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COOPERATIVA DE AHORRO Y CRÉDITO ROOSEVELT ROADS

REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION IN ACCORDANCE WITH THE UNIFORM GUIDANCE

For the years ended June 30, 2024 and 2023

COOPERATIVA DE AHORRO Y CRÉDITO ROOSEVELT ROADS

REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION IN ACCORDANCE WITH THE UNIFORM GUIDANCE

For the years ended 2024 and 2023

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INDEPENDENT AUDITORS' REPORT

Corporación Pública para la Supervisión y Seguro
de Cooperativas de Puerto Rico (COSSEC)
Board of Directors
Cooperativa de Ahorro y Crédito Roosevelt Roads
Fajardo, Puerto Rico

Opinions

We have audited the accompanying statutory financial statements of the Cooperativa de Ahorro y Crédito Roosevelt Roads (a nonprofit credit union), hereinafter the Credit Union, which compromise the statements of financial condition, as of June 30, 2024 and 2023, and the related statements of income and expenses, comprehensive net income, changes in members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Unmodified opinion on Regulatory Basis of Accounting

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of the Credit Union as of June 30, 2024 and 2023, and the result of its operations, changes in members' equity and cash flows for the years then ended, in accordance with the regulatory basis of accounting required by "Corporación para la Supervisión y Seguros de Cooperativas de Puerto Rico" (hereinafter "COSSEC"), as described in Notes 1 and 2 of the financial statements.

Qualified Opinion on Generally Accepted Accounting Principles in the United States of America

In our opinion, except for the significant effects on the financial statements described in the Basis for Qualified Opinion section of our report, the financial statements referred to above present fairly, in all material respects, the financial condition of the Credit Union as of June 30, 2024 and 2023, the result of its operations, changes in members' equity and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audits of the Financial Statements section of our report. We are required to be independent of the Credit Union and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our unmodified opinion on the regulatory basis of accounting and our qualified opinion on U.S generally accepted accounting principles.

Basis for qualified opinion on the Accounting Principles Generally Accepted in the United States of America

As described in Notes 1 and 2, the financial statements of the Credit Union are presented in accordance with the regulatory basis required by "COSSEC", which is a basis of accounting other than the accounting principles generally accepted in the United States of America, to comply with the "COSSEC" requirements. Generally accepted accounting principles require that shares be presented as deposits and the dividends paid are recognized as an interest expense. The effects on financial statements of the variances between the regulatory basis of accounting described in Note 2 and generally accepted accounting principles in the United States of America, is a decrease in members' equity and an increase in liabilities by $59,161,241 and a decrease in the net income by the amount of $800,000. In addition, they would increase undistributed earnings and reduce voluntary capital reserves, which are not in accordance with generally accepted accounting principles, by approximately $21.9 million.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the Financial Accounting Standards Board issued ASU No. 2016-13, Credit Losses on Financial Instruments (Topic 326): Measurement of Credit Losses on Financial Instruments, which replaces accounting pronouncements under Generally Accepted Accounting Principles ("GAAP") and provides a methodology for measuring expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The pronouncement also requires additional disclosures, including additional disclosures about credit quality. The Credit Union adopted the pronouncement on the expected credit loss model for accounts receivable, loans, and other financial instruments. The financial statements for June 30, 2023, were amended to recognize the implementation of the new accounting pronouncement and make them comparative. The financial statements for 2024 and 2023 incorporate the changes required by the new accounting principles.

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INDEPENDENT AUDITORS' REPORT (CONTINUED)

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices required by "COSSEC" and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standars and Government Auditing Standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of The Credit Union's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

GTC

INDEPENDENT AUDITORS' REPORT (CONTINUED)

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about 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, among other matters, the planned scope and timing of the audit, significant findings, and certain internal controls-related matters that we identified during the audit.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2024 on our consideration of the Credit Union's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Credit Union's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Credit Union's internal control over financial reporting and compliance.

San Juan, Puerto Rico
August 30, 2024

The stamp number E-564185
was affixed to the original

CPA GONZALEZ TORRES & CO. CSP
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PUERTO RICO

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License Number 96
Expires on December 1, 2026

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COOPERATIVA DE AHORRO Y CRÉDITO ROOSEVELT ROADS
STATEMENTS OF FINANCIAL CONDITION
As of June 30, 2024 and 2023

ASSETS

	2024	2023
Cash and cash equivalents	$ 12,684,731	$ 20,450,807
Saving certificates (due over three months)	22,876,957	23,176,957
Investment securities:		
Available for sale (amortized cost of $51,380,836 and $43,943,279)	46,847,529	42,327,088
Special investments	3,357,610	2,096,941
Loans receivable (net of allowance for credit losses of $4,122,889 and $4,401,491)	147,404,459	137,068,106
Investments in cooperatives entities	5,494,529	5,298,520
Property and equipment, net of accumulated depreciation	1,790,369	1,901,876
Other assets	1,275,330	754,622
Total assets	**$ 241,731,514**	**$ 233,074,917**

LIABILITIES AND MEMBERS' EQUITY

	2024	2023
Liabilities:		
Deposits	$ 116,984,689	$ 121,168,297
Certificates of deposits	22,417,541	21,477,304
Accounts payable and accrued expenses	3,559,354	3,763,825
Total liabilities	142,961,584	146,409,426
Members' Equity:		
Shares, par value of $10	59,161,241	59,570,150
Reserve of undistributed capital	14,764,280	14,275,010
Reserve required by COSSEC	2,605,417	1,626,877
Reserve for contingencies	16,377,757	9,560,171
Reserve for social capital	1,313,820	1,226,362
Other reserves	4,223,112	1,223,112
Unrealized loss	(1,175,697)	(1,616,191)
Undistributed earnings	1,500,000	800,000
Total members' equity	98,769,930	86,665,491
Total liabilities and members' equity	**$ 241,731,514**	**$ 233,074,917**

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 on June 30, 2024 and 2023

	2024	2023
Income from financial operations:		
Interest income:		
Loans	$ 11,961,924	$ 10,612,249
Investments, savings accounts and certificates	3,497,793	1,449,218
Total interest income	15,459,717	12,061,467
Interest expense:		
Deposits and certificate of deposits	(642,925)	(348,291)
Net Interest Income	14,816,792	11,713,176
Provision for credit losses	(100,000)	(300,000)
Gross income from financial activities	14,716,792	11,413,176
Other income	4,151,784	5,962,319
General and administrative expenses	(9,083,180)	(8,144,141)
Net income before federal funds - CDFI	9,785,396	9,231,354
Income of federal funds - CDFI	3,000,000	-
Net income	**$ 12,785,396**	**$ 9,231,354**

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

COOPERATIVA DE AHORRO Y CRÉDITO ROOSEVELT ROADS
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended on June 30, 2024 and 2023

	2024	2023
Net income	$ 12,785,396	$ 9,231,354
Other comprehensive income (expense):		
Change in unrealized gain (loss) on investment available for sale	440,494	(320,000)
Net comprehensive income	**$ 13,225,890**	**$ 8,911,354**

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, 2024 and 2023

	Shares	Reserve for Undistributed Capital	Special Temporary Reserve	COSSEC Require Reserve	Reserve for Contingencies	Reserve for Social Capital	Other Reserves	Accumulated Comprehensive Income (Loss	Undistributed Earnings
Balance at June 30, 2022	$ 59,713,421	$ 11,967,171	$ -	$ 703,742	$ 4,359,791	$ 1,138,375	$ 1,223,112	$ (1,296,191)	$ 600,000
Additional investment from members	9,597,442	-	-	-	-	-	-	-	-
Capitalized dividends	600,000	-	-	-	-	-	-	-	(600,000)
Withdrawal of members	(10,340,713)	-	-	-	-	-	-	-	-
Transfers to dormant accounts	-	-	-	-	-	87,987	-	-	-
Net comprehensive loss	-	-	-	-	-	-	-	(320,000)	-
Transfer to other reserves	-	-	-	-	-	-	-	-	-
Increase of reserve COSSEC	-	-	-	923,135	-	-	-	-	(923,135)
Increase of undistributed capital	-	2,307,839	-	-	-	-	-	-	(2,307,839)
Increase of contingencies reserve	-	-	-	-	5,200,380	-	-	-	(5,200,380)
Transfer from federal funds CDFI to undistributed capital	-	-	-	-	-	-	-	-	-
Transfer from other incomes to special temporary reserve	-	-	-	-	-	-	-	-	-
Net income	-	-	-	-	-	-	-	-	9,231,354
Balance at June 30, 2023	$ 59,570,150	$ 14,275,010	$ -	$ 1,626,877	$ 9,560,171	$ 1,226,362	$ 1,223,112	$ (1,616,191)	$ 800,000
Additional investment from members	8,709,025	-	-	-	-	-	-	-	-
Capitalized dividends	800,000	-	-	-	-	-	-	-	(800,000)
Withdrawal of members	(9,917,934)	-	-	-	-	-	-	-	-
Increase of contingencies reserve	-	-	-	-	6,817,586	-	-	-	(6,817,586)
Transfers to dormant accounts	-	-	-	-	-	87,458	-	-	-
Net comprehensive loss	-	-	-	-	-	-	-	440,494	-
Increase of reserve COSSEC	-	-	-	978,540	-	-	-	-	(978,540)
Increase of undistributed capital	-	489,270	-	-	-	-	-	-	(489,270)
Contribution reserve funds "CDFI"	-	-	-	-	-	-	3,000,000	-	(3,000,000)
Net income	-	-	-	-	-	-	-	-	12,785,396
Balance at June 30, 2024	**$ 59,161,241**	**$ 14,764,280**	**$ -**	**$ 2,605,417**	**$ 16,377,757**	**$ 1,313,820**	**$ 4,223,112**	**$ (1,175,697)**	**$ 1,500,000**

