Cooperativa de Ahorro y Crédito Roosevelt Roads

AUDITED FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION

For the years ended
June 30, 2022 and 2021

Cooperativa de Ahorro y Crédito Roosevelt Roads

AUDITED FINANCIAL STATEMENTS
& SUPPLEMENTARY INFORMATION

For the years ended
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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:

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

We have audited the accompanying statements of financial statements of the Cooperativa de Ahorro y Crédito Roosevelt Roads ("the credit union") as of June 30, 2022, and 2021 and the related statements of financial condition, statements of income and expenses, comprehensive net income, changes in members' equity, and cash flow for the years then ended and the corresponding notes to the financial statements.

In our opinion, because of the significance of the matters discussed in the paragraph of the Basis for the Adverse Opinion at June 30, 2022 and 2021, 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, 2022 and 2021, the results of operations, changes in member's equity, comprehensive net income and cash flows for the years then ended, in accordance with generally accepted accounting principles in the United States.

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

The Credit Union's management decided to continue with the presentation that is promulgated by the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico (COSSEC, by its acronym in Spanish) in accordance with Law 255 of October 28, 2002, amended by Law 220 of December 15, 2015, of the Commonwealth of Puerto Rico (regulatory basis), which is considered a different basis to the generally accepted accounting principles in the United States of America. The effect on the financial statements of the variances between the 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 would remain unchanged as of June 30, 2022 and would decrease by $8,719,848 as of June 30, 2021, liabilities would increase by $60,313,421 and $58,344,920, and members' equity would decrease by $60,313,421 and $67,064,768 as of June 30, 2022, and 2021, respectively. Additionally, net income would decrease by $9,257,032 and $9,358,100 for the years ended June 30, 2022, and 2021, respectively.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America (GAAS). Our responsibilities under those standards are described in more detail in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Credit Union and to comply with our other ethical responsibilities, in accordance with those ethical requirements related to our audit. We believe that the audit evidence we have obtained provides a sufficient and appropriate basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

In preparing the financial statements, management is required to assess whether there are any conditions or events, taken in the aggregate, that cast substantial doubt on the Credit Union's ability to continue as a going concern within one year after the date the financial statements are available to be issued.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that contains our opinion. Reasonable certainty is a high level of assurance, but it is not absolute certainty and, therefore, is not a guarantee that an audit performed in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is greater than one resulting from error, as fraud may include collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Errors are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions that a user of the statements might make based on these financial statements.

When conducting an audit in accordance with GAAS, we:

• We exercise professional judgment and maintain professional skepticism during the audit process.

• We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures that are responsive to those risks. Such procedures include examining, on a test basis, evidence about the amounts and disclosures in the financial statements.

• Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Credit Union's internal control. Accordingly, no such opinion is expressed.

• We evaluated the adequacy of the accounting policies used and the reasonableness of the significant accounting estimates made by management, as well as the general presentation of the financial statements.

• We conclude if, in our judgment, there are conditions or events, taken as a whole, that cast substantial doubt on the Credit Union's ability to continue as a going concern for a reasonable period of time.

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

INDEPENDENT AUDITORS' REPORT (CONTINUED)

SUPPLEMENTARY INFORMATION

Our audit was conducted for the purpose of expressing an opinion on the financial statements taken as a whole. The supplementary information included on pages 50-54 is presented for the purpose of additional analysis and is not part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from, and relates directly to, the accounting records and other records used to prepare the financial statements. The supplementary information was subject to the audit procedures applied to the financial statements and other additional procedures, including the comparison and reconciliation of such information directly with the accounting records, and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with generally accepted auditing standards in the United States of America. In our opinion, except for the effect on the financial statements as described in the *Basis for Adverse Opinion* section of this report, the supplementary information is reasonably reflected, in all material respects, in relation to the financial statements taken as a whole.

REPORT ON REGULATORY REQUIREMENTS:

OPINION ON THE REGULAROTY BASIS FOR ACCOUNTING

Our opinion on the accompanying financial statements presents fairly, in all material respects, the financial condition of the Credit Union as of June 30, 2022 and 2021, and the results of its operations, changes in members' equity and cash flows. of cash for the years ended on those dates, in accordance with the regulatory basis described in Note 2 to the financial statements.

San Juan, Puerto Rico
September 28, 2022

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Was affixed to the original.

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Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF FINANCIAL CONDITION
June 30, 2022 and 2021

ASSETS	**2022**	**2021**
Cash, cash equivalent and cash restricted	$ 54,757,593	$ 51,888,493
Savings certificates (maturity over three months)	33,764,805	31,064,735
Loans, net of allowance for loan losses	112,724,501	109,956,319
Investment securities, available for sale	19,726,362	22,297,449
Special investments	2,098,935	2,635,581
Investment in cooperative entities	5,207,099	4,904,596
Interest receivable	300,822	390,759
Property and equipment, net of accumulated depreciation	2,199,497	2,428,851
Repossessed properties and auto	-	193,701
Losses under special amortization (Law 220)	-	9,137,607
Other Assets	279,458	263,601
Totals assets	$ 231,059,072	$ 235,161,692
LIABILITIES AND MEMBERS' EQUITY		
Liabilities:		
Deposits and Certificate of deposits	$ 149,098,608	$ 148,741,309
Accounts payable and accrued expenses	3,551,043	3,646,890
Total Liabilities	152,649,651	152,388,199
Members' equity:		
Shares, par value of $10	59,713,421	58,124,427
Reserve for undistributed capital	11,967,171	8,999,051
Special temporary reserve	-	9,207,438
Reserve for social capital	1,138,375	1,027,021
Reserve for contingencies	5,063,533	4,064,231
Other reserves	1,223,112	672,706
Accumulated comprehensive gain	(1,296,191)	78,619
Undistributed earnings	600,000	600,000
Total Members' Equity	78,409,421	82,773,493
Total liabilities and Members' equity	$ 231,059,072	$ 235,161,692

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, 2022 and 2021

	2022	2021
Income of financial operations:		
Interest income:		
Loans	$ 9,119,449	$ 9,062,232
Certificates and savings accounts	246,065	307,527
Investments	441,473	364,174
Total interest income	9,806,987	9,733,933
Interest expense:		
Deposits and certificates of deposits	(388,496)	(589,287)
Net interest income	9,418,491	9,144,646
Allowance for uncollectible loans	(1,543,911)	(700,000)
Income after allowance for uncollectible loans	7,874,580	8,444,646
Other income (excluding interest)	11,466,341	2,295,230
Other expenses (excluding interest)	(7,713,184)	(7,335,585)
Net income before federal funds-CDFI	11,627,737	3,404,291
Income of federal funds-CDFI	2,612,043	76,906
Net income before loss under special amortization	14,239,780	3,481,197
Losses under special amortization-Law 220	(1,015,325)	(1,015,325)
Elimination of the asset losses under special amortization-Law 220	(8,657,032)	-
NET INCOME	$ 4,567,423	$ 2,465,872

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

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the years ended on June 30, 2022 and 2021

	Shares	Reserve for Indivisible Capital	Special Temporary Reserve	Reserve for Social Capital	Reserve for Contingencies	Other Reserves	Accumulated Comprehensive Income (Loss)	Undistributed Earnings
Balance at June 30, 2020	$ 54,529,296	$ 8,380,179	$ 8,207,438	$ 868,746	$ 3,817,231	$ 672,706	$ 298,311	$ 220,493
Additional investment from members	10,415,732	-	-	-	-	-	-	-
Capitalized dividends	220,493	-	-	-	-	-	-	(220,493)
Withdrawal of members	(7,041,094)	-	-	-	-	-	-	-
Transfers and claims of inactive accounts	-	-	-	158,275	-	-	-	-
Net comprehensive loss	-	-	-	-	-	-	(219,692)	-
Contribution to special temporary reserve	-	-	1,000,000	-	-	-	-	(1,000,000)
Contribution to reserve for contingencies	-	-	-	-	247,000	-	-	(247,000)
Contribution to reserve for indivisible capital	-	618,872	-	-	-	-	-	(618,872)
Net income	-	-	-	-	-	-	-	2,465,872
Balance at June 30, 2021	58,124,427	8,999,051	9,207,438	1,027,021	4,064,231	672,706	78,619	600,000
Additional investment from members	9,837,955	-	-	-	-	-	-	-
Capitalized dividends	600,000	-	-	-	-	-	-	(600,000)
Withdrawal of members	(8,848,961)	-	-	-	-	-	-	-
Transfers and claims of inactive accounts	-	-	-	111,354	-	-	-	-
Net comprehensive loss	-	-	-	-	-	-	(1,374,810)	-
Transfer from contingecies to special temporary	-	-	-	-	-	-	-	-
Transfer from undistributed earnings to contingencies	-	-	-	-	999,302	-	-	(999,302)
Transfer from undistributed earnings to indivisible capital	-	1,141,855	-	-	-	-	-	(1,141,855)
Transfer from federal funds CDFI to indivisible capital	-	1,826,265	-	-	-	-	-	(1,826,265)
Transfer from other incomes to special temporary-Law 220	-	-	(8,657,032)	-	-	-	-	-
Transfer to other reserves	-	-	(550,406)	-	-	550,406	-	-
Net income	-	-	-	-	-	-	-	4,567,423
Balance at June 30, 2022	$ 59,713,421	$ 11,967,171	$ -	$ 1,138,375	$ 5,063,533	$ 1,223,112	$ (1,296,191)	$ 600,000

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

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF COMPREHENSIVE NET INCOME
For the years ended June 30, 2022 and 2021

	2022	**2021**
Net income	$4,567,423	$2,465,872
Other comprehensive income (expense):		
Change in unrealized gain (loss) on investment available for sale	(1,374,810)	(219,692)
Net comprehensive income	$3,192,613	$2,246,180

