

**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**



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Board of Directors Cooperativa de Ahorro y Crédito de Rincón Rincón, Puerto Rico

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

I have audited the accompanying balance sheets of Cooperativa de Ahorro y Crédito de Rincón as of June 30, 2015 and 2014, and the related statements of Income, changes in member's equity and cash flows for the years then ended, and the related notes to financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Basis for Qualified Opinion

As described in Note 1, it's the policy of the Cooperative to prepare their financial statements in accordance with the accounting practices accepted by COSSEC (Corporación Pública para la Supervisión y Seguro de Cooperativas de Puerto Rico). These practices differ in some aspects with the generally accepted accounting principles used in the United States of America and Puerto Rico. The differences are the following:

The Cooperative presents the purchase of shares made by its member's participation section when the generally accepted accounting principles define shares as deposits and require them to be presented as liabilities section of the Balance Sheet.

The Cooperative recognizes the dividend distribution as a charge to the accumulated benefits, while the generally accepted accounting principles define such distribution as an interest expense over the share's purchases.

The effect of this difference in presentation increases the member's participation and decreases the debts by \$249,805,535 and \$235,598,920 for the years ended June 30, 2015 and 2014 respectively. The net income also decreases by \$8,700,000 and \$8,612,000 for the years ended June 30, 2015 and 2014 respectively.

Qualified Opinion

In my opinion, with the exception of the effects caused by the difference in the accounting practices accepted by the regulating agencies, with the generally accepted accounting principles, the previous statements reasonably presents, in all of its significant aspects, the financial position of the Cooperativa de Ahorro y Crédito de Rincón the result of its operations and cash flows for the years ended June 30, 2015 and 2014 in conformity with the generally accepted accounting principles used in the United States of America and Puerto Rico.

Emphasis of Matter

Uncertainty: General obligation bonds and related of the Commonwealth, its agencies and public corporations (ELA) bonds.

At June 30, 2015, the Cooperative had debt instruments with an amortized cost of \$ 65,240,000, issued by the Commonwealth of Puerto Rico, its agencies and public corporations (ELA). The amortized cost of the bonds issued by the Commonwealth, its agencies and corporations represented 32% of total investments in securities and 10% of the total assets of the Cooperative to June 30, 2015. During the years 2015 and 2014, the main credit rating agencies such as Moody's, Standard & Poor's and Fitch, Inc. downgraded the credit rating of general obligation bonds and other related ELA investments, to a level of speculative investment bonds with a negative outlook. Cooperative management estimates that investment will recover recorded in books and losses will not be realized because the ELA agreed to pay the amount due as has been the experience so far. The cooperative has received interest payments on all its investments and historically the ELA has met all its commitments related to its bonds. However, there is uncertainty that these impairments may have a material impact on the amounts of investments in ELA by significant amounts (see Note 5). At June 30, 2015, the financial statements do not reflect any adjustment for impairment in its portfolio of investments in securities of ELA bonds.



Emphasis of Matter

Concentration Risk

The Cooperative has a concentration risk in their investment portfolio, as 74% of their values, with an amortized cost of \$ 65,240,000, are comprised of debt obligations issued by the Commonwealth. As explained in Note 9 to the financial statements, credit ELA was demoted to the lowest levels of speculative rating and still has a negative outlook. The Cooperative portfolio of investment securities debt obligations issued by the Commonwealth had a net unrealized loss of \$ 27,857,368 as of June 30, 2015. This loss does not exceed the amount of indivisible capital reserve of \$ 26,137,451 and other voluntary reserves of \$ 3,500,000 of the Cooperative at June 30, 2015. The realization of this loss or recognition of impairment would impact the regulatory and voluntary reserves of the Cooperative and cause a significant deterioration in capital ratios set by the Public Corporation for the Supervision and Insurance of Cooperatives of Puerto Rico (COSSEC), regulator of Savings and Credit Cooperatives in Puerto Rico.

Supplementary Information

My audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The statements of operations presented on pages 35 and 36 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements, and in my opinion is fairly stated in all material respects in relation to the financial statements taken as a whole in accordance with generally accepted accounting principles in the United States of America and Puerto Rico.



August 27, 2015
Guaynabo, Puerto Rico

License Num. 4290
Expiration date December 1, 2016.

Stamp # E191090 from the
Puerto Rico Society of CPA's
was affixed to the original.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
BALANCE SHEETS
JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
LOANS RECEIVABLE , net of provision for uncollectible loans (Notes 1 and 3)	\$ 260,434,554	\$ 262,184,086
CASH IN HAND AND IN BANKS (NOTES 1 AND 2):	59,087,490	52,137,517
CERTIFICATES OF DEPOSIT (Maturity in three Months or less) (Note 2)	87,810,295	73,935,165
INVESTEMENTS (NOTES 1 AND 5): Investments in securities classified as Held-to maturity Cooperative entities	202,834,839 9,108,747 <u>211,943,586</u>	208,230,429 8,668,386 <u>216,898,815</u>
PROPERTY AND EQUIPMENT, NET (NOTES 1 AND 6)	5,663,486	3,930,208
OTHER ASSETS:		
Interest receivable	2,873,860	2,831,502
Accounts receivable	199,454	461,770
Prepaid expenses	135,729	121,506
Others (NOTE 10)	5,657,205 <u>8,866,248</u>	4,569,444 <u>7,984,222</u>
Total assets	<u><u>\$ 633,805,659</u></u>	<u><u>\$ 617,070,013</u></u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITES