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 on June 30, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Net income	$ 12,785,396	$ 9,231,354
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	265,983	330,791
Provision for credit losses	100,000	300,000
Unrealized gain on investment available for sale	(440,494)	-
Reduction of provision for credit losses	-	(3,000,000)
Provision for disposition of repossessed properties	259,240	259,240
Change in costs and deferred income in the loan origination	(37,140)	4,092
Amortization of premium of investment securities	9,614	221,167
Dividends of cooperatives entities	(196,009)	(73,537)
Gains on investments	(1,538,230)	-
Decrease in other assets	(779,948)	(174,342)
(Decrease) Increase in account payable and accrued expenses	(117,013)	212,782
Net cash provided in operating activities:	10,311,399	7,311,547
Cash flow from investing activities:		
Net increase in loans	(10,565,663)	(21,357,680)
Recoveries of loans previously write-off	166,450	105,908
Decrease in savings certificates	300,000	15,938,148
Acquisition of equipment and improvements, net	(154,476)	(33,170)
Additional investment in securities, net	(140,519,893)	(58,141,000)
Proceeds from sale and repayment of investment securities	137,148,387	34,433,923
Additional investment in cooperatives entities	-	(17,884)
Net cash used in investing activities	(13,625,195)	(29,071,755)
Cash flow from financing activities:		
Decrease in deposit, net	(4,183,608)	(2,205,140)
Increase (Decrease) in certificates of deposits, net	940,237	(4,247,867)
Change in members' shares, net	(1,208,909)	(743,271)
Net cash provided by financing activities	(4,452,280)	(7,196,278)
Net decrease in cash and equivalents	(7,766,076)	(28,956,486)
Cash and equivalents at the beginning of period	20,450,807	49,407,293
Cash and equivalents at the end of period	**$ 12,684,731**	**$ 20,450,807**

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

1. ORGANIZATION AND REGULATORY MATTERS

Organization

Cooperativa de Ahorro y Crédito Roosevelt Roads (“the Credit Union”) is organized according to the laws of the Commonwealth of Puerto Rico. The Credit Union is regulated by Law No. 255 of October 28, 2002, known as “Ley de Sociedades Cooperativas de Ahorro y Crédito de 2002”. Credit Unions in Puerto Rico are regulated by the Corporation for the Supervision and Insurance of Credit Unions in Puerto Rico (COSSEC).

The Credit Union is a non-profit organization and is primarily dedicated to receiving cash from its members in the form of shares and deposits from non-members in the form of deposits, providing them financial and investment sources. The Credit Union has their headquarters in the municipality of Fajardo and maintain a (6) six branch in Ceiba, Luquillo, Vieques, Canóvanas, Río Grande and Hotel Conquistador. On June 30, 2024, the Credit Union has 23,788 members and 7,794 non members.

The Credit Union provides comprehensive financial services including, but not limited to personal, mortgage, commercial, and secured loans, among others. It also offers a variety of deposit products, online transactions, home banking, sales of stamps and internal revenue vouchers, among others.

The shares and deposits of Credit Unions in Puerto Rico are insured by COSSEC up to $250,000, per depositor.

Regulatory Matters

Following are the most significant regulations:

<u>Reserve for Undistributed Capital</u>

The credit union's must maintain a reserve for undistributed capital. Thirty five percent (35%) of the undistributed capital reserve must be maintained in liquid assets.

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

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

2. Any capital reserves made by the Credit Union, except the reserve for unrealized losses or gains from available-for-sale securities in accordance with the pronouncement issued by the Financial Accounting Standards Board (FASB).

3. Fifteen percent (15%) of the undistributed earnings retained by the Credit Union.

4. The portion of the reserves established by the Credit Union to absorb the possible future losses from non-delinquent loans or borrowings.

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

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

On June 30, 2024 and 2023, the Credit Union complies with the undistributed capital required by law. The rate of undistributed capital on June 30, 2024 and 2023 is 45.80% and 34.08%, respectively. The calculation of the ratio of undistributed capital to assets subject to risks is presented in Note 25.

<u>Restricted Cash</u>

The Credit Union is required to maintain minimum cash for ordinary operations. Law 255 of 2002, requires the following:

a. Thirty five percent (35%) of the undistributed capital reserve shall be maintained in liquid assets.

b. Any Credit Union whose reserve of undistributed capital is less than eight percent (8%) of the total of its risky assets, will separate and incorporate annually to the undistributed capital, a twenty-five percent (25%) of their net income until the reserve has reached and remains in the eight percent (8%) of the assets subject to risk. Every Credit Union whose undistributed capital has reached and remains at eight percent (8%) of its assets subject to risk, will have the discretion to reduce to no less than five percent (5%), the contribution that it will have to incorporate to the undistributed capital. As of June 30, 2024 and 2023, the Credit Union decided to contribute the amount of $489,270 and $2,307,839, as undistributed capital, that represent twenty-five (25%) of net income, respectively.

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

d. Must maintain in liquid funds fifteen percent (15%) of the total certificates, excluding those that the maturity date is within the next thirty (30) days, in which case, the twenty-five percent (25%), must be maintained and, those pledge certificates, for which no provision for liquid funds should be maintained.

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

As a result of the requirements of the Law Number 255 mentioned above, the Credit Union maintained as of June 30, 2024, and 2023, the amount of $26,458,751 and $26,885,642 respectively, in certificates and savings accounts that are not available to be used for the current and normal operations. The required liquidity calculation is presented as follows:

	2024	2023
Required funds:		
Reserve for undistributed capital (35% required)	$ 5,167,498	$ 4,996,254
Certificates and deposits with maturity more than 30 days	19,767,387	20,057,090
Deposits for special events	1,265,299	1,389,466
Certificates of deposits - maturity less than 30 days	258,567	442,832
Required total	26,458,751	26,885,642
Total funds available	86,249,649	89,087,461
Funds in excess of required funds by law	**$ 59,790,898**	**$ 62,201,819**

Undistributed Earnings

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

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

Dormant Accounts

The amounts of money and other liquid assets held by the Credit Union that have not been claimed or have not been subject to any transaction during the five (5) consecutive years, excluding those amounts from shared accounts, will be transferred to a social capital reserve or its undistributed capital reserve, at the option of the Credit Union. Neither the impositions of service charges, or interest payments or dividends are recognized as account activity.

On or before sixty (60) days after the close of the fiscal year of the Credit Union, it shall have the obligation to notify the owners of dormant accounts that they will be subject to transfer. This will be done by publishing a list in a visible place of the branches and offices of service of the Credit Union for a term of ninety (90) consecutive days. Simultaneously, will publish a notice in a newspaper of general circulation in Puerto Rico, which will be titled "Aviso de Dinero y Otros Bienes Líquidos No Reclamados en Poder de la Cooperativa de Ahorro y Crédito Roosevelt Roads". The expenses incurred by the Credit Union concerning the publication of the notice will be deducted proportionally from the balance of each unclaimed account.

Any person who, during the period of ninety (90) days referred to above, presents evidence of ownership of one or more accounts identified in the list, shall be entitled to the same to be removed from it and not subject to transfer to capital reserves. After following the transfer of an account or other liquid assets to capital reserves, will allow only claims submitted no later than five (5) years from the transfer. In such cases, the Credit Union may impose administrative fees for the procedures of investigation and analysis of the claim.

Under these provisions, according to Law 255, the Credit Union, shares and deposits accounts, and reserves will be exempt from the provisions of Act No. 36 of July 28, 1989, as amended, known as the "Ley de Dinero y Otros Bienes Líquidos Abandonados o No Reclamados.".

Corporation for the Supervision and Insurance for Credit Unions in Puerto Rico (COSSEC)

The Corporation for the Supervision and Insurance for Credit Unions in Puerto Rico (COSSEC) was created during the year 2001 under Law 114, an entity that supervises and assures the credit unions of Puerto Rico. Also, it supervises cooperatives of various types according to Law number 239 from September 1, 2004, as amended. This provides among others:

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

b. Each insured credit union must maintain in the Corporation, as a capital contribution and as determined, an amount equal to one percent (1%) of the total shares and deposits that credit unions possess as of June 30 of each year of operations. The Corporation will establish the rules and procedures to determine the annual increase that should be required in the amount of the capital contribution due to an increase in the insured shares and deposits.

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

d. Each Credit Union will pay an annual premium based on actual reports. The Board of Directors from COSSEC will determine the rate fees when the actuarial studies are available to support them.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most significant accounting policies followed by the Credit Union are conform with the practices in the industry, Law 255 mentioned above, regulations issued by COSSEC, and with the accounting principles generally accepted in the United States of America. The significant accounting policies are as follow:

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

<u>Shares and Undistributed earnings</u>

Credit Unions in Puerto Rico present the members' shares as part of the members' equity in the balance sheet. Accounting principles require that members' shares be presented as deposits in a statement. Also, the Credit Union charges the distribution of undistributed earnings to accumulated profits. However, accounting principles require that such distributions are recognized as interest expense. If these items were classified following accounting principles generally accepted in the United States, total deposits increase and the members' equity would decrease by $59,161,241 and $59,570,150 on June 30, 2024 and 2023, respectively. Moreover, the net income would decrease, and net interest expense would increase in the amount of $800,000 and $600,000 on June 30, 2024 and 2023, respectively.

The shares are accounted for using the cash method. This method is generally accepted in the Credit Unions in Puerto Rico. The Credit Union does not issue share certificates representing common equity. However, an account statement for each member showing their participation in the capital of the institution is maintained. The capital of the Credit Union is not limited and consists of payments made by the shareholders to subscribe shares and the distribution of dividends. According to the Regulations of the Credit Union, the par value of the shares will not be less than ten dollars ($10). Under these rules, every member must subscribe to at least twelve (12) shares per year.

Special Reserve

Law 255, of October 28, 2002, states that the Board of Credit Unions may establish discretionary reserves that have been previously approved by the members or delegates. Such reserves should be established for the purpose that increases the Cooperatives Sector in Puerto Rico. The use of such reserves must comply with the purpose established in the Internal Regulations of the Cooperative.