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

Cooperativa de Ahorro y Crédito Roosevelt Roads

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2022 and 2021

	2022	2021
Cash flow from operating activities:		
Net Income	$ 4,567,423	$ 2,465,872
Adjustment to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	350,488	407,015
Provision for uncollectible loans	1,543,911	700,000
Amortization of loss on special investments-Law 220	1,015,325	1,015,325
Provision for disposition of repossessed properties	232,619	700,000
(Increase) Decrease in deferred cost in the origination of loans	109,406	(72,176)
Loss in the disposition of fixed assets	-	13,036
Amortization of premium (discount) of investment securities	46,048	36,609
Dividends of cooperatives entities	(57,552)	(107,764)
Decrease in other assets	(499,588)	658,747
Increase in account payable and accrued expenses	(95,846)	432,946
Net cash used in operating activities:	7,212,234	6,249,610
Cash flow from investing activities:		
Increase in loans, net	(4,553,861)	(6,507,151)
Recovery of loans previously charged against allowance	132,360	162,040
Increase in savings certificates	(2,700,070)	(14,125,494)
Purchase of property and equipment, net	(121,134)	(298,400)
Increase in investment in cooperatives entities	(244,951)	(12,843)
Proceeds from sale and repayment of investment securities	5,218,257	23,499,462
Purchase of investments available for sale	(3,531,382)	(23,965,000)
Increase in investment securities, net	-	-
Net cash used in investing activities:	(5,800,781)	(21,247,386)
Cash flow from financing activities:		
Increase in deposits, net	3,803,057	20,035,452
Decrease in certificate of deposits	(3,334,404)	(533,069)
Net change in shares	988,994	3,374,637
Net cash used in financing activities:	1,457,647	22,877,020
Net increase in cash and equivalents	2,869,100	7,879,244
Cash and equivalents at beginning of the year	51,888,493	44,009,249
Cash and equivalents at end of year	$ 54,757,593	$ 51,888,493

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

Cooperativa de Ahorro y Crédito Roosevelt Roads
STATEMENTS OF CASH FLOW
For the years ended June 30, 2022 and 2021

	2022	2021
Supplementary Disclosure:		
Cash payment for interest:		
Deposits and certificate of deposits	$ 405,941	$ 568,165
Financing and investing activities that do not involve cash:		
Capitalized dividends	$ 600,000	$ 220,493
Undistributed earnings transferred to indivisible capital	$ 2,968,120	$ 618,872
Undistributed earnings transferred to special temporary reserve	$ -	$ 1,000,000
Undistributed earnings transferred to reserve for contingencies	$ 999,302	$ 247,000
Transfer from special temporary reserve to other incomes	$ 8,657,032	$ -
Transfer from special temporary reserve to other reserves	$ 550,406	$ -
Change in unrealized gain (loss) in investments available for sale	$ (1,374,810)	$ (219,692)
Net inactive accounts transfer to reserve for social capital	$ 111,354	$ 158,275

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

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

The Credit Union is regulated by Law 255, approved on October 28, 2002, known as "Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002", as amended, and by the Public Corporation for the Supervision and Insurance of Credit Unions of Puerto Rico (COSSEC by its acronym in Spanish). It is a non-profit organization and is mainly dedicated to receiving savings from its members in the form of shares and deposits, from non-members in the form of deposits and to providing members and non-members with sources of financing and investment. The maximum combined number of shares and deposits insurable by a member or depositor is two hundred and fifty thousand dollars ($250,000).

Regulation

The financial statements have been prepared considering the presentation promulgated by Act Law 255 as amended by Law 220 with respect to certain accounting practices for Savings and Credit Unions in Puerto Rico. On November 20, 2015, COSSEC also issued the Regulation on accounting standards for Savings and Credit Unions. The purpose of the Regulation was to promulgate the standards and procedures for accounting, financial disclosure, and internal controls that should be established, maintained, and used by all savings and credit unions in Puerto Rico. These practices constitute in some respects an accounting basis different from the generally accepted accounting principles in the United States of America, as explained at the end of Note 3.

SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies that the Credit Union follows are in conformity with the practices in the industry, Law 255, amended by Law 220, 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 preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the amounts of reported assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the amounts of income and expenses reported during the period. Actual results may differ from these estimates.

Reclassifications

Certain reclassifications were made in the Credit Union's financial statements to adjust related assets and liabilities or conform them to the required presentation in accordance with generally accepted accounting principles in the United States of America. In addition, certain reclassifications were made to the financial statements of 2021, to conform them with the presentation of the financial statements of 2022.

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. Several previous laws eliminated the exemption arbitration and the sales and use tax (IVU by its acronym in Spanish) on the purchases of goods and services enjoyed by the Credit Unions.

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, like in the dividends or interest paid under them, from any kind of taxation on income, property, arbitration, patent, or any other tax imposed or that would later be imposed by the Commonwealth of Puerto Rico or any political subdivision thereof.

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

Cash and Cash Equivalents

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

Restricted Cash

The Credit Union adopted the *ASU 2016-18 Accounting Standard*, to identify its restricted cash in the statement of financial condition and in the statement of cash flow. Restricted cash is an asset that is reserved for a particular purpose primarily to satisfy regulatory or contractual requirements. Restricted assets subject to these specific requirements are segregated from other assets to mark clear boundaries of their use.

Concentration of Risk

There is a geographic concentration in the loan portfolio since the operations of the Credit Union are mainly carried out with members and clients of Puerto Rico. The Credit Union maintains cash in various financial institutions (banks and credit unions) in Puerto Rico. Th bank and credit union accounts at each institution are insured up to a maximum of $250,000 by the Federal Deposit Insurance Corporation (FDIC) and by the Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico (COSSEC), respectively. In addition, the Credit Union complies with the requirement to maintain deposits in the Banco Cooperativo, whose percentage is defined in Law Number 79 of September 25, 1992. Such law amends Law Number 88 of June 21, 1966, which created the Banco Cooperativo of Puerto Rico.

Loans to Members and Non-Members

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

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

Allowance for Possible Loan Losses

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

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

Generally, commercial loans are evaluated for possible losses, by grading each loan and using various risk factors identified through periodic reviews. As of June 30, 2022, and 2021, the commercial loans were evaluated individually for impairment. The methodology used considered the present value of the future cash flows discounted to the effective loan rate or the comparison of the fair market value of the collateral minus the costs to sell said collateral if the Credit Union had to repossess.

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

For the consumer portfolio, the estimate used the percentage method guidelines established by Regulation 8665 of November 20, 2015 (Regulation on accounting standards for Credit Union). In addition, the analysis of experience and risk factors developed by management were compared. The restructured loans were evaluated using the present value of the cash flows discounted at the interest rate of the original loan.

Quality Indicators of the Commercial Loans Portfolio

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

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

<u>Follow-Up</u> – The loan is protected with sufficient collateral as of June 30 but has the potential for impairment. The debtor's financial information is not consistent or is under budget, presenting the possibility of short-term liquidity problems. Other typical features of this classification are: not having 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.

<u>Substandard</u> – 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, 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.

Troubled Debt Restructuring (TDR)

A *Troubled Debt Restructuring* is an existing loan for which the Credit Union has granted a concession because the debtor is experiencing financial difficulties. The concessions in a *TDR* include principal reduction, term extensions and/or interest rate reductions. These *TDR* are identified and measured individually for impairment as discussed above, by means of the present value of the cash flows discounted at the interest rate of the original loan or comparison of the value of its collateral in case the loan is dependent on collateral.

Quality Indicators of the Consumer Loans Portfolio

The Credit Union has various types of consumer loans which have different credit risks. The delinquency, the credit score and the loan-to-value of collateral are indicators of quality that the Credit Union monitors and uses in evaluating the allowance for uncollectible loans in its consumer loan portfolio. The main factor in evaluating the allowance for uncollectible loans in the consumer portfolio is the delinquency of said portfolio. According to Regulation 8665 of November 20, 2015, the percentage method assigns the risk of the consumer product according to its aging.

Indicators of the Loan to Value of Collateral

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. In recent years, residential real estate markets have experienced declines in their property values. The loan-to-value ratio of the collateral does not necessarily reflect the performance of its repayment but provides an indicator of the value of the collateral and exposure of the Credit Union. In case that 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.

Direct Costs in Loan Origination

The Credit Union adopted the ASC 310-20, *Nonrefundable Fees and Other Costs*, this regulation establishes that the direct cost in the granting of credit is deferred and amortized, and the income generated in the lending activity by commissions is also recognized throughout the life of the loans.

Investments in Negotiable Instruments

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

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

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

Investments in securities held-to-maturity are those that Management has the intent and ability to hold until maturity. These are recorded at cost, adjusted by the amortization of premiums or discounts. The cost of the securities sold for purposes of determining gains or losses are based on the amortized book value and are written off using the specific-identification method.

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

Securities available-for-sale are presented at market value. The gains or losses by the difference between the book value and market value are presented in the capital section of the Credit Union. The Institution uses the specific-identification method to write off 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 individually evaluates all the marketable securities in the portfolio to determine whether any decrease in market value is temporary in nature or not. Any other than temporary impairment is reflected in the operations of the current period and reduces the value of the investment in the books.

Amortization of Premiums and Discounts

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

Other than Temporary Impairment in the Fair Market Value

The Credit Union's management evaluates investments in securities for other than temporary impairment in fair market value normally on an annual basis. To determine if the deterioration in the value of the instrument is temporary or not, the Credit Union considers all pertinent and available information about the collectability of the instrument, including past events, current conditions and projections and reasonable estimates that evidence the amount of cash receivables from the instrument. Among the evidence in this estimate are the reasons for the impairment, its duration and severity, 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 carried out annually by the Credit Union's management. Once the decrease is determined that it is not 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 anticipated credit losses.

The loss analysis requires the management of the Credit Union 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 probable than not, that the Credit Union will be required to sell the debt instrument before there is a recovery in the value of the instrument.