DEPOSITS (NOTE 4):		
Savings accounts	\$ 163,217,556	\$ 151,214,570
Certificates of deposits	176,872,226	187,358,246
Christmas and Summers savings plan	4,616,565 <u>344,706,347</u>	4,223,544 <u>342,796,360</u>
Total deposits		
ACCOUNTS PAYABLE AND ACCRUED EXPENSES (NOTE 11)	<u>2,116,158</u>	<u>2,211,033</u>
Total liabilities	<u>346,822,505</u>	<u>345,007,393</u>

MEMBERS' EQUITY (NOTE 1)

Shares, par value \$10	249,805,535	235,598,920
Indivisible Capital	26,137,451	24,263,700
Technological development reserve	-	1,500,000
Contingency reserve and technological development	3,500,000	2,000,000
Social capital reserve	40,168	-
Undistributed earnings	7,500,000 <u>286,983,154</u>	8,700,000 <u>272,062,620</u>
Total Members' Equity		
Total Liabilities and Members' Equity	<u><u>\$ 633,805,659</u></u>	<u><u>\$ 617,070,013</u></u>

The accompanying notes are an integral part of these statements.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENTS OF INCOME
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
INTEREST INCOME:		
Loans	\$ 18,593,743	\$ 18,634,832
Certificates and savings accounts	1,507,754	2,060,058
Investments	8,111,763	8,634,592
	<u>28,213,260</u>	<u>29,329,482</u>
INTEREST EXPENSE:		
Deposits	2,210,426	1,895,352
Certificates of deposits	2,404,274	2,972,941
	<u>4,614,700</u>	<u>4,868,293</u>
NET INTEREST INCOME BEFORE PROVISION FOR UNCOLLECTIBLE LOANS	23,598,560	24,461,189
PROVISION FOR UNCOLLECTIBLE LOANS	<u>4,506,485</u>	<u>4,412,125</u>
NET INTEREST INCOME AFTER PROVISION FOR UNCOLLECTIBLE LOANS	<u>19,092,075</u>	<u>20,049,064</u>
OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and related expenses	3,653,357	3,312,582
Professional Services	465,030	422,103
Promotion and cooperative education	443,435	437,602
Facilities, equipment and maintenance	745,958	745,925
Effects and other office expenses	797,580	695,105
Insurances	2,760,946	2,634,467
Board of Directors and Committees expenses	491,857	448,669
Others and Miscellaneous	332,430	264,944
	<u>9,690,593</u>	<u>8,961,397</u>
TOTAL OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>9,690,593</u>	<u>8,961,397</u>
INCOME FROM OPERATIONS	9,401,482	11,087,667
OTHER INCOME / (EXPENSES):		
Money orders, mortgages and services commissions	269,993	293,831
MasterCard expenses– net	(9,771)	(28,640)
Share Draft, net	(31,932)	(18,343)
ATM income, net	36,511	46,636
Loss on assets disposal	(747,360)	(613,972)
Other income	454,827	312,749
	<u>(27,732)</u>	<u>(7,739)</u>
TOTAL OF OTHER INCOME	<u>(27,732)</u>	<u>(7,739)</u>
NET INCOME	<u>\$ 9,373,750</u>	<u>\$ 11,079,928</u>

The accompanying notes are an integral part of these statements.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENTS OF CHARGES IN MEMBERS' EQUITY
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014**

	Shares	Indivisible Capital Reserve	Technological Development Reserve	Contingency and Technological Development Reserve	Social Capital Rserve	Undistributed Earnings	Total
BALANCE JUNE 30, 2013	\$ 236,495,349	\$ 22,535,002	\$ 1,000,000	\$ 1,848,770	\$ -	\$ 8,660,801	\$ 270,539,922
Additional investments by members	43,548,451	-	-	-	-	-	43,548,451
Withdrawals by members	(53,056,880)	-	-	-	-	-	(53,056,880)
Withheld from net income to reserves	-	-	500,000	151,230	-	(651,230)	-
Withheld for reserves	-	1,728,698	-	-	-	(1,728,698)	-
Transfer to accounts payable	-	-	-	-	-	(48,801)	(48,801)
Capitalized net income	8,612,000	-	-	-	-	(8,612,000)	-
Net income for the year	-	-	-	-	-	11,079,928	11,079,928
BALANCE JUNE 30, 2014	235,598,920	24,263,700	1,500,000	2,000,000	-	8,700,000	272,062,620
Additional investments by members	48,674,280	-	-	-	-	-	48,674,280
Withdrawals by members	(43,167,665)	-	-	-	-	-	(43,167,665)
Transfer between reserves	-	-	(1,500,000)	1,500,000	-	-	-
Withheld for reserves	-	1,873,751	-	-	-	(1,873,750)	1
Transfer to accounts payable	-	-	-	-	40,168	-	40,168
Capitalized net income	8,700,000	-	-	-	-	(8,700,000)	-
Net income for the year	-	-	-	-	-	9,373,750	9,373,750
BALANCE JUNE 30, 2015	<u>\$ 249,805,535</u>	<u>\$ 26,137,451</u>	<u>\$ -</u>	<u>\$ 3,500,000</u>	<u>\$ 40,168</u>	<u>\$ 7,500,000</u>	<u>\$ 286,983,154</u>