On March 2, 2009, COSSEC issued the Circular Letter 09-01 which establishes the accounting treatment for the provision for possible loan losses and for the use of discretionary capital reserves. This letter indicates that "the use of any discretionary reserve must be recognized by a reduction to that reserve, as approved by the general assembly, and as an increase to undistributed earnings". Accounting principles require that every provision is recognized with a charge to operations. If these reserves had been classified following accounting principles generally accepted in the United States, these reserves would be eliminated, and the total undistributed earnings will increase by $21,914,689, and $12,009,645 on June 30, 2024 and 2023, respectively. COSSEC may require other special reserves. Below, is a brief description of the special reserves:

Required Reserves

Reserve for Contingencies Required by COSSEC - This reserve is required by the circular letter 2021-02 issued by COSSEC to strengthen and maintain capitalization levels adequate, given the changes that will result from the implementation of the new pronouncement of accounting known as Current Expected Credit Losses (CECL). This new pronouncement is applicable for the financial statements to 2024.

Discretionary Reserves

Reserve for Contingencies – This reserve was created to reduce any extraordinary loss that could affect the financial condition of the Credit Union.

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.

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 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.

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 Fund *"Community Development Financial Institutions"* (CDFI) - This reserve was created upon receiving federal funds under the CDFI program, as per the federal agreement. Note 21 includes information on the use of federal funds.

The balance of other discretionary reserves for the years ended June 30, 2024 and 2023, are presented below:

	2024	2023
Others Reserves:		
Reserve for Retired Employees	470,000	470,000
"CDFI" fund reserve	3,000,000	-
Reserve for Institutional Development	200,000	200,000
Reserve for Possible Losses on Investment in Negotiable Securities	551,794	551,794
Reserve for Advertising and Promotion	1,318	1,318
Total of Other Discretionary Reserves	**$ 4,223,112**	**$ 1,223,112**

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.

Summary of Differences Between Generally Accepted Accounting Principles (GAAP) and COSSEC

The following, is a summary of the most significant effects of the differences between regulatory accounting practices and generally accepted accounting principles in the United States of America (US GAAP).

Balance Sheet	**Regulatory Financial Statements**	**Adjustments to conform US GAAP**	**US GAAP Financial Statements**
ASSETS			
Cash and certificate of savings	$ 35,561,688	$ -	$ 35,561,688
Loans receivable, net of allowance	147,404,459	-	147,404,459
Investments in marketable securities available for sale	46,847,529	-	46,847,529
Special investments	3,357,610	-	3,357,610
Investments in cooperatives entities	5,494,529	-	5,494,529
Property and equipment, net of accumulated depreciation	1,790,369	-	1,790,369
Other assets	1,275,330	-	1,275,330
Total assets	**$241,731,514**	**$ -**	**$241,731,514**
LIABILITIES AND MEMBERS' EQUITY			
Liabilities:			
Deposits, members' shares and certificate of deposits	$139,402,230	$ 59,161,241	$198,563,471
Accounts payable and accrued expenses	3,559,354	800,000	4,359,354
Total liabilities	142,961,584	59,961,241	202,922,825
Members' equity:			
Shares, per value of $10	59,161,241	(59,161,241)	-
Regulatory reserve	17,369,697	-	17,369,697
Special reserves	21,914,689	(21,914,689)	-
Unrealized loss on securities	(1,175,697)	-	(1,175,697)
Undistributed earnings	1,500,000	21,114,689	22,614,689
Total members' equity	98,769,930	(59,961,241)	38,808,689
Total liabilities and members' equity	**$241,731,514**	**$ -**	**$241,731,514**

Statements of Income	Regulatory Financial Statements	Adjustments to conform US GAAP	US GAAP Financial Statements
Interests income	$ 15,459,717	$ -	$ 15,459,717
Interests expense	(642,925)	(800,000)	(1,442,925)
Net interest income	14,816,792	(800,000)	14,016,792
Provision for loans losses	(100,000)	-	(100,000)
Income after provision for loans	14,716,792	(800,000)	13,916,792
Other income	4,151,784	-	4,151,784
General, administrative expenses and others	(9,083,180)	-	(9,083,180)
Net income before federal funds - CDFI	9,785,396	(800,000)	8,985,396
Income of federal funds - CDFI	3,000,000	-	3,000,000
Net income (loss)	**$ 12,785,396**	**$ (800,000)**	**$ 11,985,396**

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Accounting Standards Under Generally Accepted Accounting Principles in the United States of America:

Use of Estimates

The Credit Union's management establishes estimates to determine certain accruals and provisions in the accompanying financial statements. However, the use of estimates in the financial statements could present information that does not agree with the actual results and may affect the financial statements.

Reclassifications

Certain reclassifications are made in the financial statements of the Cooperative to adjust related assets and liabilities or conform them to the required presentation according to Generally Accepted Accounting Principles in the United States of America. In addition, certain figures in the accompanying 2023 financial statements were reclassified to conform to the 2024 presentation. There were no changes to total equity or net income as a result of these reclassifications.

Tax Matters

Tax Exemption

The Law 255 establishes that Credit Unions, their subsidiaries, or affiliates will be exempt from all kinds of taxation, except as indicated below, on income, property, municipal patent, or any other tax imposed or later imposed by the Commonwealth of Puerto Rico or any political subdivision thereof.

All the shares and securities issued by the Credit Unions and by any of their subsidiaries or affiliates will be exempt, both in full value and the dividends or interests paid under them, from all kinds of property or patent tax imposed.

However, the interest or dividends received by the members or depositors may be subject to income tax if the amount received exceeds the exemption limits established by the "Internal Revenue Code for a New Puerto Rico" (The Puerto Rico Tax Code).

Credit Unions and their subsidiaries or affiliates are exempt from the payment of fees, including the payment of fees for licenses, patents, permits and registrations, from the payment of fees, rights, stamps, or proof of internal income related to their registration in the Property Registry, among other exemptions according to Section 6.08 of the Act Num. 255.

Applicable taxes

Law Number 40 of June 30, 2013, known as "Law of Redistribution and Adjustments to the tax burden", amended Section 6.08 of the Act Num. 255 to impose the Sales and Use Tax (IVU) established in sections 4020.01 and 4020.02, authorized by Section 6080.14 tax and the payment of excise taxes under Chapter 2 of Subtitle C of the Code, as emended.

Law Number 159 of September 30, 2015, amended Law No. 1 of 2011, Internal Revenue Code of P.R.; amends Law No. 255 of 2002; Law No. 239 of 2004 and Law No. 42 of 2015 to, among others, impose a 4% tax as of October 1, 2015 on services rendered to other merchants, better known as B2B.

Law Number 40 of April 16, 2020, requires Credit Unions and other taxpayers, under certain conditions, to submit supplementary information, underlying the financial statements, which has been subjected to the audit procedures applied in the audit of the statements performed by a Certified Public Accountant (CPA) with a current license in Puerto Rico. The Law is applicable to credit unions whose business volume is equal to or greater than $10 million for taxable years beginning after December 31, 2019.

Cash and Cash Equivalents

The Credit Union considers checking accounts held at local banks, petty cash, branch operating fund, savings accounts, cash investments and savings certificates with maturity of ninety (90) days or less as cash and cash equivalents.

Loans to Members and Non-Members

The Credit Union provides personal loans for their members up to $50,000, and mortgage loans according loan limit set under regulation 7051, and to nonmembers up to the deposits balances 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 the protection of the public interest.

The loans receivable is recognized upon disbursement of the loan and the transaction is supported with a loan contract and upon compliance with the requirements established for the grant of loans, subject to the approved policies or regulations. Independently of the guarantees and collaterals offered, no credit union would grant a loan to any person, without confirming and documenting the existence of reliable sources for the repayment 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, refinancing agreements, collateralized commercial loans, subject to the adoption and effectiveness of policies and procedures for the credit evaluation, specifically adopted for commercial lending activities implemented through commercial credit officials, properly qualified for that function.

Implementation of new accounting principles to establish the allowance for “Current Expected Credit Losses"

Accounting basis:

The accompanying financial statements incorporate the requirements of the new pronouncement ASU No. 2016-13 "Current Expected Credit Losses" ("CECL"), which introduces significant changes in accounting standards for the recognition of expected credit losses (CECL) for financial assets recognized in the financial statements. CECL establishes a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first acquired or originated. Under the revised methodology, credit losses will be measured based on past events, current conditions, and reasonable and supportable forecasts that affect the collectability of financial assets.

Scope:

The scope of this new pronouncement applies to entities that hold financial assets and net investments that are not accounted for at fair value through net income. The pronouncement modifies the way in which net realizable value in loans, available-for-sale investments, trade receivables, net investments in leases, credit exposures outside the financial statements, reinsurance receivables, and any other financial asset not excluded from the scope that has the contractual right to receive cash are determined. It is required that a financial asset (or group of financial assets) valued at amortized cost be presented at the net amount expected to be collected. The provision for credit losses is a valuation account deducted from the amortized cost basis of the financial asset(s) to present the net book value at the amount expected to be collected from the financial asset. Additionally, there are certain assets not recognized in the balance sheets where the impact on the CECL allowance needs to be evaluated, such as credit cards and lines of credit.

Management of inherent credit risks and asset quality:

The Credit Union maintains periodic monitoring of the risks associated with its loan and investment portfolio, as primary financial assets subject to inherent credit and quality risk. They establish lending standards for credit approval that set parameters and conditions under circumstances and practices for approving loans. The regulations established by the regulator COSSEC set parameters for credit unions to comply with in determining their credit policies considering risk and quality factors. Additionally, the Credit Union hires advisors to monitor its investment portfolios as well as the evaluation of its credit standards when deemed appropriate.

Estimate for Credit Losses in the Loan Portfolio ("ACL"):

The Credit Union establishes an allowance for credit losses ("ACL") for its loan portfolio based on its estimate of credit losses over the remaining contractual term of the loans, considering quantitative and qualitative factors. An ACL is recognized for all loans, including those originated and purchased from inception, with a corresponding charge to the provision for credit losses. Losses on loans are charged to the allowance for credit losses, and recoveries are used to reduce the ACL adjustment.

The Credit Union uses a methodology to estimate the ACL, which includes a reasonable forecast period supported by economic analysis to estimate credit losses, considering quantitative and qualitative factors, as well as economic outlooks. As part of this methodology, management evaluates various macroeconomic scenarios provided by third parties. As of June 30, 2024, management applied probability weights to the outcome of selected scenarios.