Special Investments

The Credit Union records special investment in accordance with the requirements of Law 220, *Accounting requirements for the special investment*. The Law requires that the Credit Union denominated all its investments in debt instruments issued by the Commonwealth of Puerto Rico, its agencies, and public corporations as special investments. In addition, it requires that special investments be recorded in the books of credit unions at amortized cost regardless of their classification in the financial statements and unrealized losses related to special investments are not presented. Any loss attributable to special investments may be amortized over a period not exceeding 15 years.

Investments in Cooperative Entities

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

Property and Equipment

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

Management evaluates the book value of property and equipment when events or changes in circumstances indicate that the asset´s book value cannot be recovered. The recoverability of the assets that will be used and retained is determined by comparing the book value with the future cash flows, without discounting, that are expected to be generated by the asset. If it is determined that an impairment has occurred in the value of a fixed asset, the difference between the 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, 2022, and 2021, the Credit Union did not recognize impairment losses in the value of fixed assets.

Repossessed Properties

The properties acquired by foreclosure, or in other types of liquidation are classified as available for sale and are recorded at the fair market value of the 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 ASC 360 *Property, Plant and Equipment*, which requires, among other things, that entities identify events or changes in circumstances that indicate 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. The Credit Union does not issue share certificates that represent the 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 terms of quantity and consists of payments made by members to subscribe shares and the distribution of dividends in shares. According to the Regulations of the Credit Union, the shares' par value is ten dollars ($10). In virtue of such regulations, each member must subscribe at least twelve shares (12) annually.

Undistributed Earnings Participation

The Board of Directors shall provide for the distribution of the net undistributed earnings that the Credit Union has accumulated at the end of each year, after the amortization of accumulated losses, if any, followed by the contributions to the indivisible capital reserve and the provision for possible loan losses, mandatory and voluntary reserves, as provided in the Credit Union's regulations and in Law 255, as amended. The distribution of undistributed earnings will not proceed while the Credit Union has accumulated losses, with some exception as established by Law 255, as amended.

Undistributed earnings may be distributed based on reimbursement or return, computed taking into consideration the patronage of interest collected, or a combination of said reimbursement for patronage together with the payment of dividends on shares paid and not withdrawn at the end of the calendar year, in the proportions and amounts provided by the Board of Directors. Any distribution of undistributed earnings will be made by accreditation of shares, never in cash.

The distribution of undistributed earnings is suggested by the Board of Directors and approved by the Annual Meeting, according to the procedures established in the regulations of the Credit Union. Only those shares fully paid and not withdrawn at the end of the year are entitled to this distribution.

Mandatory and Voluntary Reserves

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

Reserve for Social Capital

This reserve was created to transfer those inactive accounts of more than five (5) years. If any person claims that account before five (5) years of been reserved, the Credit Union will return this amount less an administrative fee which will be deducted from the member's balance at the time of the claim.

Special Temporary Reserve

This reserve is required by Law 220 of December 15, 2015 as the Credit Union maintain losses under special amortization and is composed of 10% of the unrealized loss of special investments plus other minimum temporary reserve contributions that may vary from 5% to 100% of undistributed earnings subject to the indivisible capital levels and the CAEL index of the Credit Union. The Credit Union established the special temporary reserve required by Law 220.

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. In addition, this reserve includes a portion which was established by COSSEC, according to circular no. 2021-02, to mitigate the effects that could have on the financial statements of the Credit Union the implementation of the new accounting pronouncement known as *Current Expected Credit Losses* (CECL) as of June 30, 2022 and 2021. All Savings and Credit Unions must establish a reserve for contingency consistent with a minimum of 10% of their economies, which will serve to strengthen and maintain adequate capitalization levels before the changes that this new pronouncement promises.

	2022	2021
Initial Balance Reserve for Contingencies	$ 4,064,231	$ 3,817,231
Contribution 10% Net Economy	456,742	247,000
Transfer to undistributed earnings	542,560	-
Ending Balance Reserve for Contingencies	$ 5,063,533	$ 4,064,231

Other Reserves:

Reserve for Retired Employees

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

Reserve for Possible Losses on Investment in Negotiable Securities

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

Reserve for Advertising and Promotion

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

Reserve for Institutional Development

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

The balance of the other reserves as of June 30, 2022 and 2021 is presented below:

Other Reserves:	2022	2021
Reserve for Retired Employees	$ 470,000	$ 470,000
Reserve for Possible Losses on Investment in Negotiable Securities	551,794	1,388
Reserve for Advertising and Promotion	1,318	1,318
Reserve for Institutional Development	200,000	200,000
	$1,223,112	$ 672,706

Comprehensive Net Income (Loss)

The Credit Union applied ASC 220, *Comprehensive Income*, which requires disclosure of the comprehensive net income (loss). The comprehensive net income (loss) is the total of (1) operating benefit plus (2) other changes in net assets arising from other sources.

Recognition of Interest Income and Expenses

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

Advertising and Promotion

The Credit Union recognized the advertising and promotion expense against operations at the time it is incurred. The expense for this concept for the years ended June 30, 2022 and 2021, were $265,782 and $197,157, respectively.

Operational Leases

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

Fair Value of Financial Statements

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

Determination of the Fair Value

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

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

- *Level 1 Input* - Correspond to quoted prices (unadjusted) in active markets for identical assets and liabilities to which the entity could access on the measurement date. The active market for the asset or liability is the market in which transactions for the asset or liability occur with sufficient frequency and volume to continuously provide information about pricing.

- *Level 2 Input* - Correspond to quoted prices for similar assets or liabilities in active markets, quoted prices for assets or liabilities that are identical or similar in markets that are not active, that 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 market makers (for example, a principal-to-principal market); inputs different to the quoted prices that are observable in the asset or liability (for example, interest rates, yield curves, prepayment rates, severity of losses, credit risks, and default rates); and inputs that are derived mainly from or corroborated by observable data through correlation or other means (market corroborated inputs).

- Level 3 Input - They are unobservable inputs for assets or liabilities. Unobservable 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.

Provision for Cooperative Education

The Credit Union is obligated by Law 255, to annually separate for educational purposes and integration of the cooperative movement in Puerto Rico, not less than one tenth of one percent (0.1%) of the total volume of business. Within three (3) months following the closing of their operations for each fiscal 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 business volume exceeds four million dollars ($4,000,000) annually are obliged to contribute an additional amount of five percent (5%) of its annual undistributed earnings up to a maximum of seven thousand dollars ($7,000). The Credit Union accumulated the expenditure corresponding expense to the provision for cooperative education as of June 30, 2022 and 2021.

Subsequent Events

The Credit Union adopted ASC 855 related to *Subsequent Events*. The ASC 855 establishes general standards for the accounting and disclosure of events that occurred after the date of the statement of financial condition, but before the date of issuance of the financial statements. Specifically, it establishes the period after the date of the statement of financial condition during which the Credit Union’s management must evaluate events or transactions that may have occur and that 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 that should be offered for these events that occurred after the date of the statement of financial condition.

Recent Accounting Pronouncements

In June 2016, FASB issued ASU 2016-13, which replaces the incurred loss model with a current expected credit loss (CECL) model. The CECL model is applied to financial assets subject to credit losses and measured at amortized cost and certain statement of financial condition exposures. Under current generally accepted accounting principles an entity reflects credit losses on financial assets measured on an amortized cost basis only when the losses are probable and have been incurred, generally considering only past events and current conditions to make these determinations.

ASU 2016-13 prospectively replaces this approach with a forward-looking approach using a methodology that reflects expected credit losses over the life of financial assets, beginning when those assets are first acquired. Under the revised methodology, credit losses will be measured based on past events, current conditions and reasonable and sustainable forecasts that affect the collection of financial assets. ASU 2016-13 also reviews the approach to recognizing credit losses on available-for-sale securities by replacing the direct amortization approach with the reserve allocation approach and limits the reserve allocation to the amount by which the security fair value of the values is less than the amortized cost. Additionally, ASU 2016-13 establishes that the initial allocation for credit losses on financial assets acquired with credit impairment be recorded as an increase to the purchase price, with post-provision changes recorded as credit loss expense. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for credit losses. The modifications of this update are effective for fiscal years beginning after December 15, 2022. Early adoption is allowed as of January 1, 2021. The Credit Union has not determined the effect that this new pronouncement could have on its financial statements.

In February 2016, FASB issued ASU 2016-2, Leases (Topic 842) to increase transparency and comparability between organizations by requiring the recognition of substantially all leases as assets and liabilities in the statement of financial condition. Subsequent amendments and improvements to ASU 2016-2 were issued in the form of additional ASUs. For the Credit Union, ASU 2016-2 is effective for years beginning after December 15, 2021.

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

On May 27, 2021, COSSEC’s fiscal plan was certified by the Fiscal Oversight Board. COSSEC’s Fiscal Plan 2020 describes a comprehensive short, medium, and long-term measures that, when implemented in a timely manner by the Government, will pave the way for a healthier and more sustainable cooperative system in Puerto Rico.

The measures of this Fiscal Plan have been built around three main axes of reform of the financial systems: implement changes in governance, increase transparency in accounting and improve supervision interventions. Short- and medium-term measures include, but are not limited to, a new governance structure of the Board of Directors for COSSEC, a concrete plan for the transition from regulatory accounting procedures (RAP) to generally accepted accounting principles (GAAP) and how it supervises financial credit unions, including assessing risk and stability, and how to resolve the issue of failing credit unions.

In addition, this plan provides an overview of the long-term reforms that COSSEC must adopt to ensure that the cooperative system can prosper in the future.

This plan also imposes promptness in the merger and consolidation processes within a period of 24 months after the approval of several amendments to Act No. 255 and the implementation of the ASC 320-10-35 Codification for investments in accordance with GAAP. Also, based on this Standard, Credit Unions must eliminate the asset Loss Under Special Amortization as of June 30, 2025. In turn, it is recommended that the real capital to total assets of the credit unions should be around 6.00% on June 30, 2025.