The accompanying notes are an integral part of these statements.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 9,373,750	\$ 11,079,928
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	404,654	394,897
Provision for uncollectible accounts	4,506,485	4,412,125
Capitalized dividends in cooperative entities	(217,178)	(199,769)
(Increase) / decrease in other assets	(1,629,386)	(3,201,884)
Loss on foreclosed properties	747,360	613,972
Gain on assets disposition	(114,993)	-
Increase / (Decrease) in:		
Accounts payable and accrued expenses	(54,706)	(59,026)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>13,015,986</u>	<u>13,040,243</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans	(2,756,953)	(5,984,226)
(Increase) Decrease in certificates of deposit (more than three months)	(13,875,130)	21,150,000
Increase in investments in other cooperatives	(223,183)	(140,189)
Increase in marketable securities	5,395,590	(13,092,283)
Investment in property and equipment	(2,022,939)	(467,603)
NET CASH USED (PROVIDED) BY INVESTING ACTIVITIES	<u>(13,482,615)</u>	<u>1,465,699</u>

The accompanying notes are an integral part of these statements.



(Continues)

**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	1,909,987	13,106,592
Share investment by members	48,674,280	43,548,451
Share redeemed by members	<u>(43,167,665)</u>	<u>(53,056,880)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>7,416,602</u>	<u>3,598,163</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,949,973	18,104,105
CASH AND CASH EQUIVALENTS AT BEGINNING	<u>52,137,517</u>	<u>34,033,412</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u>\$ 59,087,490</u>	<u>\$ 52,137,517</u>
SUPPLEMENTARY INFORMATION:		
Interest payments	<u>\$ 4,659,074</u>	<u>\$ 4,921,540</u>
SUPPLEMENTARY INFORMATION ON INVESTMENT AND FINANCING ACTIVITY THAT DOES NOT AFFECT CASH:		
Capitalized net income	<u>\$ 8,700,000</u>	<u>\$ 8,612,000</u>
Withheld from net income to Indivisible Capital Reserve	<u>\$ 1,873,751</u>	<u>\$ 1,728,698</u>
Transfer from net income to accounts payable	<u>\$ 40,168</u>	<u>\$ 48,801</u>
Transfer / (use) reserve to undistributed earnings	<u>\$ -</u>	<u>\$ 651,230</u>

The accompanying notes are an integral part of these statements.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015 AND 2014

1- ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS

Organization

The Cooperative was created in conformity with the Credit Union Law, as amended. The Cooperative is also regulated by Law no. 255 of October 28, 2002, as amended and by The Corporation for the Supervision and Insurance of Puerto Rico Credit Unions (COSSEC). This Cooperative is dedicated primarily to receiving savings in the form of shares and deposits from its members and provides to them a lending source at the lowest possible cost.

Important Accounting Standards Interest income and expenses

The interest income realized from loans, is calculated over the principal balance owed (accumulation method). Interest is accumulated on loans that do not exceed 90 days past due. Other income or expenses are registered at the time they are generated or incurred.

Members' shares

Members' shares are the savings deposit accounts of the owners of the Credit Union. Share ownership entitles the members to vote in the annual elections of the Board of Directors and on other corporate matters. Irrespective of the amount of shares owned, no member has more than one vote. Members' shares are subordinate to all others liabilities of the Credit Union upon liquidation. Dividends on member's shares are based on available earnings at the end of a dividend period and are not guaranteed by the Credit Union. Dividend rates are set by the Credit Union's Board of Directors.

Provision for loan losses and uncollectible accounts

For the establishment of the loans reserve, the credit union adopted the parameters established in the accounting rules for the credit unions of June 2002, issued by "COSSEC".

The allowance for loan losses is increased by a provision for loan losses charge to expense and decreased by charge-offs (net of recoveries).

Investments in Cooperative Entities

The investment value represents the original cost of the investment plus the capitalized dividends, less withdrawals.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

**1- ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Investments in Securities

Investments that the Credit union has both the positive intent and ability to hold to maturity are classified as held –to-maturity and are carried at amortized cost. Investments that the Credit Union intends to hold for an indefinite period of time, but no necessarily to maturity, are classified as available-for-sale and are carried at fair value. Unrealized gains and losses on investments classified as available-for-sales have been accounted for as accumulated other comprehensive income. Gains and losses on the sale of available-for-sale securities are determine using the specific identification method. Amortization of premiums and discounts are recognized in interest income over the period to maturity. Declines in the fair values of individual held-to-maturity and available-for sale securities below their costs that are other than temporary result in write-downs of the individual securities to their fair values. Factors affecting the determination of whether an other-than temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would no have the ability to hold a security for a period of time sufficient to allow for any anticipate recovery in fair value.

Property, Equipment and Depreciation

Building and improvements, furniture and fixtures and vehicles are carried at cost. Depreciation is determined using the straight-line method over the estimated useful life of the assets.

Foreclosed properties

At the time foreclosure, the foreclosed property is recorded at the lower of the carrying amount or fair market value. Any losses incurred by the acquisition, gains or losses realized after the sale, maintenance costs and estimated losses are registered as part of current operations.

Standards of Accounting that Differ from Generally Accepted Accounting Principles

The credit union recognizes origination costs on mortgage loans as income and Mortgage Department costs as expense. Accounting principles require that this income and expense be amortized to operations for a determined period of time. The management estimates that the adoption of this accounting principle will not have a significant effect on the financial statement.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

**1- ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

The Savings and Loan Cooperatives in Puerto Rico present members' shares in the section of members' equity of the balance sheet. Accounting principles require that the shares be presented in the members' deposits section of the balance sheet.