The application of probability weights includes reference, optimistic, and pessimistic scenarios. The weights and variables applied are subject to quarterly evaluation as part of the ACL management process. The Credit Union considers additional macroeconomic scenarios as part of its qualitative adjustment framework. The macroeconomic variables chosen to estimate credit losses were selected by combining quantitative procedures with expert judgment. These variables were determined to be the best predictors of expected credit losses within the Credit Union's loan portfolios and include factors such as the unemployment rate, various measures of employment levels, housing prices, gross domestic product, and measures of disposable income, among others.

The loss estimation framework includes a reasonable period supported by five years of experience for evaluating loan portfolios. The Credit Union developed quantitative models at the loan level distributed by geography and loan type. This segmentation was determined by evaluating their risk characteristics, including default patterns, repayment source, collateral type, and loan type, among others. The model framework includes competitive risk models to generate defaults and prepayments over the life, and other loan-level modeling techniques to estimate loss severity. Recoveries on future losses are considered as part of the loss severity model. These parameters are estimated by combining internal risk factors with macroeconomic expectations. Loans were classified into homogeneous loans in different categories of size and type to conduct similar loan analysis in determining the ACL.

Internal risk factors considered in the models may include borrower credit scores, loan-to-value ratio, delinquency status, risk ratings, interest rate, loan term, loan age, and collateral type, among others.

The credit card portfolio, due to its revolving nature, does not have a specified maturity date. To estimate the average remaining term of this segment, management evaluated the portfolio payment behavior based on internal historical data.

Accounting method for determining CECL:

The institution used the "WARM" model, which is a type of prediction rate applied to expected future outstanding balances of the homogeneous loan group. The annual loss rate to be applied is determined based on the historical loss reported by the Credit Union for each group, using a historical period of several years. After that, each subsequent group's outstanding balance is calculated until extinction, excluding any expected future loan originations. For the final step, the average annual loss rate is multiplied by the current and projected annual loss rate.

Repossessed properties and other:

An entity will measure expected credit losses based on the fair value of the collateral at the reporting date when the entity determines that foreclosure is probable. An entity will not expect the default on the amortized cost basis to be zero solely based on the current value of the financial asset(s), but will also consider the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured by similar collateral. Consideration should not be based solely on the value of the collateral; instead, the nature of the collateral, potential future changes in collateral values, and historical loss information for financial assets secured by similar collateral should also be considered.

Off-Balance Sheet Items (Balances on cards and available lines of credit):

For credit exposures off the balance sheet, an entity should recognize the estimate of credit losses. The estimated expected credit losses on an off-balance-sheet financial instrument will be recorded separately from the provision for credit losses related to a recognized financial instrument. In this section, it is mentioned with respect to off-balance sheet instruments, which are recognized and reported separately to the allowance for credit loss as a liability, based on ASC 326-20-45-2.

Qualitative basis:

The ASU No. 2016-13, also known as the Current Expected Credit Losses (CECL) standard, includes a qualitative basis that describes the factors to be considered in estimating expected credit losses for financial assets. This qualitative basis is important as it helps ensure that estimates of expected credit losses are reliable and consistent.

Some of the highlights of the qualitative basis include:

1. Economic situation of the country: If the economy is in recession, institutions may have more difficulty meeting their financial obligations, which could increase the risk of default and expected credit losses.

2. Interest rate: Monetary policy decisions affecting interest rates can impact loan profitability, which could influence provisions for credit losses.

3. Industry and economic sector: Some industries and sectors may be more prone to experiencing financial difficulties than others, which could affect the credit quality of an entity's loan portfolio.

4. Market competition: If there is intense competition in the credit market, entities may have to take on more credit risk to maintain profitability, which could increase the risk of default and expected credit losses.

5. Global economic and political conditions: Economic and political conditions in other countries can also affect the local economy and the credit quality of an entity's loan portfolio.

The qualitative basis of ASU No. 2016-13 is important because it helps ensure that estimates of expected credit losses are reliable and consistent. It's crucial for entities to continue monitoring and adapting their processes and controls to comply with the requirements of ASU 2016-13 and to maintain a robust assessment of their credit risks. Ultimately, this will enable them to make informed and prudent decisions regarding lending and managing their existing loan portfolio.

Amended financial statements for 2023:

The pronouncement requires estimating current and future losses and incorporates qualitative factors. These standards apply in presenting financial statements to Credit Unions for June 30, 2024. Because it's a change in accounting principle, it requires amending the financial statements for 2023 to adopt the same pronouncement for that accounting period so that the financial statements are comparative.

During the years 2024 and 2023, the Credit Union recognized a provision for credit losses of $100,000 and $300,000, respectively. Additionally, it has an allowance for credit losses of $4,122,889 and $4,401,492 for 2024 and 2023, respectively.

The analysis conducted to determine CECL for 2024 and 2023 revealed that the Credit Union recognized allowance for credit losses according to CECL and did not require adjustments from previous periods as previously recognized allowance covered the expected credit risks under the new method applied and required by CECL.

<u>Loan Origination Direct Costs</u>

The Credit Union adopted ASC 310-320, Non-Refundable Fees and Other Costs. This standard established that the direct loan origination costs will be deferred and amortized, and the revenues produced from the lending activity fees, will be recognized over the life of the loan.

<u>Investments in Securities</u>

Marketable securities consist mainly of securities issued by the Governments of the United States and Puerto Rico, and securities collateralized with mortgages on residential, commercial property, another assets, according to the classifications allowed by Law 255 of 2002, as amended.

The Credit Union records the investments in securities following the Accounting Standard Codification ("ASC") 942-320 "Accounting for Certain Investments in Debts and Equity Securities". Also, ASC 942-825 allows companies, that elect to do so, the option to report some financial assets and liabilities at their market value and establish the requirements of presentation designed to ease the comparison between companies that choose different methods of measuring the same assets and liabilities. The new pronouncement is effective for the Credit Union as of January 1, 2008. As of June 30, 2024, and 2023, the Credit Union's Management elected not to adopt the option to report some financial assets and liabilities at their market value, except those mentioned in Note 5. The following are the policies for the recording of investments:

- **Securities held-to-maturity** – Securities held-to-maturity are those which the Management has the intent to hold to maturity. These are reported at cost, adjusted by the amortization of premiums or discounts, using the effective interest method. The securities costs, for the purpose to determine gains or losses, are based by the amortized value and are written down using the specific-identification method.

- **Trading securities** – Trading securities are composed by securities acquired and maintained principally for a future sale. These values are accounted for at fair market value and gains and losses are recognized in the result of the operations of the year.

- **Available-for-Sale Securities** – Securities available-for-sale consists of securities not otherwise classified as trading securities or as securities to be held-to-maturity and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

The profit 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 marketable securities in the portfolio to determine, whether any decrease in market value is temporary in nature. Any non-temporary decrease is reflected in the operations of the current period and reduces the value of the investment in books.

Amortization of Premiums and Discounts

Debt instrument premiums and discounts are amortized over the remaining life of the related instrument as an adjustment to its yield using the effective interest method. Dividend and interest income are recognized when accrued.

Non-Temporary Decrease in Fair Market Value

The decrease in the fair market value of an instrument classified as available for sale, determined as non temporary, results in an impairment in the value of the instrument which is then presented at its fair market value. To determine whether the impairment 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 previous events, current conditions, projections and reasonable estimates that evidence the amount of cash to be charged from the instrument. Among the evidence in this estimate, are the reasons for the impairment, its duration and severity, changes in valuation after the close of the fiscal year, the projected performance of the issuer and the general condition of the market in the geographic area or the industry where it operates. This evaluation is carried out annually by the Management of the Credit Union. As of June 30, 2024 and 2023, the Credit Union did not recognize losses for non-temporary decreases in marketable securities.

Investments in Cooperatives Entities

The Credit Union registers its investments in cooperatives entities at cost. These investments increase by stocks or cash dividends. Investments in cooperatives entities do not have a secondary market, so a market value is not determined.

Property and Equipment

Property and equipment are accounted for at their acquisition cost. Improvements that extend the useful life of the asset are capitalized. Maintenance and repairs that do not extend the useful life of such assets are charged to operations in the year in which they are incurred. Depreciation and amortization is calculated using the straight-line method over the estimated useful life of the assets.

Management evaluates the book value of property and equipment when events or changes in circumstances indicate that the book value of said asset cannot be recovered. The recoverability of the asset that will be used and retained is determined by comparing the book value with the future cash flows, undiscounted, that are expected to be generated by the asset. If it is determined that an impairment has occurred in the value of some fixed asset, the difference between the future cash flows, undiscounted, and the book value of the property and equipment is recognized against the operations of the year. As of June 30, 2024 and 2023, the Credit Union did not recognize impairment losses in the value of fixed assets.

Foreclosed Properties

The properties acquired by foreclosure, or in other types of liquidation, are recorded at the loan balance or the fair market value of property received at the time of the acquisition, whichever is less. Losses incurred at the acquisition, subsequent gains or losses from the disposition of such assets, and the expenses related to maintenance, are recorded as part of normal operations.

The Credit Union evaluates the current value of these assets under the requirements of the 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. For the years ended June 30, 2024 and 2023, the Credit Union had a reserve for change in repossessed asset values of $1,029,906 and $906,328, respectively. The repossessed properties were fully reserved.

<u>Preferred Shares</u>

The Credit Union, subject to the approval of COSSEC, could issue preferred shares, whose issuance will not exceed the total members' shares issued and in circulation. The preferred shares will not be secured by COSSEC and its possession will not grant a right to vote nor attend the Annual Assembly of the Credit Union, or to be designated to the governing bodies. The faculty of the Credit Union to issue preferred shares will be approved in the Members' Annual Assembly. The dividends for preferred shares shall be paid with preference over other shares. As of June 30, 2024 and 2023, the Credit Union does not have preferred shares outstanding.

<u>Recognition of interest income and expense</u>

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

<u>Operational Leases</u>

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. The Credit Union management evaluated the new ASC 842 Leases pronouncement on leases and determined that the applicability is not material to the financial statements.