Accounting Standards that Differ from the Generally Accepted Accounting Principles in the United States of America

The Credit Unions in Puerto Rico present the shares of members in the members' equity section in the statement of financial condition. The accounting principles require shares to be presented in the member deposits section of these same statement. In addition, recognized the distribution of its undistributed earnings through a charge to accumulated profits and accounting principles require that such distributions be recognized as interest expense.

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

If the items described in Note 3 had been classified in accordance with generally accepted accounting principles in the United States of America, total assets would have remained unchanged as of June 30, 2022 and would decrease by $8,719,848 as of June 30, 2021, liabilities would increase by $60,313,421 and $58,344,920, and members' equity would decrease by $60,313,421 and $67,064,768 as of June 30, 2022 and 2021, respectively. In addition, the net income would decrease in the amount of $9,257,032 and $9,358,100 for the years ended June 30, 2022 and 2021, respectively.

The following tables show a comparison and the most significant differences between the condensed statement of financial condition as of June 30, 2022 and 2021 and the condensed statement of income and expenses for the years ended on the referred date of the Credit Union in accordance with the accounting practices required by Law 255, as amended, and COSSEC (statutory financial statements) and generally accepted accounting principles in the United States of America (U.S. GAAP).

Condensed Statement of Financial Condition as of June 30, 2022	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Assets:			
Cash and savings certificates	$ 88,522,398	-	$ 88,522,398
Investmets in securities	19,726,362	-	19,726,362
Special investments	2,098,935	-	2,098,935
Loans, net	112,724,501	-	112,724,501
Losses under special amortization	-	-	-
Property, equipment and other assets	7,986,876	-	7,986,876
Total assets	$ 231,059,072	$ -	$ 231,059,072
Liabilities:			
Deposits	$ 149,098,608	59,713,421	$ 208,812,029
Other Liabilities	3,551,043	600,000	4,151,043
Total liabilities	$ 152,649,651	$ 60,313,421	$ 212,963,072
Members' Equity			
Shares	59,713,421	(59,713,421)	-
Indivisible capital and other reserves	19,392,191	8,657,032	28,049,223
Special temporary reserve	-	-	-
Accumulated comprehensive net income	(1,296,191)	-	(1,296,191)
Undistributed earnings (deficit)	600,000	(9,257,032)	(8,657,032)
Total members' equity	78,409,421	(60,313,421)	18,096,000
Total liabilities and members' equity	$ 231,059,072	$ -	$ 231,059,072

Condensed Statement of Income and Expenses for the years ended June 30, 2022	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Interest income	$ 9,806,987	$ -	$ 9,806,987
Interest expense	(388,496)	(600,000)	(988,496)
Net interest income	9,418,491	(600,000)	8,818,491
Allowance for uncollectible loans	(1,543,911)	-	(1,543,911)
Income after allowance	7,874,580	(600,000)	7,274,580
Other income (excluding interests)	11,466,341	(8,657,032)	2,809,309
Other expenses (excluding interests)	(7,713,184)	-	(7,713,184)
Other than temporary impairment of investments	(9,672,357)	-	(9,672,357)
Net income (loss)	$ 1,955,380	$ (9,257,032)	$ (7,301,652)

Condensed Statement of Financial Condition as of June 30, 2021	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Assets:			
Cash and savings certificates	$ 82,953,228	-	$ 82,953,228
Investment in securities	22,297,449	-	22,297,449
Special investments	2,635,581	417,759	3,053,340
Loans, net	109,956,319	-	109,956,319
Losses under special amortization	9,137,607	(9,137,607)	-
Property, equipment and other assets	8,181,508	-	8,181,508
Total assets	$ 235,161,692	$ (8,719,848)	$ 226,441,844
Liabilities:			
Deposits	$ 148,741,309	58,124,427	$ 206,865,736
Other Liabilities	3,646,890	220,493	3,867,383
Total liabilities	$ 152,388,199	$ 58,344,920	$ 210,733,119
Members' Equity			
Shares	58,124,427	(58,124,427)	-
Indivisible capital and other reserves	14,763,009	(618,872)	14,144,137
Special temporary reserve	9,207,438	(1,247,000)	7,960,438
Accumulated comprehensive net income	78,619	417,759	496,378
Undistributed earnings (deficit)	600,000	(7,492,228)	(6,892,228)
Total members' equity	82,773,493	(67,064,768)	15,708,725
Total liabilities and members' equity	$ 235,161,692	$ (8,719,848)	$ 226,441,844

Condensed Statements of Income and Expenses for the year ended June 30, 2021	**Statutory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
Interest income	$ 9,733,933	$ -	$ 9,733,933
Interest expense	(589,287)	(220,493)	(809,780)
Net interest income	9,144,646	(220,493)	8,924,153
Allowance for uncollectible loans	(700,000)	-	(700,000)
Income after allowance	8,444,646	(220,493)	8,224,153
Other income	2,372,136	-	2,372,136
General and administrative expenses	(7,335,585)	-	(7,335,585)
Other than temporary impairment of investments	(1,015,325)	(9,137,607)	(10,152,932)
Net income (loss)	$ 2,465,872	$ (9,358,100)	$ (6,892,228)

4. CASH, CASH EQUIVALENTS AND RESTRICTED CASH

As of June 30, 2022, and 2021, the balance of cash and cash equivalents consisted of the following:

	2022	2021
Cash in banks	$ 2,765,047	$ 1,277,641
Savings accounts	43,986,472	44,739,716
Change in funds and petty cash	2,445,774	2,142,886
Savings certificates - maturity less than ninety days	5,350,300	3,550,000
Total of cash and cash equivalents	$ 54,547,593	$ 51,710,243
Restricted Cash	210,000	178,250
Total of cash and cash equivalents and restricted cash	$ 54,757,593	$ 51,888,493

Risk concentration

As of June 30, 2022 and 2021, the Credit Union maintains deposits in the amount of $13,841,122 and $12,777,229, respectively, in the Banco Cooperativo of Puerto Rico whose balances are not insured. As of June 30, 2022 and 2021, the Credit Union had cash deposited on the amount covered by the FDIC insurance for $100,089,432 and $89,221,000, respectively, and in COSSEC for $8,352,027 and $8,101,658, respectively.

Restricted Cash

The Credit Union adopted *ASU 2016-18 Accounting Standard*, to identify its restricted cash in the statement of financial condition and in the statement of cash flow. Restricted cash is an asset that is reserved for a particular purpose primarily to satisfy regulatory or contractual requirements. Restricted assets subject to these specific requirements are segregated from other assets to mark clear boundaries of their use. As of June 30, 2022 and 2021, the Credit Union had deposited $210,000 and $178,250, respectively, in restricted cash for the payment of contributions and insurance on the properties that serve as collateral under mortgage loans.

5. SAVINGS CERTIFICATES (maturity greater than three months)

Savings certificates with Banks and Credit Unions with original maturity more than three months have the following maturities in aggregate as of June 30, 2022 and 2021:

Maturity	2022	2021
More than 3 months to 6 months	$ 5,375,000	$ 2,520,168
More than 6 months to 1 year	10,850,370	3,901,658
More than 1 year to 3 years	17,539,435	24,642,909
Total	$ 33,764,805	$ 31,064,735

6. LOANS

As of June 30, 2022, the loan portfolio to members of the Credit Union by type is broken down as follows:

	2022	2021
Commercial:		
Corporations	$ 6,799,637	$ 5,665,883
Non-profit entities	981,111	1,183,946
Total commercial	$ 7,780,748	$ 6,849,829
Consumer:		
Personal	$ 45,147,433	$ 43,809,924
Auto	34,715,109	33,386,494
Mortgage	29,180,257	28,695,241
Credit cards and line of credit	2,494,753	2,279,740
Restructured	100,151	131,111
Total consumer loans	$ 111,637,703	$ 108,302,510
Total loans	$ 119,418,451	$ 115,152,339
Less: Allowance for uncollectible loans	(7,391,510)	(6,002,986)
Plus: Deferred costs in loan origination	697,560	806,966
Total loans, net	$ 112,724,501	$ 109,956,319

COVID-19 moratoriums

In working with members affected by the COVID-19 pandemic, the Credit Union agreed to voluntarily allow members with mortgage and consumer loans who were current on their payments as of March 12, 2020, to defer or defer payments of their loans through June 30, 2020, with few exceptions. For both mortgage and consumer loans subject to the moratorium program, each member was required to begin making the regularly scheduled loan payment at the end of the deferral period and the deferred amounts were carried over to the end of the loan. Upon resuming payments, the interest accumulated during the period subject to the moratorium was covered first and then the principal owed. A loan modification covered by these provisions of the rulemaking was not considered an impaired loan. The Credit Union had under deferred payment agreements the amount of 901 loans, with an outstanding balance of approximately $18,732,495 as of the date of granting of the moratoriums. As of June 30, 2022, the Credit Union maintains under a deferred payment agreement the amount of 2 loans, with an outstanding balance of $2,635.76

Allowance for Uncollectible Loans

The movement of the allowance for possible losses in the loan portfolio of the Credit Union as of June 30, 2022 and 2021, is as follows:

2022	Commercial	Consumer	Total
Beginning balance	$ 436,045	$ 5,566,941	$ 6,002,986
Additional provision of the year	-	1,543,911	1,543,911
Recoveries of loans previously reserved	-	132,360	132,360
Loans charged against the reserve	-	(287,747)	(287,747)
Ending balance	$ 436,045	$ 6,955,465	$ 7,391,510
Evaluation of reserve:			
Reserve evaluated individually	$ 436,045	$ -	$ 436,045
Reserve evaluated collectively	-	6,955,465	6,955,465
Total	$ 436,045	$ 6,955,465	$ 7,391,510
Loan balance:			
Evaluated individually	$ 7,780,748	$ -	7,780,748
Evaluated collectively	-	111,637,703	111,637,703
Total	$ 7,780,748	$ 111,637,703	$ 119,418,451

