Cooperativa de Ahorro y Crédito Roosevelt Roads

AUDITED FINANCIAL STATEMENTS

For the years ended
June 30, 2019 and 2018

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For the years ended
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CONTENT

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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 condition of the Cooperativa de Ahorro y Crédito Roosevelt Roads ("the credit union") as of June 30, 2019 and 2018 and the related 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 U.S. generally accepted accounting principles; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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

Credit union management decided to continue with the presentation that is promulgated by the Public Corporation for the Supervision and Insurance of Credit Union in Puerto Rico (COSSEC, by its acronym in Spanish) in accordance with Law 255 of 28 October 2002 amended by Law 220 of December 15, 2015 of the Commonwealth of Puerto Rico, 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 regulatory 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 decrease by $10,424,881 and $12,902,455, liabilities would increase by $53,490,753 and $53,446,139, and Members' equity decrease by $63,915,634 and $66,348,594 as of June 30, 2019 and 2018. Additionally, net economy decreases in the amount of $11,468,247 and $12,113,375 for the years ended June 30, 2019 and 2018.

ADVERSE OPINION ON GENERALLY ACCCEPTED 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, 2019 and 2018, 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, 2019 and 2018, the results of operations, changes in member's equity, comprehensive net income and cash flows for the year ended on that date, 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, 2019 and 2018 and the results of operations, changes in members' equity and cash flows for the year ended, in accordance with the regulatory basis described in Note 2 of the financial statements.

San Juan, Puerto Rico
September 12, 2019

Stamp No. E-345295
Was adhered to the original.

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Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENT OF FINANCIAL CONDITION
June 30, 2019 and 2018

ASSETS	**2019**	**2018**
Cash and equivalents	$ 23,858,942	$ 26,280,018
Savings certificates (due over three months)	15,772,953	18,022,951
Investment securities available for sale	23,067,404	12,721,897
Special investments	2,639,097	6,194,438
Loans receivable, net of allowance for loan losses	103,438,106	105,421,260
Investments in cooperative entities	4,758,989	4,689,997
Property and equipment, net of accumulated depreciation	2,569,384	2,857,254
Other assets	14,860,755	15,703,863
Total assets	$ 190,965,630	$ 191,891,678
LIABILITIES AND MEMBER'S EQUITY		
Liabilities:		
Deposits	$ 82,465,262	$ 84,064,740
Certificates of deposits	31,204,946	33,759,358
Accounts payable and accrued expenses	3,237,228	3,258,362
Total liabilities	116,907,436	121,082,460
Members' Equity:		
Shares, par value of $10	53,190,753	52,958,706
Reserve for indivisible capital	7,880,179	7,387,559
Special temporary reserve	7,207,438	5,207,438
Reserve for social capital	761,198	621,761
Reserve for contingencies	3,817,231	3,817,231
Other reserves	672,706	672,706
Cumulative comprehensive net gain (loss)	128,689	(156,183)
Undistributed earnings	400,000	300,000
Total members' equity	74,058,194	70,809,218
Total liabilities and Equity	$ 190,965,630	$ 191,891,678

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, 2019 and 2018

	2019	**2018**
Financial operations revenues:		
Interest Income:		
Loans	$ 9,064,594	$ 9,132,256
Investment, savings accounts and certificates	891,654	565,531
Total Interest Income	9,956,248	9,697,787
Interest expense:		
Deposits and certificates of deposits	(812,082)	(838,782)
Net Interest Income	9,144,166	8,859,005
Provision for loan losses	(300,000)	(500,000)
Net interest income after provision for loan losses	8,844,166	8,359,005
Other income	3,078,144	1,593,550
General and administrative expenses	(8,014,166)	(7,656,217)
Net income before losses under amortization	3,908,144	2,296,338
Losses under amortization	(1,015,524)	(968,829)
NET INCOME	$ 2,892,620	$ 1,327,509

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

Cooperativa de Ahorro y Crédito de Roosevelt Roads
STATEMENTS OF COMPREHENSIVE NET INCOME
For the years ended don June 30, 2019 and 2018

	2019	2018
Net income	$ 2,892,620	$ 1,327,509
Other comprehensive income (expense):		
Change in unrealized net gain (loss) on available for sale securities	284,872	(129,582)
Comprehensive net (loss) income	$ 3,177,492	$ 1,197,927

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 June 30, 2019 and 2018

	Shares	Reserve for Undistributed Capital	Reserve for Special Temporary	Reserve for Social Capital	Reserve for Contingencies	Other Reserves	Comprehensive net gain (loss)	Undistributed Earnings
Balance at June 30, 2017	$ 51,619,247	$ 7,321,184	$ 4,207,438	$ 609,055	$ 3,756,236	$ 672,706	$ (26,601)	$ 600,000
Additional investment from members	8,663,805	-	-	-	-	-	-	-
Capitalized dividends	487,433	-	-	-	-	-	-	(487,433)
Withdrawal of members' shares	(7,811,779)	-	-	-	-	-	-	-
Inactive account transfers	-	-	-	12,706	-	-	-	(12,706)
Change on comprehensive net loss	-	-	-	-	-	-	(129,582)	-
Reserve for special temporary	-	-	1,000,000	-	-	-	-	(1,000,000)
Reserve for contingencies	-	-	-	-	60,995	-	-	(60,995)
Reserve for undistributed capital	-	66,375	-	-	-	-	-	(66,375)
Net income	-	-	-	-	-	-	-	1,327,509
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' shares	(8,876,987)	-	-	-	-	-	-	-
Inactive account transfers	-	-	-	139,437	-	-	-	-
Change on comprehensive net loss	-	-	-	-	-	-	284,872	-
Reserve for special temporary	-	-	2,000,000	-	-	-	-	(2,000,000)
Reserve for undistributed 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

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

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENETS OF CASH FLOWS
For the years ended June 30, 2019 and 2018

	2019	2018
Cash flow from operating activities:		
Net Income	$ 2,892,620	$ 1,327,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	419,300	398,662
Provision for loan losses	300,000	500,000
Amortization of special investments losses	1,015,524	968,829
Provision for disposition of repossessed properties	1,200,000	800,000
Deferred cost in the origination of loans	255,203	177,679
Gain on sale of investments	(41,058)	-
Collection of loans previously charged to reserve	155,568	121,676
Increase in other assets	(1,472,550)	(1,051,068)
(Decrease) increase in accrued expenses and other liabilities	(21,134)	461,105
Net cash provided by operating activities	4,703,473	3,704,392
Cash flow from investing activities		
Decrease in loans, net	1,272,383	7,753,924
Decrease in savings certificates	2,249,998	3,334,053
Purchase of equipment and improvements, net	(131,430)	(417,631)
Increase an investment in cooperative entities	(68,992)	(62,022)
Product of sale of investment in securities and specials	4,482,381	-
Decrease in securities, net	(10,846,483)	(12,440,640)
Net cash provided by investing activities	(3,042,143)	(1,832,316)
Cash flow from financing activities		
Increase (decrease) in deposits, net	(1,460,041)	9,308,214
Decrease in certificates of deposits	(2,554,412)	(5,700,275)
Change in shares, net	(67,953)	852,026
Net cash used in financing activities	(4,082,406)	4,459,965
Net (decrease) increase in cash and equivalents	(2,421,076)	6,332,041
Cash and equivalents at beginning of period	26,280,018	19,947,977
Cash and equivalents at end of period	$ 23,858,942	$ 26,280,018

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

Additional Disclosure to the Statements of Cash Flows

For the years ended June 30, 2019 and 2018, respectively, the payment of interest on deposits and certificates amounted to $818,458 and $839,806. In addition, following transactions were recorded, which did not represent cash transactions:

	2019	2018
Capitalized dividends	$ 300,000	$ 487,433
Undistributed earnings transferred to the reserve for undistributed capital	$ 492,620	$ 66,375
Undistributed earnings transferred to the reserve for special temporary	$ 2,000,000	$ 1,000,000
Undistributed earnings transferred to the reserve for contingencies	$ -	$ 60,995
Change in net comprehensive gain (loss)	$ 284,872	$ (129,582)
Transfer of unclaimed accounts, net	$ 139,437	$ 12,706
Non-temporary decrease in special investments	$ 557,829	$ 538,037

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", and by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC). 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 sources.