<u>Fair Value of Financial Instruments</u>

The Credit Union adopted ASC 820, *Fair Value Measurement*, which defines the concept of fair value, establishes a consistent framework for measuring fair value and expands disclosures on fair value measurements. In addition, this pronouncement amended ASC 825 Financial Instruments, and as such, the Cooperative follows ASC 820 in determining the disclosure of the amount of fair value of financial instruments.

Determination of Fair Value

By provisions of ASC 820, the Credit Union determines the fair value for the price that will be received when selling the asset, or that will 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 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 fair value hierarchy, within which the fair value measurement completely falls, will be determined based on the lowest level input that is significant to the entire fair value measurement. Below, is a summary of the hierarchy used by the Credit Union to classify the various financial instruments:

- Level 1 inputs - Level 1 inputs are quoted prices (unadjusted) in the market for identical assets or liabilities that the entity can access on the measurement date. A quoted price in an active market provides the most reliable evidence of fair value and can be used without adjustment to measure fair value whenever available.

- Level 2 inputs - Level 2 inputs are variables, other than the quoted prices included in level 1, that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the entire term of the asset or liability.

- Level 3 inputs - Level 3 inputs are unobservable data for the asset or liability. Unobservable information will be used to measure fair value to the extent that relevant observable data is not available, allowing situations in which there is little or no market activity for the asset or liability at the measurement date. However, the objective of the fair value measurement remains the same, that is, the exit price at the valuation date from the perspective of a market participant who owns the asset or owes the liability. Therefore, the unobservable criteria will reflect the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

Comprehensive Income

The Management of the Credit Union applied ASC 220, Comprehensive Income, which requires the disclosure of comprehensive income. The total comprehensive income is the total of the (1) operational results plus (2) other changes in net assets that come from other sources.

3. CASH AND CASH EQUIVALENTS

The Credit Union considers checking accounts held at local banks, petty cash, branch operating fund, savings accounts, cash investments and savings certificates with maturity of ninety (90) days or less as cash and cash equivalents. As of June 30, 2024 and 2023, the cash and cash equivalents consisted of the following:

	2024	2023
Non-interest bearing accounts:		
Exchange fund and petty cash	$ 2,099,491	$ 1,991,064
Cash in banks	1,087,928	4,285,795
Interests bearing accounts:		
Saving accounts	9,497,312	14,173,948
Total cash and cash equivalents	**$ 12,684,731**	**$ 20,450,807**

Concentration of Risk

The Credit Union maintains cash in several financial institutions (banks and credit unions) of Puerto Rico. The bank accounts in each institution are insured by the Federal Corporation of Deposit Insurance (hereinafter "FDIC") by COSSEC, up to a maximum of $250,000 per institution. As of June 30, 2024 and 2023, the Credit Union held deposits for $17,088,374 and $22,262,871, respectively, in the Cooperative Bank of Puerto Rico ("hereinafter Cooperative Bank"), whose balances are not insured. Under Article 2.04 of Law 255, credit unions are authorized to make deposits in Cooperative Bank.

Below, the amounts not insured by the FDIC, COSSEC and Cooperative Bank as of June 30, 2024 and 2023:

	Uninsured Deposits	
	2024	**2023**
Cash in banks	$ 4,953,602	$ 6,505,876
Cash in credit unions	6,151,658	6,201,657
Cash in cooperative bank	17,088,374	22,262,871
Total	**$ 28,193,634**	**$ 34,970,404**

Additional Disclosure to the Cash Flow Statement

The following are additional disclosures to cash flow statements:

	2024	2023
Supplemental Disclosure:		
Cash payment for interest in deposits	$ 605,725	$ 345,314
Financing and investment activities non involving cash:		
Capitalized dividends	$ 800,000	$ 600,000
Undistributed earnings transferred to undistributed capital	$ 489,270	$ 2,307,839
Undistributed earnings transferred to reserve for contingencies	$ 6,817,586	$ 5,200,380
Change in unrealized loss in investments available for sale	$ 440,494	$ (320,000)
Transfers to dormant accounts	$ 87,458	$ 87,987

4. SAVINGS CERTIFICATES

Savings certificates with original maturity of three months or more consist of funds invested in Banks and Credit Unions. The following are the savings certificates as of June:

Maturity	2024	2023
More than three months, less six months	$ -	$15,876,957
More than six months, less than one year	18,825,300	5,400,000
More than one year, less than three years	4,051,657	1,900,000
Total	**$22,876,957**	**$23,176,957**

GTC

5. INVESTMENTS IN SECURITIES

The Credit Union recognized the investments following the requirements of ASC 942-320, Investments – Debt and Equity Instruments, and classified them as available for sales. As of June 30, 2024 and 2023, the investments were the following:

June 30, 2024 - Available for Sale:

Type of investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank	5,002,103	-	(171,973)	4,830,130
Federal Home Loan Mortgage Corp	2,245,000	-	(186,770)	2,058,230
Federal National Mortgage Association	3,534,120	-	(186,612)	3,347,508
Federal Farm Credit Bank	2,549,787	-	(108,095)	2,441,692
US Treasury Notes	7,516,869	-	(23,168)	7,493,701
Riviera Beach FLA BUB IMPT	1,006,904	-	(17,354)	989,550
Maryland ST CMNTY DEV ADMIN	501,648	-	(15,533)	486,115
New York NY City Transitional Fin Auth	1,032,510	-	(200,190)	832,320
Bank New York Mellon Corp	1,014,244	-	(25,415)	988,829
JP Morgan Chase	472,359	-	(2,617)	469,742
Bank of America C Var 27 due	499,093	-	(2,336)	496,757
US Treasury Bills	22,371,582	41,373	-	22,412,955
Total	**$ 47,746,219**	**$ 41,373**	**$ (940,063)**	**$ 46,847,529**

June 30, 2023 - Available for Sale:

Type of investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank	$ 4,535,000	$ -	$ (307,068)	$ 4,227,932
Federal Home Loan Mortgage Corp	4,243,990	-	(322,819)	3,921,171
Federal National Mortgage Association	3,025,000	-	(242,056)	2,782,944
Federal Farm Credit Bank	4,664,862	-	(318,009)	4,346,853
US Treasury Notes	9,704,546	-	(131,303)	9,573,243
Rivera Beach FLA BUB IMPT	1,015,295	-	(37,125)	978,170
Maryland ST CMNTY DEV ADMIN	502,577	-	(27,502)	475,075
New York NY City Transitional Fin Auth	1,035,813	-	(209,262)	826,551
Bank New York Mellon Corp	1,013,636	-	(40,229)	973,407
JP Morgan Chase	453,927	-	(6,770)	447,157
Bank of America C Var 27 due	498,609	-	(5,046)	493,563
US Treasury Bills	13,250,024	30,998	-	13,281,022
Total	**$ 43,943,279**	**$ 30,998**	**$ (1,647,189)**	**$ 42,327,088**

GTC

The amortized cost and the estimated market value of investments in securities on June 30, 2024 and 2023, according to their maturity, are presented below:

	2024		2023	
Maturity	**Amortized Cost**	**Market Value**	**Amortized Cost**	**Market Value**
Less than one year	$ 31,869,020	$ 31,829,050	$ 26,590,160	$ 26,392,925
From one to five years	10,567,345	9,902,386	16,317,307	15,107,613
From five to ten years	1,032,510	832,320	1,035,812	826,550
More than ten years	4,277,344	4,283,773	-	-
Total	**$ 47,746,219**	**$ 46,847,529**	**$ 43,943,279**	**$ 42,327,088**

6. SPECIAL INVESTMENTS

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

As June 30, 2024 the net amortized cost, fair market value and unrealized gain (loss) of special investments were as follows:

	2024			
Description	**Net Amortized Cost**	**Unrealized gain**	**Unrealized loss**	**Market Value**
GDB Dept RAOCS PR-Recovery	$ 467,617	$ -	$ (31,564)	$ 436,053
Puerto Rico Government Development Bank	3,167,000	-	(245,443)	2,921,557
Total	**$ 3,634,617**	**$ -**	**$ (277,007)**	**$ 3,357,610**

As June 30, 2023 the net amortized cost, fair market value and unrealized gain (loss) of special investments were as follows:

	2023			
Description	**Net Amortized Cost**	**Unrealized gain**	**Unrealized loss**	**Market Value**
PRIDCO	2,096,941	1,015,559	-	3,112,500
Total	**$ 2,096,941**	**$ 1,015,559**	**$ -**	**$ 3,112,500**

As of June 30, 2024, the Credit Union holds special investments with Merrill Lynch for the amount $3,357,610 , according to amortized cost.

The amortized cost and estimated market value in the special investments as of June 30, 2024 and 2023, by maturity, are as follows:

	2024		2023	
Maturity	**Net Amortized Cost**	**Market Value**	**Net Amortized Cost**	**Market Value**
Less than a year	$ -	$ -	$ 2,096,941	$ 3,112,500
From one to five years	-	-	-	-
From five to ten years	-	-	-	-
More than ten years	3,634,617	3,357,610	-	-
Total	**$ 3,634,617**	**$ 3,357,610**	**$ 2,096,941**	**$ 3,112,500**

7. LOANS RECEIVABLE

The loans outstanding by portfolio segment and class of financing receivable are detailed as follow:

	2024	2023
Commercial:		
Corporations	$ 13,658,708	$ 14,442,431
Non-profit entities	758,372	897,389
Total commercial	14,417,080	15,339,820
Consumer:		
Personal	46,297,826	45,596,976
Auto	50,461,798	45,972,911
Mortgage	36,405,667	30,882,832
Credit cards and line of credit	3,116,023	2,908,549
Restructured	98,347	75,043
Total de consumer	136,379,661	125,436,311
Total loans	150,796,741	140,776,131
Less: Allowance for credit losses	(4,122,889)	(4,401,492)
Plus: Loan origination costs, net	730,607	693,467
Total loans, net	**$ 147,404,459**	**$ 137,068,106**

Allowance for Credit Losses

The allowance for loan losses on the loan portfolio for the Credit Union June 30, 2024 and 2023, is the following:

June 30, 2024	Commercial	Consumer	Total
Balance at beginning of the year	$ 436,045	$ 3,965,447	$ 4,401,492
Provision for credit losses	-	100,000	100,000
Recoveries of loan previously reserved	-	166,450	166,450
Loans write-off	-	(545,053)	(545,053)
Balance at the end of the year	**$ 436,045**	**$ 3,686,844**	**$ 4,122,889**

June 30, 2023	Commercial	Consumer	Total
Balance at beginning of the year	$ 436,045	$ 6,955,465	$ 7,391,510
Provision for credit losses	-	300,000	300,000
Recoveries of loan previously reserved	-	105,908	105,908
Reduction of provision for loan losses	-	(3,000,000)	(3,000,000)
Loans write-off	-	(395,926)	(395,926)
Balance at the end of the year	**$ 436,045**	**$ 3,965,447**	**$ 4,401,492**

Commercial Credit Quality Indicators

The Credit Union assigns a risk rating to all loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. Also, these risk ratings are subject to examination by the Credit Union's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate, and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings categories are defined as follows:

Pass – The borrower is considered creditworthy and has the ability to repay the debt in the normal course of business.