On the other hand the Cooperatives recognize net income distribution by means of a charge to accumulated benefits, and accounting principles require that such distributions are recognized as interest expense. Also, Law no. 255, October 28, 2002 permits the creation of net income reserves, subsequently charging against that reserve until it is consumed, all or in part. Accounting principles require that any provision is recognized with a charge against operations in the year the reserve is needed.

Use of Estimates in the Preparation of the Financial Statements

The Management uses estimates and assumptions in the preparation of the financial statements, as permitted by generally accepted accounting principles. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Market Value of Financial Instruments

The books values of the financial instruments, including cash and cash equivalents, loans, interest receivables, deposits and shares approximates those assets' fair values. Investments in other cooperatives, including "COSSEC", the market values are not available.

Related Party Transactions

In the normal course of business, the Credit Union extends credit to directors, committees' members, executive officers and employees. The aggregate loans to relate parties at June 30, 2015 and 2014 are \$3,453,112 and \$3,156,289, respectively.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

**1- ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Net income participation

Every Cooperative, with prior recommendation of its Board of Directors, will distribute to its members the net income accumulated at the end of the year, after the indivisible capital required and the voluntary reserves determined by the members, which must follow the purposes established in Law no. 255. This net income can be distributed on the basis of dividends on share paid and not withdrawn at the end of the fiscal year and the reimbursement or return based on the sponsorship of interest received.

Cash and Cash equivalents

The Cooperative considers short-term highly liquid cash investment purchased with an original maturity of three months or less to be cash equivalents.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

**1- ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Regulations

A. Law No. 114 of August 2001 provides among others, the following:

- a. As of the first day of the month following the approval of this law, the maximum Insured amount of shares and deposits combined, per member or depositor will be two hundred fifty thousand dollars (\$250,000).
- b. The Corporation is required to decree, and put in effect the increase in the established maximum insurance coverage limits, on the dates specified in this Article. Notwithstanding, the Board has the power no to put the increase in effect, when share and deposit insurance is experiencing loss, when the economic condition of the Corporation or determinations by the actuaries' accepted by the Board, indicate that the increase should not be decreed until circumstances impeding its effectiveness are overcome.
- c. Every Credit Union insured must maintain with the Corporation, as capital contribution, an amount equal to one percent (1%) if its shares held as of June 30th of each operational year, as declared in the certified statement of shares and deposits in the certified financial statements required by this law. The Corporation will establish standards and procedures to determine yearly, the amount that should be held by each insured Cooperative as capital contribution, depending on their shares and deposits. Regulations and procedures will also be established to determine the annual increase that should be required in the payment of capital contribution by means of increased insured shares and deposits.
- d. When the sum of free reserves, not compromised for the payment of losses and total capital of the Corporation, exceeds two percent of the total insured shares and deposits, the Corporation will use this excess to pay capital interest. This interest is determined based on the average return of the total shares of the Corporation for the period of twelve months before the date payment was made, less one percent (1%).
- e. Each Credit Union pays an annual premium between .19% and .42% of the total shares and deposits as of June 30th of each year, depending on the CAEL classification determined.

As of June 30, 2015 and 2014 the Credit Union has paid a total investment of \$6,140,507 and annual premium of \$1,425,029.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

**1- ORGANIZATION AND SUMMARY OF IMPORTANT ACCOUNTING STANDARDS
(CONTINUED)**

Income Taxes

A. TAX EXEMPTION

Article 6.09- Tax exemption, Law No. 255

The Credit Unions' and its subsidiaries are exempt as follows:

1. Tax Exemption
 - a. From payment of income tax,
 - b. From payment of taxes and excise tax on share issued.
 - c. From payment of duties, excise taxes and state or municipal tariffs, including license payment, warrants, permits and registry, such as tariffs for the issuance of all documents, inscription of said documents in the Property Registry and the expedition of certifications for said registry or any other government office.
 - d. From payment of all taxation on interest and surplus that Cooperatives distribute to members or their beneficiaries or heirs.
 - e. From payment of municipal patents.
 - f. Property taxes

B. LAW NO. 40 OF JUNE 30, 2013

Law no. 40, as amended, was approved June 30, 2013. This law is known as " Redistribution and Adjustments to the tax burden". The law impose Sales and Use tax established in Sections 4020.01 and 4020.02 , authorized by Section 6080.14 tax and the payment of excise taxes under Chapter 2, Subtitle C of the Code , as amended. The discretion includes the cement manufactured or introduced into Puerto Rico, sugar, plastic products, the introduction or manufacture of cigarettes, motor vehicles, gasoline, jet fuel, the " gas oil" or " diesel oil" oil as well as any other mixture of hydrocarbons (excluding natural gas).



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

2- RESTRICTED CASH

The Law No. 255 of October 28, 2002, of the Associations of Savings and Loans Cooperatives, requires that:

- a. Thirty five percent (35%) of the Indivisible capital must be maintained in liquid assets.
- b. Fifteen percent (15%) of the deposits will be maintained in liquid funds.
- c. Fifteen percent (15%) of the total of certificates will be maintained in liquid funds, excluding those with maturity within 30 days, in which case twenty five will be maintained. Collateralized certificates will not be maintained as liquid funds.
- d. 8.33% monthly will be maintained in liquid funds for determined events accumulating up to 100%, in the month before it is returned.