2. REGULATORY MATTERS

Law Number 114 of August 17, 2001

The Corporation for the Supervision and Insurance for Credit Unions in Puerto Rico (COSSEC) was created during the year 2001 under Law 114. It provides, among others that:

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

b. The Corporation has the obligation to decree and to take effect the increases in the maximum limits of insured coverage 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, after the circumstances which obstruct the application in the correspondent date were 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 balance sheets as required by this law

e. The Corporation will establish the standards and procedures to determine the annually required deposit as capital contribution, in accordance with their shares and deposits. In addition, it will establish the standards and procedures to determine the annual increase to be required in capital contribution from the increase in shares and deposits insured.

f. When the combination of the unrestricted reserves not compromised to pay for losses, and the total equity of COSSEC exceed 2% of the total of insured members' shares and deposits, COSSEC will use such exceed for the payment of interest over capital. The interest will be determined based on the average return of asset rate of COSSEC, reduced by 1%, for the twelve (12) months period before the date when the interest payment is done.

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 COSSEC Board of Directors may determine higher rate types provided they have the actuarial studies that support them.

Law Number 255 of October 28, 2002

The Law Number 255 of October 28, 2002, *Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002*, establishes the following requirements, among others:

<u>Restricted Cash</u>

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

a. The thirty five percent (35%) of the undistributed earnings shall be maintained in liquid assets.

b. All credit union whose indivisible capital 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 in 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, 2019, and 2018, the Credit Union reserve the amount of $492,620 and $66,375, respectively, as indivisible capital, which represents a seventeen percent (17%) and five percent 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 30 days, in which case, the twenty five percent (25%) must be maintained and, those pledged certificates, for which no provision for liquid funds should be maintained.

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

As a result of the requirements the Law Number 255 mentioned above, the Credit Union maintained as of June 30, 2019 and 2018 the amount of $20,421,222 and $20,940,133, respectively, in cash, certificates and investment in securities acceptable for liquidity, that are not available to be used for the current and normal operations. The required liquidity calculation is presented as follows:

	2019	2018
Required funds		
Reserve for indivisible capital (35% required)	$ 2,758,063	$ 2,585,646
Certificates and deposits with maturity more than 30 days	15,796,088	16,452,389
Deposits for special events	1,233,441	1,292,335
Certificates of deposits - maturity less than 30 days	633,630	609,763
Required total	20,421,222	20,940,133
Total available funds	64,239,985	60,085,497
Funds in excess of required funds by law	$ 43,818,763	$ 39,145,364

Reserve for Indivisible Capital

The credit unions must maintain a reserve for indivisible capital. The thirty five percent (35%) of the indivisible capital reserve must be maintained 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 in accordance the pronouncement issued by the Financial Accounting Standards Board;

3. The fifteen percent (15%) of the undistributed earnings retained 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 liabilities 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	**2019** Amount
Reserve indivisible capital	$ 7,880,179
Other reserves	12,458,573
15% of the Credit Union's undistibuted retained earnings	60,000
Portion of the allowance for loan losses for not delinquent loans	266,675
Total elements of the indivisible capital	$ 20,665,427

Determination of Assets Subject to Risk	Amount
Assets without risk with consideration of 0.00%	
100% cash in hand and in transit possessed by the Credit Union.	2,255,960
100% Obligations and debt securities, including portions from all of this, issued, insured, or guaranteed unconditionally by the Comonwealth of Puerto Rico or its agencies, or by the United States Goverment or its agencies, including Federal Reserve Banks, Government National Mortgage Associaion (GNMA), Veterans Administration (VA), Federal Housing Administration (FHA), Farmers Home Administration (FmHA), Export-Import Bank (Exim Bank), Overseas Private Investment Corporation (OPIC), Commondity Credit Corp. (CCC), and Small Business Administration (SBA).	1,040,589
100% of the loans completely guaranteed by first mortgages on residential properties from one to four families. These loans should qualify to be sold on the secundary market and can not exceed delinquency of ninety (90) days and have a maxzimum Loan To Value rate of eighty percent (80%). Provided that the Corporation may, by regulation or administrative determination, authorize total loan ratios at guarantee value (Loan to Value) that are consistent with the secondary market parameters.	6,191,931
100% of the amount of members' loans guaranteed by shares, deposits or both, which could not be withdraw from the Credit Union	26,421,751
100% of the Credit Union's investment in COSSEC.	1,827,323
Total assets without risk with consideration of 0.00%	$ 37,737,554
Assets subject to risk with consideration of twenty percent (20%)	
80% of items in process of collection	12,082,386
80% of interest in process of collection	201,539
80% of the portion of loans to non-members guaranteed by liquid assets that are kept in guarantee of the loans according to the Article 2.03 (a)(2).	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 Governemnet 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).	19,732,730

Determination of Assets Subject to Risk	Amount
Assets subject to risk with consideration of twenty percent (20%)-Continued	
80% of the deposits, loans, liabilities and debt securities, including amounts from all of them ,issued, secured or guaranteed by depository institutions of United States and Puerto Rico, including the Cooperative Bank of Puerto Rico. Shares from profit entities are excluded.	17,818,362
80% of the historical cost of the real state or 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 guaranteed by a mortgage lien on said property.	2,647,439
80% of the prepaid insurances which are risks for the Institution.	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 maintaining the pair value, as reflected in their financial statements and that they are redeemable.	1,937,270
Total assets subject to risk with consideration of twenty percent (20%)	55,106,492
Assets subject to risk with consideration of fifty percent (50%)	
50% of loans completely guaranteed by first residencial properties mortgages. These loans do not meet the parameters of the secondary mortgage market, with no delinquency in excess of 90 days.	11,775,940
50% of commercial loan completely secured by first mortgages on real estate, whether residential or nonresidential. These loans do not meet the parameters of the secondary mortgage market and may not show delinquency in excess of ninety (90) days.	511,558
50% of the investment in shares of Central Credit Unions that have no current or accumulated losses.	5,890
Total assets subject to risk with consideration of fifty percent (50%)	$ 12,293,388
Total assets no subject to risk	$ 105,137,434

Rate of Indivisible Capital to Assets Subject to Risk	Amount
Total assets (excluding the reserve for loan losses)	$ 196,993,009
Total assets no subject to risk	$ (105,137,434)
Total assets subject to risk	$ 91,855,575
Rate of undistributed capital to assets subject to risks	**22.50%**

Act 220 of December 15, 2015, Accounting Requirements for Special Investments

On December 15, 2015, Law 220 was approved to add to Law 255 of credit unions, as amended, a chapter entitled, accounting requirements to special investments. The Act requires

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

- The Act requires special investments are 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.

- The Act 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 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 composite index of the Credit union's CAEL.

- 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 rules 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 of internal controls in the preparation of the financial statements and the preparation of a management review and discussion report that should accompany the audited financial statements.

Regulation Number 8664, Regulatory Accounting Pronouncement

On November 20, 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 significant amount of debt instruments issued by the Government of Puerto Rico and its agencies and public corporations (Commonwealth). At June 30, 2019 and 2018 the amortized cost was $2,639,097 and $6,194,438, respectively and market value of these investments was $3,382,463 and $4,917,925, respectively. To address these circumstances, 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 evenly as investments held until maturity and if any loss is incurred in these special investments, it will be amortized for a period of up to 15 years. Also, it required in certain circumstances, additional contributions to the capital structure of the credit union. To address the special situation of these investments, the Credit Union established a Committee on Special Investments as required by Law 255 of 2002, as amended. This Committee monitors and evaluates continuously the risk involved in the special investments' portfolio of the Credit Union.

