ 2,067,346
Lines of credit	$ 75,692	$ 66,552

22. TRANSACTIONS BETWEEN RELATED PARTIES

Practically all the employees and members from the governing bodies of the Credit Union have savings accounts, make loans, and enjoy the services provided by the institution. The transactions terms realized in these accounts (interest charged and paid) are like those accounts for the members in general. The movement of the loans of employees and governing bodies as of June 30, 2020 and 2019 are show below:

	2020	2019
Beginning balance of loans	$ 1,516,520	$ 1,716,898
Origination and collection, net	(214,220)	(200,378)
Endinds balance of loans	$ 1,302,300	$ 1,516,520
Assets	$ 1,162,589	$ 913,131

23. SUBSEQUENT EVENTS

The Credit Union adopted the ASC 855 relating to *Subsequent Events*. The ASC 855 establishes general standards for the accounting and disclosure of events occurring after the date of the statement of financial condition, but before the date of issuance of the financial statements. Specifically, it sets the period after the date of the statement of financial condition during which the Credit Union's management should assess events or transactions that could occur and would need to be recorded or disclosed in the financial statements, the circumstances under which the Credit Union should recognize and disclose these events, and the type of disclosure should be provided for these events occurring after the date of the statement of financial condition. According to the ASC 855, the Credit Union evaluated subsequent events up to October 15, 2020, when these financial statements were ready to be emitted.

The Coronavirus Pandemic

The coronavirus pandemic has the potential to create significant changes for entities due to disruptions in global supply chains and other commercial activities. The stock market crash and the severe disruption that is rapidly developing for many commercial activities will surely have a profound effect on the operating results of many companies. Due to the extensive and unpredictable nature of the coronavirus pandemic, circumstances can lead to reductions in liquidity and income, impact on internal and external human resources, depreciation of assets, increase in liabilities and significant changes in estimates, among other things. Management in combination with its Board of Directors will seek to respond to these situations, which could impact the viability of the entities, considering the circumstances amid the global coronavirus crisis. As of June 30, 2020, the financial statements do not include any adjustments related to this event.

Informative Letter 2020-08, Extension of the Moratorium Program to those affected by the Coronavirus situation (COVID-19)

COSSEC as the regulator of credit unions, issued the 2020-08 informative letter to promote a voluntary moratorium program for members affected by the coronavirus pandemic (COVID-19). The moratorium program should not exceed 90 days, but each case can be evaluated individually. As of the date of these financial statements, the Credit Union is working diligently with members who suffered losses because of this pandemic to offer the program.

Informative Letter 2020-15, Extension of the Mortgage Loan Moratorium Program to those affected by the Coronavirus situation (COVID-19)

COSSEC also issued the 2020-15 informative letter to promote a voluntary moratorium program for members affected by the coronavirus pandemic (COVID-19). The moratorium program should not exceed 150 days, but each case can be evaluated individually. As of the date of these financial statements, the Credit Union is working diligently with the members who suffered losses because of this pandemic to offer the program.

In addition, COSSEC has issued a series of informative letters to facilitate the remote processes of credit unions during the curfew caused by the pandemic and has automatically extended the holding of annual meetings and other registration requirements.

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