2021	Commercial	Consumer	Total
Beginning balance	$ 436,045	$ 5,292,422	$ 5,728,467
Additional provision of the year	-	700,000	700,000
Recoveries of loans previously reserved	-	162,040	162,040
Loans charged against the reserve	-	(587,521)	(587,521)
Ending balance	$ 436,045	$ 5,566,941	$ 6,002,986
Evaluation of reserve:			
Reserve evaluated individually	$ 436,045	$ -	$ 436,045
Reserve evaluated collectively	-	5,566,941	5,566,941
Total	$ 436,045	$ 5,566,941	$ 6,002,986
Loan balance:			
Evaluated individually	$ 6,849,829	$ -	6,849,829
Evaluated collectively	-	108,302,510	108,302,510
Total	$ 6,849,829	$ 108,302,510	$ 115,152,339

Commercial Loans by Risk Category

Below is the portfolio of commercial loans classified according to their risk as of June 30, 2022 and 2021:

	Without Exception	Follow-Up	Substandard	Doubtful	Total
June 30, 2022					
Corporations	$ 6,576,333	$ -	$ -	$ 223,304	$ 6,799,637
Non-profit entities	860,466	-	-	120,645	981,111
Total commercial	$ 7,436,799	$ -	$ -	$ 343,949	$ 7,780,748

	Without Exception	Follow-Up	Substandard	Doubtful	Total
June 30, 2021					
Corporations	$ 5,307,259	$ 135,320	$ -	$ 223,304	$ 5,665,883
Non-profit entities	1,063,301	-	-	120,645	1,183,946
Total commercial	$ 6,370,560	$ 135,320	$ -	$ 343,949	$ 6,849,829

Commercial and Consumer Loans by Aging Categories

The Credit Union monitors the aging of its commercial portfolio with the purpose to manage credit risk. Below are the aging categories of the commercial portfolio as of June 30, 2022 and 2021:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 or more	90+ & Accumulating	90+ & Not accumulating	Total
June 30, 2022							
Corporations	$ 6,576,333	$ -	$ 223,304	$ -	$ -	$ 223,304	$ 6,799,637
Non-profit entities	860,466	-	-	120,645	-	120,645	981,111
Total commercial	$ 7,436,799	$ -	$ 223,304	$ 120,645	$ -	$ 343,949	$ 7,780,748
June 30, 2021							
Corporations	$ 5,307,259	$ 135,320	$ -	$ 223,304	$ -	358,624	$ 5,665,883
Non-profit entities	1,063,301	-	-	120,645	-	120,645	1,183,946
Total commercial	$ 6,370,560	$ 135,320	$ -	$ 343,949	$ -	$ 479,269	$ 6,849,829

Below are the categories of maturity of the portfolio of consumer as of June 30, 2022 and 2021:

	Maturity Days						
	Current or 0-60	61-180	181-360	360 or more	90+ & Accumulating	90+ & Not accumulating	Total
June 30, 2022							
Personal	$ 44,860,432	$ 200,594	$ 86,407	$ -	$ -	$ 287,001	$ 45,147,433
Auto	34,474,525	72,194	35,934	132,456	-	240,584	34,715,109
Mortgage	27,998,441	65,196	38,227	1,078,393	-	1,181,816	29,180,257
Credit cards and line of credit	2,434,940	29,001	30,812	-	-	59,813	2,494,753
Restructured	100,151	-	-	-	-	-	100,151
Total consumer	$ 109,868,489	$ 366,985	$ 191,380	$ 1,210,849	$ -	$ 1,769,214	$ 111,637,703
June 30, 2021							
Personal	$ 43,624,103	$ 158,496	$ 27,325	$ -	$ -	$ 185,821	$ 43,809,924
Auto	33,113,630	102,311	112,368	58,185	-	272,864	33,386,494
Mortgage	26,604,335	131,299	148,890	1,810,717	-	2,090,906	28,695,241
Credit cards and line of credit	2,262,388	17,352	-	-	-	17,352	2,279,740
Restructured	131,111	-	-	-	-	-	131,111
Total consumer	$ 105,735,567	$ 409,458	$ 288,583	$ 1,868,902	$ -	$ 2,566,943	$ 108,302,510

Consumer Loan by Credit Score

Below, we present the types of loans that make up the consumer portfolio, classified according to their credit score at the time of granting as of June 30, 2022 and 2021:

	Distribution by credit scores					
	< 600	601-650	651-700	701 +	Other	Total
June 30, 2022						
Personal	$ 6,513,461	$ 5,308,944	$ 10,038,778	$ 23,286,250	$ -	$ 45,147,433
Auto	10,810,462	5,466,056	5,984,338	12,113,616	340,637	34,715,109
Mortgage	5,977,944	3,861,669	6,659,757	12,680,887	-	29,180,257
Credit cards and lines of credit	44,893	44,827	17,662	20,551	2,366,820	2,494,753
Restructured	50,340	37,702	6,702	5,407	-	100,151
Total consumer	$ 23,397,100	$ 14,719,198	$ 22,707,237	$ 48,106,711	$ 2,707,457	$ 111,637,703
June 30, 2021						
Personal	$ 4,587,791	$ 5,809,301	$ 10,547,679	$ 22,865,153	$ -	$ 43,809,924
Auto	10,430,918	6,148,541	5,170,419	10,989,355	647,261	33,386,494
Mortgage	5,672,940	4,402,644	7,163,495	11,456,162	-	28,695,241
Credit cards and lines of credit	54,458	29,642	79,552	49,801	2,066,287	2,279,740
Restructured	73,980	42,741	8,105	6,285	-	131,111
Total consumer	$ 20,820,087	$ 16,432,869	$ 22,969,250	$ 45,366,756	$ 2,713,548	$ 108,302,510

Commercial Loans by Balance of Loan to Collateral Value

The following is the distribution of the mortgage loan portfolio according to the above-mentioned proportion as of June 30, 2022 and 2021:

	Loan-to-Value Classification				
	0-80%	80-90%	90-100%	>100%	Total
June 30, 2022					
First mortgage	$ 22,749,710	$ 2,899,536	$ 2,057,011	$ 1,474,000	$ 29,180,257
Total	$ 22,749,710	$ 2,899,536	$ 2,057,011	$ 1,474,000	$ 29,180,257
June 30, 2021					
First mortgage	$ 22,218,437	$ 3,326,904	$ 1,686,870	$ 1,463,030	$ 28,695,241
Total	$ 22,218,437	$ 3,326,904	$ 1,686,870	$ 1,463,030	$ 28,695,241

Impaired Loans

The following presents a summary of the portfolio of impaired loans by type as of June 30, 2022 and 2021:

	June 30, 2022		**June 30, 2021**	
	Unpaid Principal Balance	Specific Reserve	Unpaid Principal Balance	Specific Reserve
Commercial:				
Corporations	$ 223,304	$ 110,328	$ 358,624	$ 130,638
Non-profit entities	120,645	116,131	120,645	116,171
Total commercial	$ 343,949	$ 226,459	$ 479,269	$ 246,809
Consumer:				
Personal	$ 287,001	$ 52,775	$ 185,821	$ 32,672
Auto	240,584	116,181	272,864	120,794
Mortgage	1,181,816	718,267	2,090,906	1,213,464
Credit cards and lines of credit	59,813	20,923	17,352	1,606
Total consumer	$ 1,769,214	$ 908,146	$ 2,566,943	$ 1,368,536
Total	$ 2,113,163	$ 1,134,605	$ 3,046,212	$ 1,615,345

Modified Loans

The following presents a summary of the loans modified and classified as restructured and those loans restructured that became impaired as of June 30, 2022 and 2021:

	Restructured loans			Delinquent restructured loans		
	Number of loans	Principal balance	Reserve assgined	Number of loans	Principal balance	Reserve assgined
June 30, 2022						
Consumer:						
Personal	8	$100,151	$ 4,413	-	$ -	$ -
Total consumer	8	$100,151	$ 4,413	-	$ -	$ -
June 30, 2021						
Consumer:						
Personal	10	$131,111	$ 6,214	-	$ -	$ -
Total consumer	10	$131,111	$ 6,214	-	$ -	$ -

The following is a summary of the type of concession granted to the restructured loans during the year ended June 30, 2022 and 2021:

	Type of concession
	Interest rate and maturity date
June 30, 2022	
Consumer:	
Personal	$ 100,151
Total consumer	$ 100,151
June 30, 2021	
Consumer:	
Personal	$ 131,111
Total consumer	$ 131,111

7. INVESTMENT IN SECURITIES

As of June 30, 2022, and 2021, the amortized cost and fair market value of the investment securities available for sale are as follows:

June 30, 2022	Available for sale			
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S Municipal Bonds and Notes	$ 2,565,952	$ -	$ (189,802)	$ 2,376,150
Federal Farm Credit Bank	4,559,640	-	(301,260)	4,258,380
Federal Home Loan Bank	3,035,000	-	(227,690)	2,807,310
Federal Home Loan Mortgage Corporation	5,741,993	-	(359,151)	5,382,842
U.S Treasury Notes	2,094,968	-	(17,355)	2,077,613
Fannie Mae	3,025,000	-	(200,933)	2,824,067
	$ 21,022,553	$ -	$ (1,296,191)	$ 19,726,362

June 30, 2021	**Available for sale**			
Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
U.S Municipal Bonds and Notes	$ 4,704,572	$ 240,579	$ -	$ 4,945,151
U.S Corporat Bonds and Notes	55,229	-	(33,602)	21,627
Federal Farm Credit Bank	5,059,191	700	(39,495)	5,020,396
Federal Home Loan Bank	2,534,915	-	(30,010)	2,504,905
Federal Home Loan Mortgage Corporation	6,339,994	-	(46,528)	6,293,466
U.S Treasury Notes	499,998	502	-	500,500
Fannie Mae	3,024,932	-	(13,528)	3,011,404
	$ 22,218,831	$ 241,781	$ (163,163)	$ 22,297,449

Unrealized losses on securities issued by the Government of the United States of America and its Agencies have not been recognized in the statement of income and expenses due to the implicit guarantee of these negotiable securities by the Government of the United States of America and their Agencies. The decline in market value is primarily due to differences between securities' returns and market interest rates. In addition, management expects to recoup the decline in market value as the securities approach their maturity date or market rates decline. Management has the ability and intention to hold these securities until the recovery of market value that could be maturity.