Members' Capital Distribution

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 and the allowance for possible loan losses and the 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 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 outstanding 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 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.

On 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 same 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 to 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 reserves, 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 are exempt from the payment of rights, arbitration or state or municipal taxes, including the payment of licenses, patents, permits and registrations, the payment of charges, rights, stamps or internal revenue vouchers related with the inscription of them in the Property Registration, and other exemptions in accordance with the Article 6.08 from Law 255.

Redistribution Law and Adjustment of Tax Burden

On June 30, 2013, Law No. 40 called **"Act for the Redistribution and Adjustment of Tax Burden"** (Law 40) was approved. Law 40 establishes significant changes to the tax system for individuals, corporations, partnerships and other legal entities and modifies the system of Sales and Use Tax ("SUT"). Law 40 eliminates the exemption of arbitration and SUT on purchases of goods and services enjoyed by the Credit Unions.

Law 40 limits the exemption from business to business services accordingly, the following services are considered taxable services of SUT, from the approval of the law, whether performed by a merchant to another business (1) Bank charges that financial institutions makes their commercial customers by way of managing bank accounts, excluding fees related to transactions of investment banking (2) Services accounts receivables ("collection services") (3) Security services, including service carry money or valuables ("armored services") services and private investigations (4) Cleaning services (5) Laundry services (6) Repair and maintenance services (non-capital) of real property and tangible property (7) Telecommunications services, including telephony, Internet, cellphones, among others (8) Waste collections services.

Law 40 also provides that every merchant providing taxable services will be obliged to collect, retains and deposit the SUT, although such services are provided to another merchant.

Law Enforcement Tax Effective Mechanisms

On December 25, 2013, Law No. 163 was approved, "**Law Enforcement Tax Effective Mechanisms"** 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 are simple rules to facilitate compliance, but also maximize the capture of each of taxes (income tax, sales and use tax, municipal patent, tangible property). The Law requires credit union and other taxpayers, under certain conditions, to submit supplementary 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), licensed in Puerto Rico. The supplementary information is provided in the form of annexes, covered by the Law and to 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 supplementary 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.

Amendments to the Internal Revenue Code of Puerto Rico

On May 29, 2015, Law No. 72 (Law 72) was approved, which amends several sections of the Puerto Rico's Internal Revenue Code of 2011 (Code) and added a Subtitle titled "Value Added Tax". Among other things, Law 72 increases the rate of Sales and Use Tax (SUT) applicable to the state portion from 6% to 10.5%, effective July 1, 2015. The municipal portion of said tax remained in 1% so that the total rate applicable to the sale and use of taxable items as of July 1, 2015 is 11.5%. In addition, from October 1, 2015, services between business and designated professional services are subject to a sales tax rate of 4%. Law 72 includes other additional dispositions and other clarifying dispositions whose administrative guidelines the Department of the Treasury will publish in a timely manner.

Cash and Cash Equivalents

The Credit Union consider as cash and cash 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 or less from the date of the financial statements.

Loans to Members and Non-Members

The Credit Union grants personal loans for 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 loan contract and upon compliance with the requirements established for 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, no 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, 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.

Investments 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 and 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 *Accounting for Certain Investments in Debts and Equity Securities.* Also, ASC 942-825, *Financial Instruments*, allows companies that elect to do so, the option to report some financial assets and liabilities at their market value and establish the requirements of presentation and divulgation designed to ease the comparison between companies that choose different methods of measuring the same assets and liabilities.

<u>Securities held-to-maturity</u>

Securities held-to-maturity are those which the Management has the intent and ability to hold to maturity. These are reported 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.

<u>Securities available-for-sale</u>

Securities available-for-sale are presented at fair market value. The gains and 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.

<u>Amortization of premiums and discounts</u>

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. Dividends and interest income are recognized when accrued.

<u>Other than temporary impairment in the fair market value</u>

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 the same, 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 economy is required. Comprehensive net income is the total of: (1) operating profit plus (2) other changes in net assets arising from other sources.

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 (Commonwealth) as special investments.

It also requires that special investments are recorded in the books of credit unions at amortized cost regardless of their classification in the financial statements and no unrealized losses related to special investments are presented. Any loss attributable to special investments may be amortized over a period not exceeding 15 years.

Investments in Credit Union Entities

Investments in credit union entities represent deposits made in entities and cooperative 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 credit union 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. 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 carrying value may not be recoverable. The recoverability of 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, 2019, and 2018, the Credit Union did not recognize losses by impairment in the value of fixed assets.

Foreclosed 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. The Credit Union evaluates the current value of these assets in accordance with the requirements of the ASC 360, *Property, Plant and Equipment*, which requires, among other things, that the entities identify events or changes in the circumstances indicating that the current value of an asset cannot be recovered.

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 them and the distribution of dividends in shares. In accordance with the Credit Union by-laws, the shares par value is than ten dollars ($10). In virtue of such by-laws, each member must subscribe at least twelve shares (12) annually.

Preferred Shares

The Credit Union, subject to the approval of the Corporation, may issue preferred shares, the issuance of which issue may not exceed the total number of common shares issued and outstanding. Preferred shares will not be insured by the Corporation and their ownership will not have the right to vote or to participate in the annual meeting of the Credit Union, nor to be appointed in the governing bodies. The faculty of the Credit Union for the issuance of preferred shares must be consented to the General Annual Meeting of Members. The dividends of the preferred shares will be payable in preference to the other shares. As of June 30, 2019, and 2018, the Credit Union had no preferred shares outstanding.

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 Marketable 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:

<u>Reserve for Social Capital</u>

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 balance of the member at the time of the claim. The balance of the reserve for social capital are $761,198 and $621,761, as of June 30, 2019 and 2018, respectively.

<u>Special Temporary Reserve</u>

This reserve is required by Law 220 of December 15, 2015 as the Credit Union keep losses under special depreciation 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 surplus, subject to the indivisible capital levels and the composite index of the Credit union's CAEL. The Credit Union established the special temporary reserve required by Law 220 as of June 30, 2019 and 2018. As of June 30, 2019, and 2018, the balances of the special temporary reserve are $7,207,438 and $5,207,438, 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, 2019, and 2018, the balance of the reserve for contingencies is $3,817,231, for both years.

Other Reserves:

Reserve for Retired Employees

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

Reserve for Possible Losses on Investment in Negotiable Securities

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

Reserve for Advertising and Promotions

This reserve was created for the advertising and promotion of events where the Credit Union or the Credit Union movement 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 the investment in the development of the industry and implementation of new projects.

Below is the balance of the other reserves as of June 30, 2019 and 2018:

Other Reserves:	**2019**	**2018**
Reserve for Retired Employees	$ 470,000	$ 470,000
Reserve for Possible Losses on Investment in Marketable Securities	1,388	1,388
Reserve for Advertising and Promotions	1,318	1,318
Reserve for Institutional Development	200,000	200,000
	$ 672,706	$ 672,706

Recognition of Interest Revenue and Expense

The interest revenues from loans are recognized using the accumulation method up to ninety (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 for deposit accounts is computed daily from the average daily balance of the account.

Advertising and Promotions

The Credit Union had expenses for advertising and promotion which are recognize at the time they are incurred. The expense for the years ended June 30, 2019 and 2018, was $246,442 and $161,778, 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 included. As a result of the expense recognition through the straight-line method, a deferred rent amount could be recognized in the statement of financial condition.

Fair Value of Financial Instruments

The Credit Union adopted the ASC 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 Reasonable 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 for 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 prices quoted (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 of 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* - They correspond to prices quoted (unadjusted) in active markets for identical assets and liabilities to which the entity can access 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 provide information about pricing.