As result of the requirements of the Law indicated, the Cooperative held, at June 30, 2015 and 2014, the amount of \$61,995,450 and \$61,053,437, respectively in certificates, savings accounts and investment securities that are not available to be used in current and normal operations, as follows:

	<u>2015</u>	<u>2014</u>
<u>Liquidity Required</u>		
Indivisible capital reserve (35%)	\$ 9,148,108	\$ 8,492,295
Deposits on demand, net of pledged deposits (15%)	22,966,297	21,453,189
Certificates of deposits, net of crossed Investements with matures of:		
- in 30 days (25%)	3,554,599	3,825,132
- more than 30 days (15%)	23,520,574	24,856,158
Deposits for determinated events:		
Chistmas-Coop (8.33% x 9 months)	2,618,286	2,214,950
Summer-Coop (8.33% x 2 months)	187,586	211,713
	61,995,450	61,053,437
<u>Liquidity Available</u>		
Liquids funds available:		
Certificates of deposits	81,960,295	78,460,165
Cash and cheking accounts	59,087,490	41,262,517
Investments in securities	173,374,233	193,115,524
Interest receivable	2,873,860	2,831,502
	317,295,878	315,669,708
Excess of liquid funds over those required by law	\$ 255,300,428	\$ 254,616,271



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS

The loan portfolio consists of the following types at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<u>Commercial:</u>		
Commercial	\$ 3,692,513	\$ 4,606,561
Non profit organization	972,077	822,914
Total comercial	<u>4,664,590</u>	<u>5,429,475</u>
<u>Consumers:</u>		
Personal	99,244,608	98,548,536
Mortgages	127,150,020	129,704,692
Restructured Mortgages	6,824,996	7,037,825
Restructured	4,093,432	1,518,510
Auto	9,922,442	8,949,000
Emergency	12,471,056	13,720,292
Credit cards	3,812,672	3,772,618
Insurances	69,156	134,432
Equipments	11,582	9,492
Total consumers	<u>263,599,964</u>	<u>263,395,397</u>
Total loans	268,264,554	268,824,872
Less: provision for uncollectible loans (Note 1)	<u>(7,830,000)</u>	<u>(6,640,786)</u>
Total loans, net	<u>\$ 260,434,554</u>	<u>\$ 262,184,086</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

The change in the provision for uncollectible loans is disclosed as follows:

June 30, 2015	<u>Commercial</u>	<u>Consumo</u>	<u>Total</u>
Balance, beginning of year	\$ 512,153	\$ 6,128,633	\$ 6,640,786
Provision for loans losses	-	4,506,485	4,506,485
Loans charged off	-	(3,928,868)	(3,928,868)
Recoveries	-	611,597	611,597
Balance at end of year	<u>\$ 512,153</u>	<u>\$ 7,317,847</u>	<u>\$ 7,830,000</u>
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 11,854,675</u>	<u>\$ 11,854,675</u>
June 30, 2014	<u>Commercial</u>	<u>Consumo</u>	<u>Total</u>
Balance, beginning of year	\$ 512,153	\$ 5,763,738	\$ 6,275,891
Provision for loans losses	-	4,412,125	4,412,125
Loans charged off	-	(4,375,197)	(4,375,197)
Recoveries	-	327,967	327,967
Balance at end of year	<u>\$ 512,153</u>	<u>\$ 6,128,633</u>	<u>\$ 6,640,786</u>
Individually evaluated for impairment	<u>\$ 387,390</u>	<u>\$ -</u>	<u>\$ 387,390</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 13,932,610</u>	<u>\$ 13,932,610</u>

CREDIT RISK GRADING COMERCIAL LOANS

Commercial loans are evaluated for possible losses, classifying each loan using various risk factors identified by the periodic review thereof. At June 30, 2015 and 2014, commercial loans were individually evaluated for impairment. The methodology contemplated the present value of future cash flows discounted at the loan's effective rate or the comparison of the fair market value of the collateral less costs to sell. In addition to reviewing the risk of concentration of commercial loans, the Cooperative implemented a process of quality assessment of commercial credit. For commercial loans, management conducted an assessment of individual risk considering the probability of repayment and collateral quality. The Cooperative used the following classifications to assess their risk in the portfolio:

Pass: The member has adequate capital and ability to repay the debt in the normal course of operations.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

CREDIT RISK GRADING COMERCIAL LOANS

Special mention: The loan has a proper collateral but has the potential for deterioration. The debtor's financial position is deteriorating and is lacking in cash flow, causing possible default on payments. Another features typical of this classification, have no recent financial information, low capitalization, industry risks. The primary source of repayment is still good, but there is a possibility of using the collateral or exercise recovery by the co-signer to repay the debt. Although this type of loan is current and the recovery is understood not in doubt, the frequency of the payments could be affected.

Substandar: The loan does not have adequate safeguards due to the deterioration of the market value of the property and low profitability. The member has a poor financial condition which affects loan repayment. There is a high probability that the Cooperative may not get back the entire loan. Loans in this category are considered to impair and not accrue interest.

Doubtful: The loan has the shortcomings of those presented in the category of "low standard". In addition, the collectibility of the loan part or all is highly unlikely and the possibility of loss is extremely high. At this level there may be some specific conditions that may enhance the likelihood of repayment of the loan. These conditions include an additional capital contribution, new collateral, and refinancing or liquidation proceedings. The loan has not been lost until assessing the effect of the specific conditions listed above. Loans in this category are considered to impair and not accrue interest.