During the year ended June 30, 2022, the proceeds from sales and principal recovery of marketable securities was approximately $4.8 million. There was no gain or loss on the sale of marketable securities during fiscal 2022. Purchases of marketable securities during the year ended June 30, 2022 totaled approximately $3.6 million.
The amortized cost and the estimated market value of the investments in securities as of June 30, 2022 and 2021, 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.

	2022		**2021**	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
one to five years	$ 18,728,765	$ 17,770,728	$ 17,015,598	$ 17,163,268
five to ten years	1,254,746	1,095,094	4,161,036	4,088,491
more than ten years	1,039,042	860,540	1,042,197	1,045,690
	$ 21,022,553	$ 19,726,362	$ 22,218,831	$ 22,297,449

8. SPECIAL INVESTMENTS

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

As June 30, 2022 and 2021, the amortized cost, the impairment or other than temporary impairment, adjusted cost, fair market value and unrealized gain (loss) of special investments were as follows:

		June 30, 2022			
Issuer of debt instrument	Amortized Cost	Total Impairment Active Investment	Adjusted Cost	Market Value	Unrealized Gain (Loss)
PRIDCO	$ 3,002,279	$ (903,344)	$ 2,098,935	$ 3,127,500	$ 1,028,565
Corporación para el Financiamiento Público (PFC)	10,695,000	(10,695,000)	-	427,800	427,800
	$ 13,697,279	**$ (11,598,344)**	**$ 2,098,935**	**$ 3,555,300**	**$ 1,456,365**

		June 30, 2021			
Issuer of debt instrument	Amortized Cost	Total Impairment Active Investment	Adjusted Cost	Market Value	Unrealized Gain (Loss)
PRIDCO	$ 3,004,444	$ (903,613)	$ 2,100,831	$ 2,925,000	$ 824,169
Corporación para el Financiamiento Público (PFC)	10,695,000	(10,160,250)	534,750	128,340	(406,410)
	$ 13,699,444	**$ (11,063,863)**	**$ 2,635,581**	**$ 3,053,340**	**$ 417,759**

During the years ended June 30, 2022 and 2021, the Credit Union did not recognize impairments or other than temporary impairment.

Adoption of Law 220 and Losses under Special Amortization

During 2022, the Credit Union charged the balance of the asset *Loss Under Special Amortization* against current operations for a total of $8,657,032. With this action, the Credit Union would be left without the asset to be amortized *Loss Under Special Amortization*. During the year ended June 30, 2022, the Credit Union had amortized $1,015,325. In addition, during the year there was an increase in the impairment in the amount of $534,750.

The Law 220 adopted by the Credit Union during the year ended December 31, 2015 allows any loss attributable to special investments in the disposal, retention or related to the application of a pronouncement of generally accepted accounting principles may be amortized for a period not exceeding 15 years, to be named *Losses under Special Amortization*.

Below is the movement of the asset Loss Under Special Amortization for the years ended June 30, 2022 and 2021:

	2022	2021
Beginning balance	$ 9,137,607	$ 10,152,932
Additions	534,750	-
Amortization	(1,015,325)	(1,015,325)
Elimination of the asset loss under special amortization-Law 220	(8,657,032)	-
Ending balance	$ -	$ 9,137,607

Also, in relation to the adoption of Law 220, the Credit Union created a special temporary reserve of 10% of the unrealized loss of the special investments plus other minimum contributions that vary subject to indivisible capital levels and the CAEL composite index of the Credit Union. The Credit Union did not have a balance in the special temporary reserve as of June 30, 2022 because the *Losses under Special Amortization* asset was eliminated during the year. As of June 30, 2021, the special temporary reserve was $9,207,438 and is presented in the statement of members' equity. The calculation of the special temporary reserve as of June 30, 2021 was as follows:

	2021		
	Amount	**%**	**Determined Reserve**
First Reserve - Unrealized Losses			
Unrealized losses	$ -		
Losses under special amortization	9,137,607		
Total	9,137,607	10%	$ 913,761
Second Reserve - Undistributed earnings			
Net Undistributed earnings of annual contribution to indivisible capital	$ 1,865,872	50%	932,936
Total special temporary reserve required			1,846,697
Additional special temporary reserve			7,360,741
Total special temporary reserve as of June 30			$ 9,207,438

Expected Maturity of Special Investments

The amortized cost without considering the assigned impairment and the estimated market value of special investments as of June 30, 2022 and 2021, 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.

	2022		2021	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
Expire investments	$ -	$ -	$ 2,000,000	$ 24,000
One to five years	13,697,548	3,555,300	11,699,444	3,029,340
	$ 13,697,548	$ 3,555,300	$ 13,699,444	$ 3,053,340

9. INVESTMENTS IN COOPERATIVE ENTITIES

Investment in cooperative entities as of June 30, 2022 and 2021 consist of the following:

	2021	2021
Banco Cooperativo de Puerto Rico	$ 1,265,863	$ 1,213,817
Investment in COSSEC	2,069,347	1,840,166
Cooperativa de Seguros de Vida	1,262,119	1,262,119
Fondo de Inversión y Desarrollo Cooperativo (FIDECOOP)	482,901	465,898
Cooperativa de Seguros Múltiples de Puerto Rico	82,689	78,416
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
	$ 5,207,099	$ 4,904,596

10. INTEREST RECEIVABLE

Interest receivable by classification was made up of the following as of June 30, 2022 and 2021:

Type	2022	2021
Loans	$ 172,750	$ 207,939
Negotiable investments	47,219	87,729
Savings certificates	80,853	95,091
Total	$ 300,822	$ 390,759

11. PROPERTY AND EQUIPMENT

As of June 30, 2022, and 2021, the property and equipment were composed of the following:

	Useful life (in years)	2022	2021
Buildings	50	$2,420,182	$2,420,182
Furniture & Equipment	1-8	1,158,256	1,155,258
Programming	1-5	1,348,187	1,234,153
Improvements	1-5	2,920,080	2,923,744
Vehicles	4-5	122,395	122,395
		7,969,100	7,855,732
Less accumulated depreciation		(6,658,720)	(6,315,998)
		1,310,380	1,539,734
Land		889,117	889,117
		$2,199,497	$2,428,851

12. OTHER ASSETS

As of June 30, 2022, and 2021, the other assets were composed of the following:

	2022	2021
Prepaid deposits and insurance	$ 194,900	$ 171,446
Materials inventory	52,415	58,272
Other accounts receivable	32,143	33,883
	$ 279,458	$ 263,601

13. DEPOSITS AND CERTIFICATE OF DEPOSITS

The regular savings accounts accrued interest that fluctuates between 0.05% and 0.15% computed on the average daily balance and credited quarterly. It is the policy of the Credit Union to allow savings withdrawals on any operating day. However, when the Board of Directors deems it necessary, it may require the members to notify their intention to make withdrawals up to thirty (30) days in advance.

The interest rate on the certificates varies according to the amount and the time negotiated. The savings balances maintained in the Christmas and summer savings plan are payable in October and May, respectively. Interest on these accounts fluctuates between 1% to 2% and interest on certificates of deposit fluctuates between 0.10% to .60%. The deposits consist of the following:

	2022	2021
Members' and non-members savings accounts	$ 112,774,813	$ 109,661,936
Members' and non-members certificate of deposits	25,725,171	29,059,575
Checking accounts	8,478,825	7,962,598
Navi-Coop	1,970,372	1,899,811
Vera-Coop	149,427	157,389
	$ 149,098,608	$ 148,741,309

The following shows the maturity of the deposits and certificates of deposits in aggregated form for the following five years as of June 30, 2022 and 2021:

	2022	2021
Savings account without contract of maturity	$ 123,373,437	$ 119,681,734
Maturity of less than one year	17,660,763	18,506,905
Maturity between one and three years	4,508,585	6,899,707
Maturity between three and five years	2,045,796	1,973,003
Maturity over five years	1,510,027	1,679,960
Total deposits	$ 149,098,608	$ 148,741,309

Interest expense incurred during the years ended June 30, 2022 and 2021 was as follows:

Interest Expense	2022	2021
Certificates of deposits	$ 208,942	$ 333,650
Deposits	139,368	204,502
Determined events	40,186	51,135
Total	$ 388,496	$ 589,287

As of June 30, 2022, the Credit Union had a total of deposits, savings certificates and shares for $208,812,028, of which $6,846,260 were not insured.

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

As of June 30, 2022, and 2021 the accounts payable and accumulated expenses were the following:

	2022	2021
Account payable and accumulated expenses	$ 1,336,636	$ 1,352,598
Insurance and policies payable	359,885	316,800
Interest payable	51,527	68,972
Discounts and transfers of loans	268,856	237,406
Other accounts payable	1,534,139	1,671,114
	$ 3,551,043	$ 3,646,890

15. OTHER INCOME (EXCLUDING INTEREST)

The service charges and other income, excluding interest income, it consists of the following for the years ended June 30, 2022 and 2021:

	2022	2021
Service charges	$ 1,307,307	$ 1,233,911
Service commissions	696,294	684,996
Rent	6,208	521
Dividends	57,557	109,568
Insurance Claim Income	500,000	-
Use of the temporary special reserve	8,657,032	-
Other income grouped	241,943	266,234
	$ 11,466,341	$ 2,295,230

16. COLLECTIVE LIFE INSURANCE OF SHARES AND LOANS

Members who meet the eligibility requirements enjoy shares and deposit insurance. This insurance will pay up to a maximum of ten thousand dollars ($10,000) in the coverage of shares and deposits in the event of the death of the insured. The insurance is maintained with the Cooperativa de Seguros de Vida (COSVI). The loan insurance premium is paid by the members and that corresponding to the shares and deposits is paid by the Credit Union. The insurance expense for the years ended June 30, 2022 and 2021 was $287,099 and $247,137, respectively.