- *Level 2 Input* **-** Correspond to prices quoted for similar assets or liabilities in active markets, quoted prices for assets or liabilities that are identical or similar in markets that are 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); inputs other than 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 or other means (confirmed by the market inputs)

- *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 are Different 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 of the statement of financial condition. The accounting principles require that the shares be presented in the deposits' section of the same statement. Also, require the recognition the distribution of its surplus as charges to the accumulated benefits and the accounting principles require that those distributions be recognized as interest expense.

During the year ended December 31, 2015, the Credit Union introduced Law 220, Accounting Requirements for Special Investments (Note 2). This Law required the adoption of its mandatory and immediate provisions. This Law requires 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 Instruments.*

During the years ended June 30, 2019 and 2018, if the items described in Note 3 had been classified in accordance with generally accepted accounting principal in the United States of America, total assets would decrease by $10,424,881 and $12,902,455, liabilities would increase by $53,490,753 and $53,446,139, and members' equity would decrease by $63,915,634 and $66,348,594 as of June 30, 2019 and 2018, respectively. In addition, the net income would decrease in the amount of $11,468,247 and $12,113,375 for the years ended June 30, 2019 and 2018, respectively.

The following tables show a comparison and the most significant differences in the condensed statement of financial condition as of June 30, 2019 and 2018 and the condensed statement of income and expenses for the year ended June 30, 2019 and 2018 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 Balance Sheet at 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
Investments 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 and other assets	11,020,881	-	11,020,881
Total assets	$ 190,965,630	$ (10,424,881)	$ 180,540,749
Liabilites:			
Deposit	$ 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)	-
Reserve for indivisible capital and reserves	13,131,314	-	13,131,314
Temporary special reserve	7,207,438	-	7,207,438
Accumulated comprehensive net gain	128,689	743,366	872,055
Undistributed earnings (deficit)	400,000	(11,468,247)	(11,068,247)
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 Statement 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
Provision for uncollectible loans	(300,000)	-	(300,000)
Income after provision	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)
Non-temporary decrease in the value in the investment market	(1,015,524)	(11,168,247)	- (12,183,771)
Net (loss) income	$ 2,892,620	$ (11,468,247)	$ (8,575,627)

Condensed Balance Sheet at June 30, 2018	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Assets:			
Cash and savings certificates	$ 44,302,969	-	$ 44,302,969
Investments in securities	12,721,897	-	12,721,897
Special investments	6,194,438	(1,276,513)	4,917,925
Loans, net	105,421,260	-	105,421,260
Losses under special amortization	11,625,942	(11,625,942)	-
Property and other assets	11,625,172	-	11,625,172
Total assets	$ 191,891,678	$ (12,902,455)	$ 178,989,223
Liabilites:			
Deposit	$ 117,824,098	52,958,706	$ 170,782,804
Other liabilities	3,258,362	487,433	3,745,795
Total liabilities	$ 121,082,460	$ 53,446,139	$ 174,528,599
Members' Equity			
Shares	52,958,706	(52,958,706)	-
Reserve for indivisible capital and reserves	12,499,257	-	12,499,257
Temporary special reserve	5,207,438	-	5,207,438
Accumulated comprehensive net gain	(156,183)	(1,276,513)	(1,432,696)
Undistributed earnings (deficit)	300,000	(12,113,375)	(11,813,375)
Total members' equity	70,809,218	(66,348,594)	4,460,624
Total liabilities and members' equity	$ 191,891,678	$ (12,902,455)	$ 178,989,223

Condensed Statement of Income and Expenses for the year ended June 30, 2018	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Interest income	$ 9,697,787	$ -	$ 9,697,787
Interest expense	(838,782)	(487,433)	(1,326,215)
Net interest income	8,859,005	(487,433)	8,371,572
Provision for uncollectible loans	(500,000)	-	(500,000)
Income after provision	8,359,005	(487,433)	7,871,572
Other income	1,593,550	-	1,593,550
General and administrative expenses	(7,656,217)	-	(7,656,217)
Non-temporary decrease in the value in the investment market	(968,829)	(11,625,942)	- (12,594,771)
Net (loss) income	$ 1,327,509	$ (12,113,375)	$ (10,785,866)

4. CASH AND CASH EQUIVALENTS

As of June 30, 2019, and 2018, the balance of cash and cash equivalents consisted of the following:

	2019	2018
Cash in banks	$ 3,100,410	$ 2,552,468
Savings accounts	12,002,572	19,218,487
Change in fund and petty cash	2,255,960	2,409,063
Savings certificates - maturity less than 90 days	6,500,000	2,100,000
Total of cash and cash equivalents	$ 23,858,942	$ 26,280,018

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 $250,000 and by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC), for up to $250,000. As of June 30, 2019, and 2018, the Credit Union maintains deposits for $14,707,579 and $21,958,568, respectively, in the Banco Cooperativo de 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 de 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 de Puerto Rico. As of June 30, 2019, and 2018, the Credit Union maintained cash deposited over the amount covered by the insurance in FDIC by $8,251,333 and $5,682,754, respectively and in COSSEC by $8,101,658 and $8,701,658, respectively.

5. INVESTMENT IN SECURITIES

As of June 30, 2019, and 2018, the amortized cost and fair market value of the investments in securities available for sale are as follows:

Available for sale

June 30, 2019

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Municipal Bonds of United States	$ 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 Corporatior	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

June 30, 2018

Type of Investments	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Municipal Bonds of United States	$ 6,843,914	$ -	$(147,279)	$ 6,696,635
Federal Farm Credit Bank	495,876	-	(841)	495,035
Federal Home Loan Bank	2,445,459	-	(3,704)	2,441,755
U.S. Treasury Notes	3,092,831	411	(4,770)	3,088,472
	$12,878,080	$ 411	$(156,594)	$ 12,721,897

The amortized cost and the estimated market value of the investment in securities at June 30, 2019 and 2018, according to their maturity date, are presented below. Investments expected maturities may differ from the original contract since the borrower has the right to cancel or prepay the obligation.

	2019		2018	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
One year to five years	$ 16,213,192	$ 16,197,539	$ 9,117,662	$ 9,063,343
More than five years to ten years	6,725,523	6,869,865	3,760,418	3,658,554
	$ 22,938,715	$ 23,067,404	$ 12,878,080	$ 12,721,897

6. SPECIAL INVESTMENTS

The Credit Union adopted the Law 220 of December 15, 2015, which among other, provides that the credit unions accounted bonds issued by the Commonwealth (ELA, by its acronym in Spanish), its agencies and public corporations in an evenly manner at amortized cost and classified them as investments held to maturity and no unrealized losses Will not be presented in the financial statements related to special investments (See Note 2).

As of June 30, 2019, and 2018, the amortized cost, the impairment or other than temporary impairment of active investments, adjusted cost, fair market value and unrealized gain of special investments are as follows:

2019

Issuer of debt instrument	Amortized Cost	Other than Temporary Impairment	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**

2018

Issuer of debt instrument	Amortized Cost	Other than Temporary Impairment	Adjusted Cost	Market Value	Unrealized Losses
Banco Gubernamental de Fomento	$ 5,927,700	$ (2,671,490)	$ 3,256,210	$ 2,342,350	$ (913,860)
ELA - Obligaciones Generales	425,000	(127,500)	297,500	178,200	(119,300)
PRIDCO	3,009,319	(903,341)	2,105,978	2,130,000	24,022
Corporación para el Financiamiento Público (PFC)	10,695,000	(10,160,250)	534,750	267,375	(267,375)
	$ 20,057,019	**$ (13,862,581)**	**$ 6,194,438**	**$ 4,917,925**	**$ (1,276,513)**

As of June 30, 2019, and 2018, the movement of the impairment of the special investments are as follows:

2019

Issuer of debt instrument	Total Impairment 6/30/2018	Additions	Retirements	Total Impairment 6/30/2019
Government Development Bank	$ (2,671,490)	$ (117,325)	$ 2,788,815	$ -
ELA - General Obligations	(127,500)	(440,504)	568,004	-
PRIDCO	(903,341)	-	-	(903,341)
Corporation for Public Financing	(10,160,250)	-	-	(10,160,250)
	$ (13,862,581)	**$ (557,829)**	**$ 3,356,819**	**$ (11,063,591)**