Special Mention – As of June 30, 2024 and 2023, the loan is currently protected but has the potential to deteriorate and is traditionally regarded as a "Watch List" loan. The borrower's financial performance may be inconsistent or below forecast, creating the possibility of short-term or long-term liquidity problems. Other typical characteristics include inadequate current financial information, marginal capitalization and susceptibility to negative industry trends. The primary source of repayment is still good but there is an increasing likelihood of future reliance on collateral or guarantor support. Although these loans are performing and collectability of the loan is not yet in risk, there is concern about timely repayment.

Substandars – The loan is inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged. There are well defined weaknesses that the repayment of the debt is on risk. The Credit Union will likely sustain some loss if the deficiencies are not corrected. Loans in this class may be considered impaired and may be carried on a non accrual basis with payments applied to the principal.

Doubtful – The loan has the weaknesses of those in the substandard rating, one or more of which make collection or liquidation in full highly questionable and improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the loan, its classification as a loss is deferred until a more exact status may be determined. Pending factors include: proposed capital injection, new collateral, refinancing plans, or liquidations procedures. Loans in this class are carried on a non accrual basis with payments applied to the principal.

The table below presents classes of outstanding commercial loans by risk category:

June 30, 2024	**Pass**	**Special Mention**	**Substandard**	**Doubtful**	**Total**
Corporations	$ 13,658,708	$ -	$ -	$ -	$ 13,658,708
Non-profit entities	709,220	-	-	49,152	758,372
Total commercial	**$ 14,367,928**	**$ -**	**$ -**	**$ 49,152**	**$ 14,417,080**

June 30, 2023	Pass	Special Mention	Substandard	Doubtful	Total
Corporations	$ 14,442,431	$ -	$ -	$ -	$ 14,442,431
Non-profit entities	776,744	-	-	120,645	897,389
Total commercial	**$ 15,219,175**	**$ -**	**$ -**	**$ 120,645**	**$ 15,339,820**

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:

June 30, 2024	Current or 0-60	61-180	181-360	361 or more	> 90 not Accruing	Total
Corporations	$ 13,399,182	$ 259,526	$ -	$ -	$ -	$ 13,658,708
Non-profit entities	709,220	-	-	49,152	-	758,372
Total commercial	**$ 14,108,402**	**$ 259,526**	**$ -**	**$ 49,152**	**$ -**	**$ 14,417,080**

June 30, 2023	Current or 0-60	61-180	181-360	361 or more	> 90 not Accruing	Total
Corporations	$ 4,317,950	$ 124,481	$ -	$ -	$ -	$ 4,442,431
Non-profit entities	727,592	49,152	-	120,645	120,645	897,389
Total commercial	**$ 5,045,542**	**$ 173,633**	**$ -**	**$ 120,645**	**$ 120,645**	**$ 5,339,820**

Consumer Credit Quality Indicators

The Credit Union owns several types of consumer loans which have different credit risks. The delinquency, the empirical and the value of the collateral loan are indicators of quality that the Credit Union monitors and uses in the evaluation of the provision for credit losses in its consumer loan portfolio. The main factor in the evaluation of the provision for credit losses in the consumer portfolio is the delinquency that this portfolio presents. According to Regulation 8665 of September 11, 2015, the percentage method assigns the product risk of consumption according to their aging.

The following table presents the outstanding balances from each class within the consumer portfolio by delinquency status as of June 30, 2024 and 2023:

June 30, 2024	Current or 0-60	61-180	181-360	361 or more	> 90 not Accruing	Total
Personal	$ 45,517,395	$ 328,156	$ 452,275	$ -	$ 780,431	$ 46,297,826
Auto	48,853,239	1,283,945	143,212	181,402	1,608,559	50,461,798
Mortgage	35,556,223	629,196	138,320	81,928	849,444	36,405,667
Credit card and line credit	3,003,166	54,951	57,906	-	112,857	3,116,023
Restructured	98,347	-	-	-	-	98,347
Total consumer	**$ 133,028,370**	**$ 2,296,248**	**$ 791,713**	**$ 263,330**	**$ 3,351,291**	**$ 136,379,661**

June 30, 2023	Current or 0-60	61-180	181-360	361 or more	> 90 not Accruing	Total
Personal	$ 45,081,933	$ 375,536	$ 139,507	$ -	$ 515,043	$ 45,596,976
Auto	44,998,349	848,715	125,847	-	974,562	45,972,911
Mortgage	30,348,333	152,641	-	381,858	534,499	30,882,832
Credit card and line credit	2,831,334	65,975	11,240	-	77,215	2,908,549
Restructured	75,043	-	-	-	-	75,043
Total consumer	**$ 123,334,992**	**$ 1,442,867**	**$ 276,594**	**$ 381,858**	**$ 2,101,319**	**$ 125,436,311**

The following presents each class of loan within the consumer portfolio by credit score:

June 30, 2024	**Empiric Distribution**				
	Less than 600	**600-650**	**651-700**	**701 or more**	**Total**
Personal	$ 4,235,126	$ 5,291,658	$ 9,473,981	$ 27,297,061	$ 46,297,826
Auto	9,583,534	7,788,119	9,787,056	23,303,089	50,461,798
Mortgage	3,252,736	3,584,789	6,318,024	23,250,118	36,405,667
Credit card and line credit	653,322	566,449	881,039	1,015,213	3,116,023
Restructured	70,053	-	-	28,294	98,347
Total consumer	**$ 17,794,771**	**$ 17,231,015**	**$ 26,460,100**	**$ 74,893,775**	**$ 136,379,661**

June 30, 2023	**Empiric Distribution**				
	Less than 600	**600-650**	**651-700**	**701 or more**	**Total**
Personal	$ 7,763,460	$ 4,617,529	$ 10,206,173	$ 23,009,814	$ 45,596,976
Auto	13,543,782	7,720,850	7,670,653	17,037,626	45,972,911
Mortgage	4,556,489	3,909,387	7,024,859	15,392,097	30,882,832
Credit card and line credit	700,136	497,215	785,263	925,935	2,908,549
Restructured	33,304	32,257	5,096	4,386	75,043
Total consumer	**$ 26,597,171**	**$ 16,777,238**	**$ 25,692,044**	**$ 56,369,858**	**$ 125,436,311**

Loan To Value (LTV) refers to the ratio comparing a loan's unpaid principal balance to the value of the collateral securing repayment of the loan. In recent years, the residential real estate markets have experienced significant declines in property values. LTV does not necessarily reflect the likelihood of performance of a given loan but does provide an indication of collateral value and risk assumed by the Credit Union. In the event of a default, any loss to the Credit Union should be approximately limited to the portion of the loan amount more than the net realizable value of the underlying real estate collateral.

The following table shows the most recent LTV distribution of first mortgage and junior lien loans:

June 30, 2024	Loan-to-Value (LTV) Ranges				
	<80%	80-90%	90-100%	>100%	Total
Mortgage	$27,232,526	$ 3,519,680	$ 5,653,461	$ -	$36,405,667

June 30, 2023	Loan-to-Value (LTV) Ranges				
	<80%	80-90%	90-100%	>100%	Total
Mortgage	$24,956,818	$ 2,878,187	$ 3,047,827	$ -	$30,882,832

Impaired Loans

The following table summarizes key information for impaired loans by type of loan as of June 30, 2024 and 2023:

June 30, 2024	**Unpaid Principal Balance**	**Specific Allowance**
Commercial:		
Corporations	$ -	$ -
Non profit entities	-	-
Total commercial	-	-
Consumer:		
Personal	780,431	156,086
Auto	1,608,559	562,996
Mortgage	849,444	42,472
Credit card and line credit	112,857	39,500
Total consumer	3,351,291	801,054
Total	**$ 3,351,291**	**$ 801,054**

June 30, 2023	Unpaid Principal Balance	Specific Allowance
Commercial:		
Corporations	$ -	$ -
Non profit entities	120,646	116,103
Total commercial	120,646	116,103
Consumer:		
Personal	515,043	92,708
Auto	974,562	467,790
Mortgage	534,499	32,604
Credit card and line credit	77,215	27,025
Total consumer	2,101,319	620,127
Total	**$ 2,221,965**	**$ 736,230**

Below, is a summary of the loans modified and classified as restructured loans, and those restructured loans that after being granted went into default as of June 30, 2024 and 2023:

	Restructured loans			Restructured loans in default		
June 30, 2024	Quantity of loan	Principal balance	Reserve impact	Quantity of loan	Principal balance	Reserve impact
Commercial:						
Commercials	-	$ -	$ -	-	$ -	$ -
Total commercial	-	$ -	$ -	$ -	$ -	$ -
Consumer:						
Personal	7	$ 98,347	$ 3,699	-	$ -	$ -
Total consumer	**7**	**$ 98,347**	**$ 3,699**	**-**	**$ -**	**$ -**

	Restructured loans			Restructured loans in default		
June 30, 2023	**Quantity of loan**	**Principal balance**	**Reserve impact**	**Quantity of loan**	**Principal balance**	**Reserve impact**
Commercial:						
Commercials	-	$ -	$ -	-	$ -	$ -
Total commercial	-	$ -	$ -	$ -	$ -	$ -
Consumer:						
Personal	7	$ 75,043	$ 2,166	-	$ -	$ -
Total consumer	**7**	**$ 75,043**	**$ 2,166**	**-**	**$ -**	**$ -**

The following table summarizes the types of concessions granted to restructured loans as of June 30, 2024 and 2023.