17. HEALTH PLAN

The Credit Union has a health plan for the qualified employees, where the Credit Union contributes between 50% and a 100% of the cost of said plan for family groups, couples, and individuals. The health plan expense for the period ended June 30, 2022 and 2021 was $226,736 and $199,092, respectively.

18. RETIREMENT PLAN

The Credit Union has a defined contributions plan for all qualified employees. The Cooperativa de Seguros de Vida (COSVI) is the entity that administers the plan. The plan expense for the years ended June 30, 2022 and 2021 was $50,078 and $94,397, respectively. The minimum contribution, including administration costs, is calculated based on the salary of each covered employee. The percentage rate of employer contribution is 3%.

19. CONTINGENCIES, UNCERTAINTIES AND COMMITMENTS

Purchase of Participation in Loan Portfolio

During the year ended June 30, 2019, the Credit Union acquired a participation in an auto loan portfolio for approximately $1.5 million. The management of auto loans will be conducted by the selling entities, which will receive and retain a *servicing fee* of .25% of the average monthly balance of the loan portfolio. The loans subject to these transactions were acquired without recourse. The balance of this portfolio as of June 30, 2022 and 2021, was $340,637 and $647,261, respectively.

Operational Leases

The Credit Union maintains a lease agreement for the facilities used at the Canóvanas branch that expires on August 30, 2023. Future annual rent payments for the next year ending June 30, 2023 are in the amount of $36,000. The rent expense for the years ended June 30, 2022 and 2021 was $36,000 for both years.

Lawsuits and Legal Claims

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

Payment Order Account Maintenance Agreement

The Credit Union also maintains current accounts or payment orders (share draft) as part of other services to its members. The Credit Union will be responsible for all the risks involved in the operation of the payment order accounts, including, but not limited to, the acceptance of the client, the opening of the account, the acceptance of deposits in overdrafts, the setting of withholdings in deposited checks, the customer's credit recording, and all the risks inherent in this type of service. The administration costs of this account will be paid by the Credit Union. The Institution will set the charge for its services to the client. The Credit Union only maintains an agreement with the Banco Cooperativo of Puerto Rico to represent it in the exchange and/or return of checks, in accordance with the regulations of the Puerto Rico Clearing House Association.

Allowance for Uncollectible Loans (U.S. GAAP vs Regulatory)

The Credit Union records the allowance for uncollectible loans based on the parameters established in Regulation No. 8665 on accounting standards for Savings and Credit Unions promulgated by COSSEC. This Regulation requires that an allowance for uncollectible loans be established using elements that are in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) and other regulations that are not in accordance with U.S. GAAP. An example of a regulatory element that disagrees with U.S. GAAP is that the general reserve requires a minimum percentage per loan type based primarily on loan delinquency. The current pronouncements U.S. GAAP require the recognition of credit losses following the incurred losses model and observable tests as of the statement of financial position, in addition to the recognition of the effect of economic factors on credit products. At present, the difference between the allowance for uncollectible loans calculations and the U.S. GAAP models cannot be estimated, and regulatory, without incurring a significant cost and in a long time that management estimates are not cost benefit.

Puerto Rico Fiscal Crisis

Puerto Rico remains amid a deep fiscal crisis that affects the central government and many of its instrumentalities, public corporations, and municipalities. This fiscal crisis has been mainly the result of the economic contraction, persistent and significant budget deficits, a high debt burden, pension obligations, and lack of access to capital markets, among other factors. As a result of the crisis, the Government of Puerto Rico and some of its instruments have not been able to make debt service payments on their bonds and notes since 2016. The escalation of the fiscal and economic crisis and the imminent widespread defaults led the Congress of the United States of America to enact the PROMESA Law in June 2016. The Government of Puerto Rico and several of its instrumentalities are currently in the process of restructuring their debts through the debt restructuring mechanisms provided by PROMISA.

Uncertainties related to COVID-19

The COVID-19 pandemic has caused a significant disruption in economic activity in the markets served by the Credit Union. In response to the COVID-19 pandemic, the Government of Puerto Rico has issued several executive orders including, among other things, a stay-at-home mandate on March 15, 2020, subsequently extended until June 15, 2020, non-essential business closings and a night curfew. On May 4, 2020, the Government of Puerto Rico began to implement a plan for the gradual reopening of the economy. Although substantially all parts of the Puerto Rico economy have reopened, under new

guidelines that affect the way people interact and how the entities operate, the operations and financial results of the Credit Union have been and could continue to be affected negatively due to the COVID-19 pandemic.
The financial situation and the results of the operations of the Credit Union generally depend on the ability of the members to repay their loans, the value of the collateral underlying the secured loans and the demand for loans and other products and services that the Credit Union offers, which are highly dependent on the business environment in the primary markets in which the Credit Union operates.

Governments worldwide have intervened with fiscal policies to mitigate the impact of the COVID-19 pandemic, including in the United States of America through the Coronavirus Aid, Relief, and Economic Security Act 2020 (CARES Law). The objective of the CARES Law was to provide economic relief to companies and individuals, some of the dispositions of the CARES Law improved the ability of affected members to repay their loans, including providing direct cash payments to eligible taxpayers, including residents of Puerto Rico, below specified income limits, benefits and eligibility expanded of unemployment insurance, and relief designed to prevent layoffs and small business closures. The absence of further relief considering the continuing pandemic could create uncertainty about the ability of members to continue to repay their loans.

Due to the evolving nature of the COVID-19 pandemic and federal and local responses to it, the Credit Union cannot predict the extent or duration of the outbreak or the impact it may have on the financial condition and operations of the Credit Union.

Credit Union Exposure

The credit quality of the loan portfolio of the Credit Union necessarily reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions that affect Puerto Rico, its consumers and businesses or companies. The effects of the prolonged recession are reflected in the limited demand for loans, an increase in the rate of foreclosure and delinquency on loans granted in Puerto Rico. While PROMESA provides a process to address the fiscal crisis of the Government of Puerto Rico, the duration and complexity of Title III procedures for the Government of Puerto Rico and several of its agencies, the adjustment measures required by the fiscal plans, the impact of natural disasters and the COVID-19 pandemic, suggests a risk of significant additional economic contraction. In addition, the measures taken to deal with the fiscal crisis and those that will have to be taken in the near future will likely affect many of our individual members and our business members, which could cause credit losses that negatively affect consumer confidence. This, in turn, translates into reductions in consumer spending 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 cannot adequately handle the recovery efforts of the Government of Puerto Rico after natural disasters, pre-existing fiscal crisis, and COVID-19, in addition to continuing to provide essential services, adverse effects could continue or worsen in a way that we cannot predict, even after an orderly restructuring of the Government of Puerto Rico's debt obligations.

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 uncertainties related to the economic conditions of Puerto Rico and their effects on the Credit Union.

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Methodology and Assumptions

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

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

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

- The fair value of loans was estimated by discounting the expected cash flows to its maturities, using estimated market discount rates that reflect the credit risk and inherent interest to the loan. The discount rate was adjusted to consider the necessary expansion based on the new originations that contemplate the risk of liquidity, interest, and credit. The discount rates applied were based on the market rate for classes similar as of June 30, 2022 and 2021 (Level 3). The estimated value of loans, advances and other accounts receivable is net of specific provision for impairment.

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

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

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

Financial Assets Recognized at Fair Value on a Recurring Basis

As of June 30, 2022, and 2021, 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, 2022			
Type of Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in negotiable securities	$ 19,726,362	$ -	$ -	$ 19,726,362
Special investments	-	3,555,300	-	3,555,300
	$ 19,726,362	$ 3,555,300	$ -	$ 23,281,662

	June 30, 2021			
Type of Investment	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment in negotiable securities	$ 22,297,449	$ -	$ -	$ 22,297,449
Special investments	-	3,053,340	-	3,053,340
	$ 22,297,449	$ 3,053,340	$ -	$ 25,350,789

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

The Credit Union may be required, from time to time, to measure certain assets at their fair value on a non-current basis in accordance with generally accepted accounting principles (GAAP). These fair value adjustments usually result from the application of the accounting of the lower of cost or market or impairment in value of individual assets decreases. The valuation 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, 2021 and 2020 is summarized as follows:

	June 30, 2022				
	Book	**Fair Value**			
Type of Investment	**Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:					
Repossessed properties and cars	$ -	$ -	$ -	$ -	$ -

	June 30, 2021				
	Book	Fair Value			
Type of Investment	Value	Level 1	Level 2	Level 3	Total
Financial Assets:					
Repossessed properties and cars	$ 193,701	$ -	$ -	$ 193,701	$ 193,701

The change in the fair value of the repossessed cars and properties, which was determined using Level 3 Inputs, as of June 30, 2022 and 2021 are presented as follows:

	2022	2021
Beginning balance	$ 193,701	$ 1,266,171
Acquisition of repossessed properties	1,598,193	1,018,959
Sales of repossessed properties	(1,999,743)	(1,391,429)
Provision and losses charged against operations	207,849	(700,000)
Ending balance	$ -	$ 193,701

Determined Fair Value

As of June 30, 2021, and 2021, the book value and estimated fair value of financial instruments were as follows:

	June 30, 2022		June 30, 2021	
	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Cash and cash equivalent	$ 54,757,593	$ 54,757,593	$ 51,888,493	$ 51,888,493
Certificate of deposits, due more than three months	33,764,805	33,764,805	31,064,735	31,064,735
Loans, net of allowance	112,724,501	110,803,034	109,956,319	106,546,184
Investment in securities	19,726,362	19,726,362	22,297,449	22,297,449
Special investments	2,098,935	3,555,300	2,635,581	3,053,340
Shares in cooperative entities, without COSSEC	3,137,752	2,610,671	3,064,430	2,554,352
Other assets - Loss under special amortization	-	-	9,137,607	-
	$ 226,209,948	$ 225,217,765	$ 230,044,614	$ 217,404,553
Financial Liabilities:				
Deposit accounts	$ 123,373,437	$ 123,373,437	$ 119,681,734	$ 119,681,734
Certificate of deposits	25,725,171	25,725,171	29,059,575	29,059,575
Shares	59,713,421	59,713,421	58,124,427	58,124,427
	$ 208,812,029	$ 208,812,029	$ 206,865,736	$ 206,865,736

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

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

The Credit Union evaluates separately the credit condition of its members before granting credit. Management determined through the evaluation of the applicant's credit, the amount of collateral to obtained as a condition of the credit requested. The amount of commitment to extend credit as of June 30, 2022 and 2021 is as following:

	2022	2021
Credit cards	$ 3,151,740	$ 2,198,425
Lines of credit	$ 144,840	$ 114,634

22. TRANSACTIONS BETWEEN RELATED PARTIES

Practically all the employees and members from the governing bodies of the Credit Union maintain savings accounts at the Institution, make loans, and enjoy the services provided by the institution. The terms of the transactions carried out in these accounts (interest charged and paid) are similar to those accounts for the members in general. The movement of loans of employees and governing bodies as of June 30, 2021 and 2021 are presented below:

	2022	2021
Beginning balance of loans	$ 1,583,863	$ 1,302,300
Origination and collection, net	133,390	281,563
Endinds balance of loans	$ 1,717,253	$ 1,583,863
Assets	$ 1,211,422	$ 1,219,656

23. SUBSEQUENT EVENTS

The financial statements of the Credit Union and the corresponding notes include an evaluation of subsequent events up to September 28, 2022, the date on which the accompanying financial statements were ready to be issued. The management of the Credit Union is of the opinion that there are no events subsequent to June 30, 2022, that need to be disclosed in the financial statements except as described below.

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Cooperativa de Ahorro y Crédito Roosevelt Roads

SUPPLEMENTARY INFORMATION

For the years ended
June 30, 2022 and 2021

CONTENT

1. REQUIRED LIQUIDITY

Below, we present the computation of liquidity required as of June 30, 2022 and 2021, according to the applicable requirements of Law 255:

	2022	2021
Determination of Liquidity		
Savings Available:		
Cash and checking accounts	$ 5,420,820	$ 3,598,777
Savings and Savings Certificate	83,101,576	79,354,450
Acceptable negotiable investments for liquidity requirements	23,281,662	25,350,790
Accrued interest on liquid assets	128,072	182,820
Total Available Savings	111,932,130	108,486,837
Required Liquidity:		
Indivisible capital reserve	$ 11,967,171	$ 8,999,051
Required percent of indivisible capital	35%	35%
Required portion of indivisible capital	*4,188,510*	*3,149,668*
Deposits:	149,098,607	148,741,309
Less: Deposits determined events	2,119,800	2,057,201
Savings certificates that expire in 30 days	1,362,221	2,661,908
Pledge Deposits	4,619,712	4,643,325
Net deposits	140,996,874	139,378,875
Percent required	15%	15%
Portion required for deposits	21,149,531	20,906,831
Plus: Deposits determined events (8.33% * accumulated months)	1,502,684	1,451,090
Savings certificates that expire in 30 days (25%)	340,555	665,477
Total	*22,992,770*	*23,023,398*
Total Required Liquidity	27,181,280	26,173,066
Excess (insufficiency) in liquid funds	$ 84,750,850	$ 82,313,771

2. INDIVISIBLE CAPITAL RESERVE

The ratio of indivisible capital over assets subject to risk is determined as follows as of June 30, 2022 and 2021:

Elements of Indivisible Capital	2022	2021
	Amount	
Indivisible capital reserve	$ 11,967,171	$ 8,999,051
Other reserves	6,324,219	14,971,396
15% of the Credit Union's undistributed retained earnings	671,792	369,881
Portion of allowance for loan losses for non-delinquent loans	349,912	325,245
Total elements of the indivisible capital	$ 19,313,094	$ 24,665,573

Determination of Assets Subject to Risk	Amount	
Assets without risk with consideration of 0.00%		
100% cash in change fund, petty casha nd change in fund in transit	2,655,774	2,321,136
100% Obligations and debt securities, including portions from all of this, issued, insured or guanteed unconditionally by the Commonwealth of Puerto Rico or its agencies, or by the United States Government or its agencies, including Federal Reserve Banks, Government National Mortgage Association (GNMA), Veterans Administrarion (VA), Federal Housing Administration (FHA), Farmers Home Administration (FmHA), Export-Import Bank (Exim Bank), Overseas Private Investment Corporation (OPIC), Commodity Credit Corporation (CCC) and Small Business Administration (SBA)		
100% loans fully secured with first mortgage loans on one to four family residential properties. These loans must qualify to be sold in the secondary mortgage market, not show delinquency in excess of ninety (90) days and have a maximum ratio Loan to Value of eighty percent (80%); Provided that the Corporation may, by regulation or administrative determination, authorize total loan ratios greater than Loan to Value that are consistent with the parameters of the secondary market.	7,464,060	6,240,031
100% the amount of members' loans guaranteed by shares, deposits or both which could not be withdraw from the Credit Union.	26,203,617	25,790,838
100% the Credit Union's investment in COSSEC	2,069,347	1,840,166
Total assets without risk with consideration of 0.00%	$ 38,392,798	$ 36,192,171
Assets subject to risk with consideration of twenty percent (20%)		
80% of items in process of collection	37,401,214	36,813,885
80% of interest in process of collection	102,458	146,256
80% of the portion of the loans to non-members guaranteed by liquid assets that are held as collateral of the loans as provided in Section 2.03 (a) (2)	459,633	475,077
80% Obligations and debt securities, including amounts from all of them, issued, secured or guaranteed by the Commonwealth of Puerto Rico or their agencies , or by the Government of the United States whose instruments are not explicitly bacled by the entire faith and credit of the Government of the United States or Puerto Rico, including Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Farm Credit System, Federal Home Loan Bank System, and Student Loan Marketing Association (SLMA)	17,888,038	19,946,425

INDIVISIBLE CAPITAL RESERVE

For the years ended June 30, 2022 and 2021

Determination of Assets Subject to Risk	Amount	
80% of the deposits, loans, liabilities and debt securities, including amounts from all of them, issued, secured or guaranteed by the depository institutions of United States and Puerto Rico, inclusing the Banco Cooperativo of Puerto Rico. Shares from non-profit entities are excluded.	31,292,084	27,691,788
80% of the historical cost of the real state ot the appraisal value as certified by a qualified appraiser, whichever is less, that is being used or is projected to be used as offices, branches, service centers, parking areas or other facilities, net from any liability directly guarantedd by a mortgage lien on said property.	2,647,439	2,647,439
80% of the prepaired insurances which are risks for the Institution.	18,944	18,806
80% of the common or preferred shares from investments of Banco Cooperativo, Cooperativa de Seguros Múltiples and Cooperativa de Seguros de Vida (COSVI), subject to maintainning the pair value, as reflected in their financial statements and that they are redeemable.	2,088,537	2,039,419
Total assets subject to risk with consideration of twernty percent (20%)	91,898,347	89,779,095
Assets subject to risk with consideration of fifty percent (50%)		
50% of loans fully secured by first mortgage loans on residential properties. These loans do not meet the parameters of the secondary mortgage market and do not show delinquency in excess of ninety (90) days.	10,231,262	9,945,199
50% of commercial loans fully secured by first mortgages on real property, whether residential or non-residential. These loans do not meet the parameters of the secondary mortgage market and do not show delinquency in excess of ninety (90) days.	2,831,272	2,722,344
50% of auto loans that are not delinquent in excess of ninety (90) days.	17,246,374	-
50% of investment in shares of Central Credit Union that have not current or accumulated losses.	5,890	5,890
Total assets subject to risk with consideration of fifty percent (50%)	30,314,798	12,673,433
Total assets not subject to risk	$ 160,605,943	$ 138,644,699

Rate of Indivisible Capital to Assets Subject to Risk	Amount	
Total assets (excluding the allowance for uncollectible loans)	$ 238,450,582	$ 241,164,678
Total assets not subject to risk	(160,605,943)	(138,644,699)
Total assets subject to risk	$ 77,844,639	$ 102,519,979
Rate of indivisible capital to total assets subject to risks	**24.81%**	**24.06%**

3. OTHER EXPENSES (EXCLUDING INTEREST)

The general and administrative expenses for the years ended June 30, 2022 and 2021 it is composed of the following:

	2022	2021
Salaries, bonus and vacations	$ 2,072,891	$ 1,880,124
Payroll contributions	248,457	95,922
Health insurance	226,736	199,092
Pension plan	50,078	94,397
Professional services	581,436	583,110
Insurance:		
COSSEC fee	382,837	302,045
Shares and deposits	287,099	247,137
Generals	294,301	290,752
Depreciation and amortization	350,488	407,015
Mail	19,799	20,698
Utility	264,999	218,337
Rent	36,000	36,000
Education	30,912	31,828
Executive expenses	37,326	32,354
Repair and maintenance	309,224	268,657
Annual Meeting	40,000	34,000
ATH and Mastercar maintenance	1,365,649	1,111,430
Office materials	71,876	84,351
Bank charges	145,023	145,070
Credit investigation	45,725	45,686
Donations	4,512	1,950
Advertising and promotions	265,782	197,157
Sales and Use Tax	111,637	93,712
Provision for disposition of repossessed properties	232,619	700,000
Other expenses grouped	237,778	214,761
	$ 7,713,184	$ 7,335,585