Issuer of debt instrument	2018 Total Impairment 6/30/2017	Additions	Retirements	Total impairment 6/30/2018
Government Development Bank	$ (2,668,203)	$ (3,287)	$ -	$ (2,671,490)
ELA - General Obligations	(127,500)	-	-	(127,500)
PRIDCO	(903,341)	-	-	(903,341)
Corporation for Public Financing	(9,625,500)	(534,750)	-	(10,160,250)
	$ (13,324,544)	**$ (538,037)**	**$ -**	**$ (13,862,581)**

The following table shows the unrealized losses, the estimated market value and the time the investments have in the Credit Union in a position of unrealized loss as of June 30, 2018:

	2018					
	Less than 12 months		12 Months or more		Total	
Issuer of debt instruments	Market Value	Unrealized Loss	Market Value	(Pérdidas) Ganancias no Realizadas	Valor en el Mercado	Pérdidas no Realizadas
Banco Gubernamental de Fomento	$ -	$ -	$ 2,342,350	$ (913,860)	$ 2,342,350	$ (913,860)
ELA - Obligaciones Generales			178,200	(119,300)	178,200	(119,300)
Corporación para el Financiamiento Público (PFC)			267,375	(267,375)	267,375	(267,375)
	$ -	$ -	$ 2,787,925	$ (1,300,535)	$ 2,787,925	$ (1,300,535)

Law Promise, Evaluation and Adjustment of other than temporary impairment in Fair Value of Special Investments

Law PROMESA

On June 30, 2016, the President of the United States signed the Puerto Rico Oversight, Management and Economic Stability Act (PROMESA). This Act grants ELA access to an orderly mechanism to restructure its debts in exchange for significant federal oversight over its finances. PROMISE intends to provide fiscal and economic discipline by creating a Fiscal Oversight Board appointed by the U.S. Congress with plenary authority over Puerto Rico’s finances. In addition, it provides relief on possible claims from creditors by promulgating a temporary moratorium on litigation and provides two alternative methods (Title III and Title VI) to adjust the ELA’s debt.

Sale of Special Investments

During the year ended June 30, 2019 and 2018, the Credit Union sold several of its special investments of the Government of Puerto Rico or its agencies that were in the impairment statement and are covered by Act No. 220. The fiscal and economic situation of Puerto Rico, together with other factors such as the declared moratoriums on the payment of the principal and interest on these debt obligations of the Government of Puerto Rico, including those issued or guaranteed by the ELA, led the management of the Credit Union to conclude that the unrealized losses on these securities were other than temporary impairment. During the years ended June 30, 2019 and 2018, the Credit Union recognized impairments or other than temporary impairment for the amounts of $557,829 and $538,037, 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 Act No. 220. The product of the sale of these special investments was approximately $2,995,881, the net amortized cost of impairment was approximately $3,553,710 and the additional losses under special amortization were $557,829.

Unrealized losses in excess of impairments

In addition, the unrealized loss on investments in excess of adjustment impairment recorded for impaired investments and classified as special of $1,276,513 as of June 30, 2019, was not recorded in the statement of comprehensive net income as required by US GAAP. These require that this excess in the investments classified held to maturity be recorded as a decrease in the members' equity and in special investments and must be amortized until the maturity of each of the corresponding investments. This adjustment, however, is presented as a difference between the financial statements in accordance with the accounting practices required by Act No. 255 (Regulatory) and the US GAAP.

Adoption of Law 220 and Losses under Special Amortization

Law 220 adopted by the Credit Union during the year ended December 31, 2015 allows any loss attributable to the special investments in the disposition, retention or related to the application of a pronouncement of generally accepted accounting principles can be amortized by a period not exceeding 15 years, to be named as Losses under Special Amortization. Other than temporary impairment in the debt instruments issued by the Commonwealth of Puerto Rico, its agencies and public corporations (ELA) classified as special investments were recorded as losses under special amortization and classified within other assets as of June 30, 2019 and 2018. As of June 30, 2019, and 2018, the balance of losses under special amortization was $11,168,247 and $11,625,942, respectively (Note 10). These losses will be amortized for a period not to exceed 15 years. During the years ended June 30, 2019 and 2018, the Credit Union recorded a special investment loss amortization of $1,015,524 and $968,829, respectively.

Also, in connection with the adoption of Law 220, the Credit Union created a special temporary reserve of 10% of the unrealized loss on special investments plus other minimum contributions that vary subject to the levels of the indivisible capital and the composite CAEL index of the Credit Union. The special temporary reserve at June 30, 2019 and 2018 was $7,207,428 and $5,207,438, respectively and is presented in the statement of changes in members' equity. The calculation of the special temporary reserve as of June 30, 2019 and 2018 is as follow:

	2019			2018		
	Amount	%	Determined Reserve	Amount	%	Determined Reserve
First Reserve - Unrealized Losses						
Unrealized losses	$ -			$ 1,276,513		
Losses under special amortization	11,168,247			11,625,942		
Total	11,168,247	10%	$ 1,116,825	12,902,455	10%	$ 1,290,246
Second Reserve - Earnings						
Net earnings of annual contributoin to indivisible capital	$ 2,400,000	50%	1,200,000	$ 1,360,995	50%	680,498
Total special temporary reserve required			2,316,825			1,970,743
Additional special temporary reserve			4,890,613			3,236,695
Total special temporary reserve as of June 30, 2019			$ 7,207,438			$ 5,207,438

Expected Maturity of Special Investments

The amortized cost and estimated market value of special investments as of June 30, 2019 and 2018, 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.

	2019		2018	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
Past due investments	$ 2,000,000	$ 115,000	$ 2,120,000	$ 100,100
One year to five years	11,702,688	3,267,463	14,927,700	2,687,825
More than five years to ten years	-	-	3,009,319	2,130,000
	$ 13,702,688	$ 3,382,463	$ 20,057,019	$ 4,917,925

7. LOANS

The following table shows the total of the loan portfolio of the Credit Union by type and type of financing as of June 30, 2019 and 2018:

	2019	2018
Commercial:		
Corporations	$ 1,854,574	$ 1,875,780
Non-profit entities	122,869	91,074
Total commercial loans	$ 1,977,443	$ 1,966,854
Consumer:		
Personal	$ 42,603,250	$ 43,310,068
Auto	28,287,713	27,898,337
Mortgage	32,850,930	35,438,407
Credit cards & Lines of credit	2,701,335	2,252,928
Restructured	366,669	473,415
Total consumer loans	$ 106,809,897	$ 109,373,155
Total loans	$ 108,787,340	$ 111,340,009
Less: Allowance for possible loan losses	(6,027,379)	(6,341,691)
Plus: Loan origination deferred costs	678,145	422,942
Total loans, net	$ 103,438,106	$ 105,421,260

Allowance for Possible Loan Losses

The allowance for possible loan losses is an estimate prepared by management that includes losses inherent 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 as identified through periodic reviews. As of June 30, 2019, and 2018, 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 uncollectible accounts is determined after an evaluation of the experiences of real losses of the Credit Union and the detailed evaluation of the 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 account the parameters established according to Regulation 8665 issued by COSSEC. In addition, experience analyzes, and risk factors developed by

Management were compared. The restructured loans were evaluated using the present value of he discounted cash flows at the interest rate of the original loan.

The allowance for possible loan losses is increased by operating charges and decrease by loans carried to los (net of recoveries). The assessment of the adequacy of the reserve is based in the study of problematic loans, known and inherent risk to the loan portfolio, adverse situations that may affect the ability of the members to pay the loans, the estimated value of collateral and current conditions of the economy.