June 30, 2024	**Interest Rate and Maturity Date**	**Reduction of Principal**	**Others**	**Total**
Consumer:				
Personal	$ 98,347	$ -	$ -	$ 98,347
Total consumer	98,347	-	-	98,347
Total of loans	**$ 98,347**	**$ -**	**$ -**	**$ 98,347**

June 30, 2023	**Interest Rate and Maturity Date**	**Reduction of Principal**	**Others**	**Total**
Consumer:				
Personal	$ 75,043	$ -	$ -	$ 75,043
Total consumer	75,043	-	-	75,043
Total of loans	**$ 75,043**	**$ -**	**$ -**	**$ 75,043**

GTC

8. OFF-BALANCE SHEET FINANCIAL INSTRUMENTS

In the normal course of operations, the Credit Union uses certain risk instruments that are not recognized in the statement of situation to meet the financing needs of the members. These financial instruments include commitments to extend credit and credit cards. These instruments have elements of credit risk in excess at various levels, as recognized in the balance sheet. The nominal or contractual amounts of said instruments, which are not included in the balance sheet, are indicative of the activities of the Credit Union in a specific financial instrument.

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

The Credit Union evaluates separately the credit condition of its members before granting credit. The management determines, through the evaluation of the applicant's credit, the amount of collateral to be obtained as a condition of the credit requested. The amount of commitment to extend credit as of June 30, 2024 and 2023, is composed of the following:

	2024	2023
Credit Cards	$ 2,802,782	$ 3,449,059
Credit Line	$ 94,886	$ 118,314

9. INVESTMENT IN COOPERATIVES ENTITIES

Investment in cooperative entities as of June 30, 2024 and 2023, consist of the following:

	2024	2023
Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico (COSSEC)	$ 2,137,491	$ 2,088,636
Fondo de Inversión y Desarrollo Cooperativo (FIDECOOP)	482,901	482,901
Cooperativa de Seguros de Vida de Puerto Rico (COSVI)	1,262,119	1,262,119
Banco Cooperativo de Puerto Rico	1,475,549	1,333,379
Cooperativa de Seguros Múltiples de Puerto Rico	92,289	87,305
Other investments in cooperative entities	44,180	44,180
Total	**$ 5,494,529**	**$ 5,298,520**

10. PROPERTY AND EQUIPMENT

As of June 30, 2024 and 2023, property and equipment were composed of the following:

	2024	2023
Property and equipment subject to depreciation:		
Buildings	$ 2,420,182	$ 2,420,182
Improvements	3,013,663	2,939,681
Furniture & Equipment	1,077,981	1,162,996
Vehicles	151,129	122,395
Programming	899,040	1,357,016
Total property and equipment subject to depreciation	7,561,995	8,002,270
Accumulated depreciation	(6,660,743)	(6,989,511)
Total property and equipment subject to depreciation, net	901,252	1,012,759
Property and equipment not subject to depreciation:		
Land	889,117	889,117
Total property and equipment, net	**$ 1,790,369**	**$ 1,901,876**

11. OTHER ASSETS

The other assets as of June 30, 2024 and 2023, are composed by the following:

	2024	2023
Interest receivable from loans, certificates and others	$ 830,910	$ 501,926
Prepaid deposits and insurance	133,182	169,665
Inventory of materials	65,104	77,449
Forclosure properties net	226,294	-
Other accounts receivables	19,840	5,582
Total	**$ 1,275,330**	**$ 754,622**

12. DEPOSITS

The regular savings accounts earn interests fluctuating between 0.05% and 0.15% computed daily and credited monthly. The Credit Union has the policy to allow savings withdrawals on any operating day. However, it may be the discretion of the Board of Directors to 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 0.50% to 1.85%. The deposits consist of the following:

	2024	2023
Members' and non-members savings accounts	$ 106,838,332	$ 110,781,714
Checking accounts	8,384,210	8,439,005
VeraCoop	96,534	122,087
NaviCoop	1,665,613	1,825,491
Total	**$ 116,984,689**	**$ 121,168,297**

As explained in Note 1, the maximum combined amount of insurable shares and deposits to a partner or depositor, by the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico (COSSEC), will be two hundred and fifty thousand dollars ($250,000). As of June 30, 2024, the members and clients of the Credit Union had approximately $5,659,301 in deposits and shares over the amount covered by the COSSEC insurance.

13. CERTIFICATES OF DEPOSITS

The percentage of interest in the certificates varies according to the amount and time negotiated. As required by the ASC-942-405-50, time-definite deposits, in denominations of $250,000 or plus, totaled $5,182,821 and $2,984,863 as of June 30, 2024 and 2023, respectively. As required by the ASC-470-10-50, deposits are presented below.

For the year ending June 30,	Amount
2025	$ 14,737,834
2026	4,067,723
2027	627,310
2028	441,478
2029	592,313
2030 or later	1,950,883
	$ 22,417,541

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

The accounts payable and accumulated expense, as of June 30, 2024 and 2023, are composed as follows:

	2024	2023
Interest	$ 91,703	$ 54,503
Insurances and contributions	446,532	407,188
Account payable and accumulated expenses	1,445,070	1,338,698
Discounts and transfers of loans	231,371	283,195
Provision assemblies	73,085	80,123
Other accounts	1,271,593	1,600,118
Total	**$ 3,559,354**	**$ 3,763,825**

GTC

15. OTHER INCOME

The other income as of June 30, 2024 and 2023, are composed as follows:

	2024	2023
Services charges	$ 1,479,490	$ 1,389,401
Commissions	669,338	713,938
Dividends	197,346	73,537
Gains on investments	1,538,230	-
Reduction for provision of loans losses	-	3,000,000
Others	267,380	785,443
Total	**$ 4,151,784**	**$ 5,962,319**

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16. GENERAL AND ADMINISTRATIVE EXPENSES

The detail of the general and administrative expenses of the Credit Union for the period ended on June 30, 2024 and 2023, consists of the following:

	2024	2023
Salaries, bonus and vacations	$ 2,600,507	$ 2,410,641
Employers' contributions and benefits	305,485	282,868
Medical plan	249,176	241,408
Pension plan	57,203	71,056
Professional services	823,640	710,612
Insurance:		
COSSEC	359,064	376,420
Shares and funeral for members	292,188	296,432
General	305,466	301,675
Depreciation and amortization	265,983	330,791
Mail	45,886	24,915
Utilities	290,023	284,257
Rent	36,000	36,000
Education	62,670	36,713
Meetings and representation	79,621	48,779
Repair and maintenance	280,688	309,866
Annual assembly	50,000	50,000
ATH and Mastercard maintenance	1,373,558	1,270,264
Office materials	92,700	74,473
Bank charges	157,722	147,159
Credit reports	51,678	48,387
Donations	6,599	3,439
Advertising and promotions	253,399	244,855
Sales and use tax	108,811	93,233
Provision for disposition of repossessed properties	600,000	259,240
Other expenses grouped	335,113	190,658
Total	**$ 9,083,180**	**$ 8,144,141**

17. LIFE, SHARES AND LOAN INSURANCE

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 expenses for the years ended June 30, 2024 and 2023 was $292,188 and $296,432, respectively.

18. MEDICAL INSURANCE

The Credit Union has a health plan for 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 expenses for the period ended June 30, 2024 and 2023, was $249,176 and $241,408 respectively.

19. PROVISION FOR COOPERATIVE EDUCATION

The Credit Union is required, by Act 255, to withdraw no less than one tenth of one percent (0.10%) of the total volume of business each year for educational purposes and integration of the cooperative movement in Puerto Rico. Within three (3) months following the close of its operations in each fiscal year, all cooperatives shall determine the amount referred to showing that computer up to a maximum of four thousand dollars ($4,000). All cooperatives whose total volume of business exceeds four million dollars ($4,000,000) per year, are required to contribute an additional number of five percent (5%) of its annual net income up to a maximum of ten thousand dollars ($6,000).

The Credit Union accumulated the expense for provision for cooperative education as of June 30, 2024 and 2023.

20. 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, 2024 and 2023, was $57,203 and $71,056, 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%.

21. CONTINGENCIES, UNCERTAINTIES AND COMMITMENTS

Operational Leases

The Credit Union maintains a lease agreement for the facilities used at the Canóvanas branch that expires on June 30, 2028. The rent expense for the years ended June 30, 2024 and 2023 was $36,000 for both years.

2025	$	36,000
2026		36,000
2027		36,000
2028		36,000
Total future payments	$	144,000

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, 2024 and 2023, was $63,334 and $162,698, respectively.

Lawsuits and Legal Claims

The Credit Union aggressively pursues their legal positions in the appropriate forums and understands that they should not prosper. However, it maintains an accumulated estimate of contingencies that may have an impact on the financial statements. It also maintains several claims, mainly for money collection demands, as part of its normal and current operations as a financial institution.

Share Draft 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.

Compliance with State and Federal Laws

Credit unions are subject to compliance with state and federal laws regarding regulatory matters, consumer protection laws in the area of consumer and mortgage loans, and other applicable financial entity regulations. These include anti-money laundering procedures, due diligence processes, required consumer disclosures, among others. The management of the credit union maintains a program to reasonably ensure compliance with applicable laws and regulations. The credit union has not been subject to interventions by federal or state agencies for non-compliance. Failure to comply with legal provisions may result in fines or other legal or criminal actions. The financial statements do not include adjustments related to these uncertainties.