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

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

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

The movement of the reserve for possible losses in the loan portfolio of the Credit Union as of June 30, 2019 and 2018 is as follows:

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	$ 1,977,443	$ -	1,977,443
Evaluated collectively	-	106,809,897	106,809,897
Total	$ 1,977,443	$ 106,809,897	$ 108,787,340

2018

	Commercial	Consumer	Total
Beginning balance	$ 436,045	$ 6,068,343	$ 6,504,388
Additional provision of the year	-	500,000	500,000
Recoveries of loans previously reserved	-	121,676	121,676
Loans charged against the reserve	-	(784,373)	(784,373)
Ending balance	$ 436,045	$ 5,905,646	$ 6,341,691
Evaluation of reserve:			
Reserve evaluated individually	$ 436,045	$ -	$ 436,045
Reserve evaluated collectively	-	5,905,646	5,905,646
Total	$ 436,045	$ 5,905,646	$ 6,341,691
Loan Balance:			
Evaluated individually	$ 1,966,854	$ -	1,966,854
Evaluated collectively	-	109,373,155	109,373,155
Total	$ 1,966,854	$ 109,373,155	$ 111,340,009

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, 2019 and 2018:

June 30, 2019	Without Exception	Follow-Up	Substandard	Doubtful	Total
Corporations	$1,733,928	$ -	$ -	$120,646	$1,854,574
Non-profit entities	122,869	-	-	-	122,869
Total commercial	$1,856,797	$ -	$ -	$120,646	$1,977,443

June 30, 2018	Without Exception	Follow-Up	Substandard	Doubtful	Total
Corporations	$1,752,139	$ -	$ -	$123,641	$1,875,780
Non-profit entities	91,074	-	-	-	91,074
Total commercial	$1,843,213	$ -	$ -	$123,641	$1,966,854

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, 2019 and 2018:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 o more	90+ & Accumulating	90+ & Not accumulating	Total
June 30, 2019							
Corporations	$ 1,733,928	$ -	$ -	$ 120,646	$ -	$ 120,646	$ 1,854,574
Non-profit entities	122,869	-	-	-	-	-	122,869
Total commercial	$ 1,856,797	$ -	$ -	$ 120,646	$ -	$ 120,646	$ 1,977,443
June 30, 2018							
Corporations	$ 1,752,139	$ 2,995	$ -	$ 120,646	$ -	$ 123,641	$ 1,875,780
Non-profit entities	91,074	-	-	-	-	-	91,074
Total commercial	$ 1,843,213	$ 2,995	$ -	$ 120,646	$ -	$ 123,641	$ 1,966,854

Quality Indicators of the Consumer Loans Portfolio

The Credit Union has various types of consumer loans which have different credit risks. The impairment, 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 impairment 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, 2019 and 2018:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 o more	90+ & Accumulating	90+ & Not accumulating	Total
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	29,791,905	247,722	624,645	2,186,658	-	3,059,025	32,850,930
Credit cards & lines of credit	2,548,272	26,566	126,497	-	-	153,063	2,701,335
Restructured	341,455	25,214	-	-	-	25,214	366,669
Total consumer	$ 102,996,706	$ 694,443	$ 919,061	$ 2,199,687	$ -	$ 3,813,191	$ 106,809,897
June 30, 2018							
Personal	$ 42,843,813	$ 347,038	$ 119,217	$ -	$ -	$ 466,255	$ 43,310,068
Auto	27,154,138	279,280	271,495	193,424	-	744,199	27,898,337
Mortgage	31,414,603	293,178	2,430,202	1,300,424	-	4,023,804	35,438,407
Credit cards & lines of credit	2,189,474	22,725	40,729	-	-	63,454	2,252,928
Restructured	421,757	16,557	35,101	-	-	51,658	473,415
Total consumer	$ 104,023,785	$ 958,778	$ 2,896,744	$ 1,493,848	$ -	$ 5,349,370	$ 109,373,155

Following we present the types of loans that make up the portfolio of consumer classified according to their empirical at the time of the approval as of June 30, 2019 and 2018:

	Distribution by credit score					
	< 600	601-650	651-700	701 +	Other	Total
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	8,172,913	5,056,102	7,852,927	11,768,988	-	32,850,930
Credit cards & lines of credit	220,656	33,568	110,467	45,183	2,291,461	2,701,335
Restructured	209,875	127,928	21,298	7,568	-	366,669
Total consumer	$ 21,420,793	$ 16,778,272	$ 23,330,898	$ 41,607,493	$ 3,672,441	$ 106,809,897
June 30, 2018						
Personal	$ 5,103,735	$ 5,925,765	$ 10,669,505	$ 21,611,063	$ -	$ 43,310,068
Auto	10,363,283	5,499,760	5,219,804	6,815,490	-	27,898,337
Mortgage	8,502,501	5,158,047	9,071,178	12,706,681	-	35,438,407
Credit cards & lines of credit	202,763	292,880	518,173	1,239,112	-	2,252,928
Restructured	263,664	175,816	13,797	20,138	-	473,415
Total consumer	$ 24,435,946	$ 17,052,268	$ 25,492,457	$ 42,392,484	$ -	$ 109,373,155

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 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, 2019					
First Mortgage	$ 27,665,807	$ 2,722,896	$ 1,069,686	$ 1,392,541	$ 32,850,930
Total	$ 27,665,807	$ 2,722,896	$ 1,069,686	$ 1,392,541	$ 32,850,930
June 30, 2018					
First Mortgage	$ 29,465,950	$ 3,357,647	$ 1,109,925	$ 1,504,885	$ 35,438,407
Total	$ 29,465,950	$ 3,357,647	$ 1,109,925	$ 1,504,885	$ 35,438,407

Impaired Loans

The following presents a summary of the portfolio of impaired loans as of June 30, 2019 and 2018:

	June 30, 2019		June 30, 2018	
	Unpaid Principal Balance	Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial:				
Corporations	$ 120,646	$ 116,217	$ 123,641	$ 116,458
Total Commercial	$ 120,646	$ 116,217	$ 123,641	$ 116,458
Consumer:				
Personal	$ 402,272	$ 268,181	$ 466,255	$ 133,138
Auuto	173,617	45,261	744,199	301,885
Mortgage	3,059,025	1,763,805	4,023,804	1,255,510
Credit Cards & line of credits	153,063	61,243	63,454	12,286
Restructured	25,214	7,595	51,658	18,652
Total consumer	$ 3,813,191	$ 2,146,085	$ 5,349,370	$ 1,721,471
Total	$ 3,933,837	$ 2,262,302	$ 5,473,011	$ 1,837,929

The following presents a summary of the loans modified and classified as restructured and those loans restructured that became impaired after its approval as of June 30, 2019 and 2018:

	Restrucuted Loans			Delinquent restructured loans		
	Number of loans	Principal balance	Reserve required	Number of loans	Principal balance	Reserve required
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
June 30, 2018						
Consumer:						
Personal	38	$ 473,415	$ 31,947	2	$ 51,658	$ 18,652
Total consumer	38	$ 473,415	$ 31,947	2	$ 51,658	$ 18,652

The following is a summary of the type of concession granted to the restructured loans during the year ended June 30, 2019 and 2018:

	Type of concession
	Interest rate and maturity date
June 30, 2019	
Consumer:	
Personal	$ 366,669
Total consumer	$ 366,669
June 30, 2018	
Consumer:	
Personal	$ 473,415
Total consumer	$ 473,415

8. INVESTMENTS IN COOPERATIVE ENTITIES

Investments in cooperative entities represent deposits made in cooperative entities in Puerto Rico. The investment is recognized at cost, plus dividends received on such investments. Investment in cooperative entities as of June 30, 2019 and 2018 consist of the following:

	2019	**2018**
Banco Cooperativo de Puerto Rico	$ 1,116,555	$ 1,048,504
Investment en 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	47,993	47,052
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
	$ 4,758,989	$ 4,689,997

9. PROPERTY AND EQUIPMENT

As of June 30, 2019, and 2018, the property and equipment were composed of the following:

	Useful Life (in years)	2019	2018
Buildings	50	$ 2,420,182	$ 2,420,182
Furniture & equipment	1-8	1,240,949	1,251,655
Programming	1-5	1,175,584	1,194,334
Improvements	1-5	2,681,931	2,591,112
Vehicles	4-5	122,395	122,395
		7,641,041	7,579,678
Less accumulated depreciation		(5,960,774)	(5,611,541)
		1,680,267	1,968,137
Land		889,117	889,117
		$ 2,569,384	$ 2,857,254

10. OTHER ASSETS

As of June 30, 2019, and 2018, the other assets were composed of the following:

	2019	2018
Interest receivable on loans, certificates and others	$ 495,982	$ 367,738
Losses under special amortization (Law 220)	11,168,247	11,625,942
Prepaid deposits and insurance	160,586	45,380
Repossessed properties and cars	2,977,631	3,595,726
Materials inventory	34,238	39,458
Other accounts receivable	24,071	29,619
	$ 14,860,755	$ 15,703,863

The movement of the losses under special amortization at June 30, 2019 and 2018 was as follows (See Note 6):

	2019	2018
Beginning balance	$ 11,625,942	$ 12,056,734
Additions	557,829	538,037
Amortization	(1,015,524)	(968,829)
Ending year	$ 11,168,247	11,625,942

Special Investment Sales

During the year ended June 30, 2019 and 2018, the Credit Union had investments in debt instruments issued by ELA and classified as special investments making a net loss in the sale. The Credit Union chose to continue amortizing the net loss attributable in the disposition for approximately $557,829 for a period not exceeding 15 years as permitted by Act. No. 220 of October 15, 2015 (See Note 2).

11. DEPOSITS AND CERTIFICATE OF DEPOSITS

The regular savings accounts earn interests that fluctuates between 0.05% y 0.75% computed daily and credited quarterly. Its policy of the Credit Union to allow savings withdrawals on any operating day. However, when deemed necessary, the Board of Directors may require members that they notify their intention to make withdrawals up to thirty (30) days in advance.

The interest rate in the certificates varies according to the amount and time negotiated. Saving 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 0.80% and 1.50%. Deposits consist of the following:

	2019	2018
Saving accounts	$ 75,313,107	$ 76,072,740
Certificates of deposits	31,204,946	33,759,358
Checking accounts	5,413,578	6,180,154
Navi-Coop	1,617,734	1,697,761
Vera-Coop	120,843	114,085
	$ 113,670,208	$ 117,824,098

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

	2019	2018
Deposits	$ 82,465,262	$ 84,064,740
Certificates of deposits	31,204,946	33,759,358
	$ 113,670,208	$ 117,824,098

The following shows the maturity of the deposits and certificates of deposits in aggregated form for the following five years as of June 30, 2019 and 2018:

	2019	2018
Savings account with no contract maturity	$ 82,465,262	$ 84,064,740
Maturity of less than one year	21,058,534	26,094,040
Maturity between one and three years	5,876,998	3,782,215
Maturity between three and five years	2,500,664	3,883,103
Maturity over five years	1,768,750	-
Total deposits	$ 113,670,208	$ 117,824,098

12. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, 2019, and 2018 the accounts payable and accumulated expenses were the following:

	2019	2018
Account payable and accumulated expenses	$ 1,264,802	$ 1,646,691
Insurance and guarantees payable	272,391	253,352
Interest payable	76,325	82,701
Discount and tranfers to loans	192,467	232,493
Other accounts payable	1,431,243	1,043,125
	$ 3,237,228	$ 3,258,362

13. OTHER INCOME

The other income for the years ended June 30, 2019 and 2018 were as follows:

	2019	2018
Service charges	$ 1,014,376	$ 921,090
Commissions for services	493,728	375,294
Rent	2,250	8,000
Dividends	110,134	41,618
Special Investment Transaction Agreement	414,292	-
Insurance claim	751,569	-
Other income	291,795	247,548
	$ 3,078,144	$ 1,593,550

During the year ended June 30, 2019, the Credit Union signed dan agreement with a New York Law Firm with the purpose of filing a complaint with the Financial Industry Regulatory Authority (FINRA) against the brokerage house that provides services to the Credit Union with relation to the acquisition of Puerto Rico’s Bonds. The Credit Union reached a transactional agreement with the brokerage house. On the other hand, the Credit Union received the amount of $751,569 from the Insurance Company for claims of business interruption and property insurance for damages caused by Hurricane Irma and Maria.

14. GASTOS GENERALES Y ADMINISTRATIVOS

The general and administrative expenses for the years ended June 30, 2019 and 2018 is composed of the following:

	2019	2018
Salaries, bonus and vacations	$ 1,622,703	$ 1,626,184
Payroll contributions	214,177	219,409
Health insurance	177,963	186,222
Retirement plan	76,152	43,537
Professional services	742,939	717,720
Insurance		
COSSEC fee	377,100	472,058
Shares and deposits	257,846	267,169
Generals	261,453	239,670
Depreciation and amortization	419,300	398,662
Mail	26,859	25,481
Utility	236,476	186,689
Rent	36,000	36,000
Education	45,557	38,366
Executive expenses	42,586	32,418
Repair and maintenance	304,516	376,277
Annual Meeting	55,559	52,618
ATM and Mastercard maintenance	859,306	840,168
Office materials	69,634	85,715
Banking fees	136,130	142,022
Credit investigation	41,419	37,325
Donations	7,077	7,351
Advertising and Promotions	246,442	161,778
Sales and use tax	86,470	104,622
Provision for disposition of repossessed properties	1,200,000	800,000
Other agregated expenses	470,502	558,756
	$ 8,014,166	$ 7,656,217

15. COLLECTIVE LIFE INSURANCE OF SHARES AND LOANS

The members who comply with the eligibility requirements have the right to participate in a shares and deposits insurance. This insurance will pay up to a maximum of ten thousand dollars ($10,000) in the coverage of shares a deposit in case of a dead 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 the shares and deposits is paid by the Credit Union. The insurance expense for the years ended June 30, 2019 and 2018 was $257,846 and $267,169, respectively.

16. HEALTH INSURANCE

The Credit Union has a health insurance for qualified employees, where the Credit Union contributes between a 50% and a 100% of the cost of this plan for family groups, couples and individual. The health insurance expense for the years ended June 30, 2019 and 2018 was $177,963 and $186,222, respectively.

17. PROVISION FOR COOPERATIVE EDUCATION

The Credit Union is obligated by Act 255 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 ($4,000,000) dollars per year are obliged to contribute an additional amount of five percent (5%) of its annual net surplus up to a maximum of six thousand dollars ($6,000). The Credit Union accumulated the expense corresponding to the provision for cooperative education as of June 30, 2019 and 2018.

18. RETIREMENT PLAN

The Credit Union has a defined contributions plan for all the qualifying employees. The Cooperativa de Seguros de Vida is the entity that administers the plan. The plan expense for the years ended June 30, 2019 and 2018 was $76,152 and $43,537, respectively. The minimum contribution, including de 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

Uncertainty in ELA Bonds and its agencies and the Economic Situation of Puerto Rico

As of June 30, 2019, and 2018, the Credit Union had in its portfolio of special investments, and debt instruments with an adjusted amortized cost of $2,639,097 and $6,194,438, respectively, issued by the Commonwealth of Puerto Rico, its agencies and public corporations. The adjusted amortized cost of bonds issued by ELA, its agencies and public corporations represents a 10% and 33% of the amortized cost of the investment in securities and special investment and a 1% and 3% of the total assets of the Credit Union as of June 30, 2019 and 2018, respectively.

During the month of September 2017, hurricanes Irma and Maria caused catastrophic damage throughout Puerto Rico (Commonwealth or ELA). After the passage of the hurricanes, all of Puerto Rico was left without electricity and other basic utilities and infrastructure services (such as water, communications, ports, and other transport networks.