Federal Programs

During the fiscal year 2024, the Credit Union entered into an agreement with the U.S. Department of the Treasury to receive federal funds from the Community Development Financial Institutions Fund (CDFI) under the CDFI program. These funds may be used for financial products in eligible markets, financial services (regulated institutions only) in eligible markets, development of services in eligible markets, loan loss reserves in eligible markets, capital reserves (regulated institutions only), among others.

The Credit Union received $3,000,000 in fiscal year 2024, which were used to contribute to the Credit Union’s capital in the amount of $3,000,000 in accordance with the fund delegation agreement. These funds are subject to monitoring by federal agencies and reports to be submitted to the federal government.

Credit Risk Concentration

There is a geographic concentration in the loan portfolio since the Credit Union's operations are mostly conducted with members and clients in the towns of the eastern area and neighboring towns. The credit concentration by loan type is presented in Note 7 of the financial statements.

22. FAIR VALUE OF FINANCIAL INSTRUMENTS

To determine the fair value of financial instruments the following methods and assumptions were used:

- The carrying amount of cash, financial liabilities and shares approximate their fair value due to their short-term nature. As a practice in the industry in a merger, consolidation or sale of assets and liabilities to another cooperative, these are recognized at their value in the books, in said transfer.

- The carrying value of cash equivalents and savings certificates were estimated by discounting the expected cash flows until the maturity thereof using estimated market discount rates.

- The fair value of the loans was estimated using the discounted value of the impairing loans, based on their unreserved risk. The estimated value of loans, advances and other receivables is net of the specific provision. The Credit Union classifies these assets as Level 3 within the fair value hierarchy. Management determined that the best available method for the fair value of loans is according to the methodology presented. The experience of the Credit Union and the industry is to keep loans in the portfolio; there is no recent purchase and sale of loans, to reach another fair value estimate.

- The estimated value of investments is based on quoted market prices when available (Level 1), market price quotations for similar investments (Level 2), or the market price of the last 44 transaction for that instrument in an active market (Level 2), or the proportional net assets, as appropriate.

- The value of investments in credit union entities represents the original cost of investments made, plus capitalized dividends, less withdrawals or returns. Management understands that the fair value of such investments must approximate the value in the books due to their regulatory nature. In the purchase and sale of financial assets in a credit union, the value that the acquiring Credit Union has quoted for these shares is equal to their par value in transactions supervised and executed by COSSEC.

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

Financial Assets Recognized at Fair Value on a Recurring Basis

On June 30, 2024 and 2023, the Credit Union had marketable securities available for sale for which the fair value measurement is required recurrently:

June 30, 2024

	Fair Value			
Type of Investment	Level 1	Level 2	Level 3	Total
Investment in securities available for sale	$ -	$ 46,847,529	$ -	$ 46,847,529
Special investments	-	3,357,610	-	3,357,610
Total	**$ -**	**$ 50,205,139**	**$ -**	**$ 50,205,139**

June 30, 2023

	Fair Value			
Type of Investment	Level 1	Level 2	Level 3	Total
Investment in securities available for sale	$ -	$ 42,327,088	$ -	$ 42,327,088
Special investments	-	3,112,500	-	3,112,500
Total	**$ -**	**$ 45,439,588**	**$ -**	**$ 45,439,588**

The Credit Union may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis under generally accepted accounting principles (GAAP). These fair value adjustments usually result from the application of accounting the lower of cost or market value or impairment of individual assets decreases. The valuation methodology used for these fair value adjustments is described above.

The change in the fair value of the repossessed cars and properties, which was determined using Level 3 Inputs, as of June 30, 2023 and 2022 are presented as follows:

	2024	2023
Beginning balance	$ -	$ -
Repossessed properties and cars	2,269,376	2,290,324
Sales of repossessed properties and cars	(1,919,504)	(2,117,146)
Provision and losses charged against operations	(123,578)	(173,178)
Balance at the end of the year	$ 226,294	$ -

Estimated Fair Value

As of June 30, 2024 and 2023, the book value and the estimated fair value of financial instruments were as follows:

	2024		2023	
	Book Value	**Fair Value**	**Book Value**	**Fair Value**
Financial Assets:				
Cash and cash equivalents	$ 12,684,731	$ 12,684,731	$ 20,450,807	$ 20,450,807
Saving certificates over three months	22,876,957	22,876,957	23,176,957	23,176,957
Loans receivables, net	147,404,459	144,854,222	137,068,106	135,582,371
Investments in securities (available for sale)	46,847,529	46,847,529	42,327,088	42,327,088
Special investments	3,357,610	3,357,610	2,096,941	3,112,500
Investments in cooperatives entities	5,494,529	5,494,529	5,298,520	5,298,520
	$ 238,665,815	**$ 236,115,578**	**$ 230,418,419**	**$ 229,948,243**
Financial Liabilities:				
Deposits accounts	$ 116,984,689	$ 116,984,689	$ 121,168,297	$ 121,168,297
Certificates of deposits	22,417,541	22,417,541	21,477,304	21,477,304
Members' shares	59,161,241	59,161,241	59,570,150	59,570,150
	$ 198,563,471	**$ 198,563,471**	**$ 202,215,751**	**$ 202,215,751**

23. RELATED PARTY TRANSACTIONS

Almost all the employees and members of the Board of Directors and Committees have savings accounts, loans and receive services provided by the institution. The transactions terms in these accounts (interest charged and paid) are similar to other members.

Below is the movement of the related parties' transactions:

	2024	2023
Loans beginning balance	$ 1,801,470	$ 1,211,422
New loans, net of annual payments	74,143	590,048
Loans, ending balance	1,875,613	1,801,470
Deposits and shares	$ 1,416,061	$ 1,385,252

24. SUBSEQUENT EVENTS

For the year ended June 30, 2024, the Credit Union adopted ASC 855, related to Subsequent Events. ASC 855 establishes the general standards for accounting and disclosure of events that occurred after the date of the statement of financial position, but before the date of issuance of the financial statements.

Specifically, it establishes the period after the date of the financial statement during which the Credit Union Management must evaluate events or transactions that could 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 such events, and the type of disclosure that should be offered for these events that occurred after the date of the statement of financial position. As of June 30, 2024, there are no subsequent events that require disclosure in the financial statements.

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25. RESERVE FOR UNDISTRIBUTED CAPITAL

As indicated in Note 1, the Credit Union must maintain a minimum undistributed capital of eight percent (8%) of the total of its assets subject to risk. The calculation of the undistributed capital ratio on the assets subject to risks is determined as follows:

		2024	2023
	Elements of Undistributed Capital:		
a	Undistributed capital	$ 14,764,280	$ 14,275,010
b	Accumulated net losses	-	-
c	Reserve required by COSSEC	2,605,417	1,626,877
d	Other reserves (discretionary)	21,914,689	12,009,645
e	15% of the Credit Union's undistributed retained earnings	225,000	120,000
f	Portion of the allowance for loan losses for non delinquent loans	501,496	478,610
g	Debt securities issued by the Credit Union	-	-
h	Other financial instruments authorized by COSSEC	-	-
i	Other elements COSSEC has established by regulation	-	-
	Total undistributed capital	$ 40,010,882	$ 28,510,142
	Elements of assets subject to risk:		
	Total assets, excluding allowance for loan losses of $4,122,889 and $4,401,491 for the years 2024 and 2023, respectively	$ 245,854,403	$ 237,476,408
	Less:		
	I. Assets with risk consideration of zero percent (0.00%):		
A	100% Cash in hand and in transit possessed by the Credit Union	2,099,491	2,160,729
B	100% Bonds and debt securities, including portions of all these that are issued, insured or unconditionally guaranteed by the Commonwealth of Puerto Rico or its agencies, or the U.S. Government or its agencies.	-	-
C	100% Loans, including all portions thereof which are issued, insured or unconditionally guaranteed by the Commonwealth of Puerto Rico or its agencies, or the U.S. Government or its agencies	-	-
D	100% Loans fully secured by first mortgages on residential properties of one to four families.	12,460,983	9,601,273
E	100% Student loans insured under the "Higher Education Act" (1965)	-	-

		2024	2023
F	100% Members' loans secured by shares, deposits or both that may NOT be withdraw from the Credit Union	26,385,631	26,048,890
G	100% Credit Union investment in the Corporation	2,137,491	2,088,636
H	100% Other Assets at Risk established by the Corporation	-	-
	II. Assets subject to risk with twenty percent (20%):		
A	80% Items in collection process	8,468,192	14,767,794
B	80% Interest in collection process	386,257	216,087
C	80% Portion loans not secured by real partners liquids that remain in the loan guarantee	489,643	395,660
D	80% Debt obligations and securities	40,164,111	35,539,223
E	80% Loans, obligations and debt securities	-	-
F	80% Deposits, loans, bonds and debt securities, including portions thereof, that are issued, insured or guaranteed by depository institutions in the United States and Puerto Rico	18,301,566	18,541,566
G	80% Book value of real property or appraised value, whichever is less	2,647,439	2,647,439
H	80% Prepaid insurance risk corresponding to the institution	23,665	19,697
I	80% Common or preferred stock investments supported by the Cooperative Bank, Cooperativa de Seguros Multiples and COSVI	2,263,966	2,146,242
J	80% Other risk assets established by the Corporation	-	-
	III. Assets with risk consideration of fifty percent (50%):		
a	50% Loans fully secured by first mortgages on residential properties of 1-4 families	12,098,258	10,748,477
b	50% Investment that represents the participation in loans described in the previous subsection	-	-
c	50% Commercial loans completely guaranteed by first mortgages	5,581,350	6,108,122
d	50% Investment in shares of the central cooperative organizations provided they have no current or accumulated losses	5,890	5,890
d	50% Car loans that are not delinquent in excess of ninety (90) days	24,982,317	22,774,863
e	50% Other risk assets established by the Corporation	-	-
	TOTAL ASSETS NOT SUBJECT TO RISKS	$ 158,496,250	$ 153,810,588
	TOTAL ASSETS SUBJECT TO RISKS	$ 87,358,153	$ 83,665,820
	RATE OF UNDISTRIBUTED CAPITAL TO ASSETS SUBJECT TO RISKS	45.80 %	34.08 %