Even before the hurricanes, the Commonwealth already experienced a severe economic and liquidity fiscal crisis due to many years of Budget deficits, a prolonged economic recession, a high unemployment, a population decline and high levels of debt and pension obligations. This has also contributed to downgrading the credit ratings of general obligation bonds and other bonds related to the lower levels of a speculative investment. Currently, the Commonwealth and several of its agencies are restructuring their debts through Titles III and VI of the Federal Law PROMESA and have not fulfilled their obligations to pay the principal and interest on their debt instruments with credit unions. Since its creation, the Board of Supervision, Administration and Economic Stability of Puerto Rico (Board) has worked with the ELA to carry out its responsibilities under PROMESA, to help the Commonwealth achieve a fiscal balance, return to the capital markets and restore the economic growth of Puerto Rico. The planned changes in the fiscal plans requested by the Supervisory Board and its agencies are ambitious and require unprecedented levels of effort. Due to the above there is an uncertainty that the Commonwealth and the Board appointed by PROMESA by the Federal Government will succeed in achieving balanced budgets through debt restructuring and multi-year fiscal plans. In addition, the Commonwealth announced that it will need substantial federal assistance in the form of emergency liquidity programs to respond to its cash flow deficiencies and rebuild critical infrastructure after the hurricanes.

In addition, the credit quality of the Credit Union's loan portfolio necessarily reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions that affect Puerto Rico, its consumers, and businesses. The effects of the prolonged recession are reflected in the limited demand for loans, an increase in the rate of foreclosures and moratoria on loans granted in Puerto Rico. While PROMESA provides a process to address the fiscal crisis of the Commonwealth, the duration and complexity of Title III procedures for the Commonwealth and several of its agencies, the adjustment measures required by fiscal plans and the impact of Hurricanes Irma and María, suggests a risk of significant additional economic contraction. In addition, the measures adopted to deal with the fiscal crisis and those that will have to be taken in the near future will probably affect many of our individual and business members, which could cause credit losses that negatively affect consumer confidence. This in turn translates into reductions in consumer expenses that can also adversely impact our interest income and other income. If global or local economic conditions worsen or the Government of Puerto Rico and the Supervisory Board can not properly manage post-hurricane recovery efforts and pre-existing fiscal crisis, in addition to continuing to provide essential services, the adverse effects could continue or worsen in a way that we cannot predict, even consummated an orderly restructuring of the debt obligations of the Government of Puerto Rico.

This could have a material impact on the economic activity of Puerto Rico where the Credit Union does business. The accompanying financial statements do not include adjustments related to the effect of the uncertainty related to the economic conditions of the Commonwealth and its effect on the Credit Union.

Purchase of Participation in Loan Portfolio

During the year ended June 30, 2019 and 2018, 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 recourse.

Agreement for Maintenance of Payment Order Accounts

The Credit Union maintains as part of other services to their members, the current accounts or payment order, share draft. The Credit Union Will be responsible for all the risk involved the 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 and/or refund of checks, in accordance with the regulations of the Puerto Rico Clearing House Association.

Operational Leases

The Credit Union maintains a lease agreement for the facilities used for the Canovanas branch that expires on August 30, 2023. The following are the annual future rental payments for the next four (4) years; $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, 2022 and $36,000 for the year ending June 30, 2023. The rental expense for the years ended June 30, 2019 and 2018 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 its 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 advisors of the Credit Union are of the opinion that the amount paid by the Insurance Company must have been greater than the amount granted, so they began a legal claim process after exhausting administrative resources. In addition, in November 2013, the Credit union suffered a cyber-attack that resulted in the extraction of funds from the Credit Union that totaled approximately $5.8 million. The Management and the legal advisors 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 claim for breach of contract and other damages. At the date of the financial statements, the claims are in due process in the corresponding courts. The Credit Union has kept accumulating to the legal reserve to cover any loss as a result of legal actions that are not favorable to the Credit Union. The Credit Union is a part and maintains several claims, mainly due to claims to collect money, 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 savings certificates was estimated by discounting the expected cash flows to its maturities using estimated market discounts 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 rate applied were based on the market rate for classes similar as of June 30, 2019 (Level 3). Te 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 investment plus the capitalized dividends, les withdrawals or returns. Managements understands that the fair value of these investments should approximate to the book value fur 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 les 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, 2019, and 2018, 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, 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

	June 30, 2018			
Type of investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in negotiable securities	$ 12,721,897	$ -	$ -	$ 12,721,897
Special investment	-	4,917,925	-	4,917,925
	$ 12,721,897	$ 4,917,925	$ -	$ 17,639,822

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

The Credit Inion 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, 2019 and 2018 are summarized as follows:

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

	June 30, 2018				
	Book	**Fair Value**			
Type of Investment	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Repossessed cars and properties	$ 3,595,726	$ -	$ -	$ 3,595,726	$ 3,595,726

The change in the fair value of the repossessed autos and properties, which was determined using Level 3 Inputs, as of June 30, 2019 and 2018 are presented as follows:

	2019	2018
Balance, at the beginning of the year	$3,595,726	$3,128,365
Repossessed properties during the year	2,068,659	2,873,683
Sale on repossessed properties	(2,216,689)	(1,988,633)
Change in repossessed properties reserve	(470,065)	(417,689)
Balance, at the end of the year	$2,977,631	$3,595,726

Estimated Fair Value

As of June 30, 2019, and 2018, the book value and estimated fair value of financial instruments were as follows:

	June 30, 2019		June 30, 2018	
	Book Value	Fair Value	Book Value	Fair Value
Financial assets:				
Cash and cash equivalent	$ 23,858,942	$ 23,858,942	$ 26,280,018	$ 26,280,018
Savings deposits, due in more than three months	15,772,953	15,772,953	18,022,951	18,022,951
Loans receivable, net of allowance	103,438,106	100,509,598	105,421,260	102,655,365
Investment in securities	23,067,404	23,067,404	12,721,897	12,721,897
Special investments	2,639,097	3,382,463	6,194,438	4,917,925
Cooperative entities shares (excluding COSSEC)	2,931,666	2,421,588	2,862,674	2,352,596
Other assets - losses under special amortization	11,168,247	-	11,625,942	-
	$ 182,876,415	$ 169,012,948	$ 183,129,180	$ 166,950,752
Financial liabilities:				
Deposit accounts	$ 82,465,262	$ 82,465,262	$ 84,064,740	$ 84,064,740
Certificate of deposits	31,204,946	31,204,946	33,759,358	33,759,358
Members' shares	53,190,753	53,190,753	52,958,706	52,958,706
	$ 166,860,961	$ 166,860,961	$ 170,782,804	$ 170,782,804

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. The 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

En el curso normal de las operaciones, la Cooperativa utiliza ciertos instrumentos de riesgo que no son reconocidos en el estado de situación para satisfacer las necesidades de financiamiento de los socios. 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 nominal or contract amounts of those instruments, not included in the statement of financial condition, are indicative of the activities of the credit union in any particular instrument.

The Credit Union uses credit terms 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 of time. 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. The management determines through the evaluation of the applicant's credit, the amount of collateral to be obtained as a condition of the credit requested. The amount of commitment to extend credit as of June 30, 2019 and 2018 is composed of the following:

	2019	2018
Credit cards	$2,067,346	$1,729,271
Line of credits	$ 66,552	$ 89,179

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 in these accounts (interest charged and paid) are similar to those accounts for the members in general. The movement of the employees and executives as of June 30, 2019 and 2018 are presented below:

	2019
Initial balance of loans	$ 1,716,898
Originations and recoveries, net	(200,378)
Final balance of loans	$ 1,516,520
Shares	$ 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 September 12, 2019, when these financial statements were ready to be emitted. The Credit Union's management understands that no material event occurred subsequently to June 30, 2019 that requires registration or need additional disclosure in the financial statements.

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