Below is commercials loan portfolio by risk category at June 30, 2015 and 2014:

June 30, 2015	Pass	Special mention	Substandar	Total
Commercial	\$ 3,692,513	\$ -	\$ -	\$ 3,692,513
Non profit organizations	972,077	-	-	972,077
Total commercial	<u>\$ 4,664,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,664,590</u>

June 30, 2014	Pass	Special mention	Substandar	Total
Commercial	\$ 4,219,171	\$ 80,097	\$ 307,293	\$ 4,606,561
Non profit organizations	822,914	-	-	822,914
Total commercial	<u>\$ 5,042,085</u>	<u>\$ 80,097</u>	<u>\$ 307,293</u>	<u>\$ 5,429,475</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

The Cooperative monitors the aging of its commercial portfolio in order to manage credit risk. Below are the categories of aging commercial portfolio at June 30, 2015 and 2014:

June 30, 2015	Days past due			Total Past due	Current	Total Loans	60 or less accruing	60 or more accruing
	61 – 180	181 – 360	360 or more					
Commercial	-	-	-	-	\$ 3,692,513	\$ 3,692,513	\$ 3,692,513	-
Non profit organizations	-	-	-	-	972,077	972,077	972,077	-
Total comercial	-	-	-	-	\$ 4,664,590	\$ 4,664,590	\$ 4,664,590	-

June 30, 2014	Days past due			Total Past due	Current	Total Loans	60 or less accruing	60 or more accruing
	61 – 180	181 – 360	360 or more					
Commercial	\$ 80,097	-	\$ 307,293	\$ 387,390	\$ 4,219,171	\$ 4,606,561	\$ 4,219,171	\$ 387,390
Non profit organizations	-	-	-	-	822,914	822,914	822,914	-
Total comercial	\$ 80,097	-	\$ 307,293	\$ 387,390	\$ 5,042,085	\$ 5,429,475	\$ 5,042,085	\$ 387,390

CREDIT RISK GRADING CONSUMERS LOANS

The cooperative has several types of consumer loans which have different credit risks. Delinquencies, the credit score value of the loan and the collateral are quality indicators and the Cooperative monitors used in the evaluation of loan loss provision in its consumer loan portfolio.

The main factor in the evaluation of the provision for loan losses in the consumer portfolio, delinquency is presenting the portfolio. Under Regulation 6466 of May 23, 2002, the percentage method allocates the risk of product consumption by aging.

Below is aging categories of consumer loans at June 30, 2015 and 2014:

June 30, 2015	Days past due			Total Past due	Current	Total Loans	90 or less accruing	90 or more accruing
	61 - 180	181 - 360	360 or more					
Personal	\$ 1,002,681	\$ 1,828,306	\$ 2,520,297	\$ 5,351,284	\$ 93,893,324	\$ 99,244,608	\$ 94,213,125	\$ 5,031,483
Mortgages	1,061,101	991,225	1,348,141	3,400,467	123,749,553	127,150,020	123,973,816	3,176,204
Restructured Mortgages	627,812	110,688	-	738,500	6,086,496	6,824,996	6,086,496	738,500
Restructured Auto	90,779	373,034	136,717	600,530	3,492,902	4,093,432	3,492,902	600,530
Emergency	-	-	39,586	39,586	9,882,856	9,922,442	9,882,856	39,586
Credit cards	231,354	661,004	563,308	1,455,666	11,015,390	12,471,056	11,083,912	1,387,144
Insurances	63,889	70,798	127,401	262,088	3,550,584	3,812,672	3,550,584	262,088
Equipments	-	-	4,328	4,328	64,828	69,156	64,828	4,328
	2,226	-	-	2,226	9,356	11,582	9,356	2,226
Total loans	\$ 3,079,842	\$ 4,035,055	\$ 4,739,778	\$ 11,854,675	\$ 251,745,289	\$ 263,599,964	\$ 252,357,875	\$ 11,242,089



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

Below is aging categories of consumer loans at June 30, 2015 and 2014:

June 30, 2014	Days past due			Total Past due	Current	Total Loans	90 or less accruing	90 or more accruing
	61 - 180	181 - 360	360 or more					
Personal	\$ 1,809,150	\$ 3,026,878	\$ 2,804,860	\$ 7,640,888	\$ 90,907,648	\$ 98,548,536	\$ 91,461,604	\$ 7,086,932
Mortgages	1,340,403	624,007	1,773,020	3,737,430	125,967,262	129,704,692	125,972,053	3,732,639
Restructured Mortgages	167,665	176,806	186,759	531,230	6,506,595	7,037,825	6,506,595	531,230
Restructured Auto	106,399	41,496	-	147,895	1,370,615	1,518,510	1,404,866	113,644
Emergency	97,482	39,591	-	137,073	8,811,927	8,949,000	8,909,409	39,591
Credit cards	455,088	754,229	294,309	1,503,626	12,216,666	13,720,292	12,358,135	1,362,157
Insurances	90,378	76,551	62,952	229,881	3,542,737	3,772,618	3,572,458	200,160
Equipments	4,587	-	-	4,587	129,845	134,432	129,845	4,587
	-	-	-	-	9,492	9,492	9,492	-
Total loans	\$ 4,071,152	\$ 4,739,558	\$ 5,121,900	\$ 13,932,610	\$ 249,462,787	\$ 263,395,397	\$ 250,324,457	\$ 13,070,940

Below are the types of loans that compose consumer loans ranked by credit scores at the time of granting at June 30, 2015 and 2014:

June 30, 2015	Credit Score				Otros
	< 600	601 - 650	651 - 700	701 +	
Personal	\$ 5,889,331	\$ 6,843,287	\$ 14,683,030	\$ 40,340,308	\$ 31,488,652
Mortgages	10,151,893	10,435,477	17,740,957	59,783,105	29,038,588
Restructured Mortgages	1,561,334	1,123,639	554,907	2,027,028	1,558,088
Restructured Auto	1,601,818	654,519	591,364	686,368	559,363
Emergency	346,350	651,396	1,291,614	3,269,892	4,363,190
Credit cards	1,564,302	1,608,340	2,146,393	2,610,665	4,541,356
Insurances	323,899	248,540	563,531	1,307,173	1,369,529
Equipments	1,163	886	3,001	7,224	56,882
	1,642	756	2,669	2,177	4,338
Total loans	\$ 21,441,732	\$ 21,566,840	\$ 37,577,466	\$ 110,033,940	\$ 72,979,986

June 30, 2014	Credit Score				Otros
	< 600	601 - 650	651 - 700	701 +	
Personal	\$ 8,685,341	\$ 8,045,456	\$ 16,316,537	\$ 44,180,295	\$ 21,320,907
Mortgages	12,454,521	11,406,993	18,635,184	64,031,403	23,176,591
Restructured Mortgages	1,781,135	1,467,794	521,150	1,761,200	1,506,546
Restructured Auto	728,612	250,694	154,889	251,756	132,559
Emergency	453,585	774,922	1,323,839	4,075,830	2,320,824
Credit cards	2,399,775	1,879,217	2,644,912	3,209,017	3,587,371
Insurances	320,496	245,929	557,611	1,293,441	1,355,141
Equipments	1,403	5,897	4,808	15,375	106,949
	1,070	494	3,866	2,438	1,624
Total loans	\$ 26,825,938	\$ 24,077,396	\$ 40,162,796	\$ 118,820,755	\$ 53,508,512



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

Loan to value is the ratio that compares the principal balance of the value of the collateral at the time of granting. Below is the distribution of the mortgage loan portfolio according to the proportion above. In recent years the real estate market has experienced lower residential property values in them. The proportion of loans to value does not necessarily reflect the repayment enforceable in the same but provides an indicator of the value of the collateral and exposure of the Cooperative. In the event that the loan can not be recovered, the loss would assume the cooperative is limited to the excess of the net realizable value of the property compared to the loan balance. The loan to value at June 30, 2015 and 2014:

June 30, 2015	Balance of Loan to Value (LTV)				Total
	0 – 80%	81% – 90%	90% – 100%	> 100%	
First mortgages	\$ 91,881,768	\$ 25,613,004	\$ 1,765,215	\$ 7,890,033	\$ 127,150,020
Restructured Mortgages	2,972,365	3,236,085	-	616,546	6,824,996
Total loans	\$ 94,854,133	\$ 28,849,089	\$ 1,765,215	\$ 8,506,579	\$ 133,975,016

June 30, 2014	Balance of Loan to Value (LTV)				Total
	0 – 80%	81% – 90%	90% – 100%	> 100%	
First mortgages	\$ 95,959,742	\$ 26,754,073	\$ 934,236	\$ 6,056,641	\$ 129,704,692
Restructured Mortgages	3,489,093	3,135,853	-	412,879	7,037,825
Total loans	\$ 99,448,835	\$ 29,889,926	\$ 934,236	\$ 6,469,520	\$ 136,742,517

DELINQUENT LOANS

Below is the portfolio of delinquent loans by type of loan and the allocated reserve at June 30, 2015 and 2015:

June 30, 2014	Principal Balance Unpaid	Allocated Reserve
Commercial:		
Commercial	\$ -	\$ -
Total commercial	-	-
Consumers:		
Personal	\$ 5,351,284	\$ 3,070,078
Mortgages	3,400,467	608,645
Restructured Mortgages	738,500	149,624
Restructured	600,530	310,204
Autos	39,586	39,393
Emergency	1,455,666	840,127
Credit cards	262,088	130,680
Insurance	4,328	4,205
Equipments	2,226	431
Total consumer	\$ 11,854,675	\$ 5,153,387
Total delinquent loans	\$ 11,854,675	\$ 5,153,387



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

Below is the portfolio of delinquent loans by type of loan and the allocated reserve at June 30, 2015 and 2014:

June 30, 2014	Principal Balance Unpaid	Allocated Reserve
Commercial:		
Commercial	\$ 387,390	\$ 62,260
Total commercial	387,390	62,260
Consumers:		
Personal	\$ 7,640,888	3,496,628
Mortgages	3,737,430	685,032
Restructured Mortgages	531,230	151,509
Restructured	147,895	38,595
Autos	137,073	28,211
Emergency	1,503,626	625,015
Credit cards	229,881	119,303
Equipments	4,587	616
Total consumer	13,932,610	5,144,909
Total delinquent loans	<u>\$ 14,320,000</u>	<u>\$ 5,207,169</u>

Below is the summary of loans modified and classified as restructured and those restructured that after granting entered in delinquencies for the years ended June 30, 2015 and 2014:

	Loans restructured			Past due restructured loans		
	Number of loans	Principal Balance	Allocated Reserva	Number of loans	Principal Balance	Allocated Reserva
June 30, 2015						
Restructured Mortgages	47	\$ 6,824,996	\$ 1,689,708	4	\$ 738,500	\$ 149,624
Restructured	242	4,093,432	456,717	32	600,530	310,204
Total loans	<u>289</u>	<u>\$ 10,918,428</u>	<u>\$ 2,146,425</u>	<u>36</u>	<u>\$ 1,339,030</u>	<u>\$ 459,828</u>
June 30, 2014						
Restructured Mortgages	48	\$ 7,037,825	\$ 596,113	3	\$ 531,230	\$ 151,509
Restructured	85	1,518,510	94,962	8	147,895	38,595
Total loans	<u>133</u>	<u>\$ 8,556,335</u>	<u>\$ 691,075</u>	<u>11</u>	<u>\$ 679,125</u>	<u>\$ 190,104</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014**

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

Following is a summary of the type of concession granted to restructured loans for the years ended June 30, 2015 and 2014:

June 30, 2015	Interest Rate and Expiration Date	Principal Reduction	Others	Total
Restructured Mortgages	\$ 6,824,996			\$ 6,824,996
Restructured	4,093,432	\$ -	\$ -	4,093,432
Total loans	<u>\$ 10,918,428</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,918,428</u>
June 30, 2014	Interest Rate and Expiration Date	Principal Reduction	Others	Total
Restructured Mortgages	\$ 7,037,825			\$ 7,037,825
Restructured	1,518,510	\$ -	\$ -	1,518,510
Total loans	<u>\$ 8,556,335</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,556,335</u>

4- DEPOSITS

At June 30, 2015 and 2014 member regular savings accounts earn interest at annual percentage of 1.50%, computed daily. For nonmembers annual interest regular savings accounts are .50%. It is the policy of the Cooperative to allow withdrawals from savings accounts in any working day of it. However, when the Board of Directors deems necessary, may require members to notify their intention to withdraw up to thirty (30) days in advance.

The percent interest in the certificates varies according to the market interest rate, the amount and timing to negotiate. Savings balances maintained in the Christmas and Summers plans pay a 2.50% annual interest. Usually these deposits are removed in October and May of each year.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014**

4- DEPOSITS (CONTINUED)

The Cooperative also maintains as part of other services to its members "Share Draft" with the Cooperative Bank. The Cooperative will be responsible for all risks associated with the operation of the accounts of orders including, but not limited to, customer acceptance, account opening, accepting account deposits, retentions fixing deposited checks, overdrafts, customer's credit record and all the risks inherent in this type of service. Administration costs of this account shall be borne by the Cooperative. The Cooperative will set the customer service charge. The Cooperative shall determine the representative service charge in exchange and / or return of checks in line with the regulations of the Clearing House Association PR. The Cooperative will maintain a master account with the bank whose balance will remain at 10% of the sum of all account balances of payment orders from the Cooperative Bank and 100% of all authorized overdrafts. The current account balance not reflected in books at June 30, 2015 and 2014 is \$ 479,146 and \$749,338, respectively.

5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES

Cooperatives entities

Shares in cooperative entities and contributions as of June 30, 2015 and 2014 consist of the following:

<u>Description:</u>	<u>2015</u>	<u>2014</u>
COSSEC (Note 1)	\$ 6,140,507	\$ 5,961,657
Cooperativa de Seguros de Vida	851,250	851,244
Cooperativa de Seguros Múltiples	105,043	100,520
Liga de cooperativas	1,012	1,011
FIDECoop	1,285,089	1,061,670
Banco Cooperativo	638,796	605,234
Others Cooperatives	87,050	87,050
Total investment in shares of Cooperatives entities	\$ 9,108,747	\$ 8,668,386

The regulations of these cooperatives include clauses that limit the total investment withdrawal without notice to the member, when the financial situation of these warrants.

Participation in COSSEC involves maintaining a capital contribution equal to 1% of the total shares and deposits held by the Cooperative as of June 30 of each year. At June 30, 2015 and 2014 the capitals amounted to contribution required.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES (CONTINUED)

Marketable Securities

The Cooperative accounts for investment in accordance with the requirements of ASC 942-320 (formerly SFAS No. 115), Investments - Debt and Equity Instruments and classified them as held to maturity. At June 30, 2015 and 2014, investments were as follows:

<u>Type of investments</u>	<u>2015</u>		
	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Federal Farm Credit Bks (FFCB)	\$ 14,295,000	(\$ 265,831)	\$ 14,029,169
Federal Home Loan Bank Systems	34,364,839	(521,252)	33,843,587
Federal National Mortgage Association (FNMA)	38,550,000	(1,285,058)	37,264,942
P.R. Agencies Securities	65,240,000	(27,857,368)	37,382,632
Other Government Securities	50,385,000	468,903	50,853,903
	<u>\$ 202,834,839</u>	<u>(\$ 29,460,606)</u>	<u>\$ 173,374,233</u>

<u>Type of investments</u>	<u>2014</u>		
	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Federal Farm Credit Bks (FFCB)	\$ 8,995,000	(\$ 521,036)	\$ 8,473,964
Federal Home Loan Bank Systems	22,104,839	(808,247)	21,296,592
Federal National Mortgage Association (FNMA)	32,400,000	(2,166,422)	30,233,578
P.R. Agencies Securities	90,460,000	(11,495,683)	78,964,317
Other Government Securities	54,270,590	(123,517)	54,147,073
	<u>\$ 208,230,429</u>	<u>(\$ 15,114,905)</u>	<u>\$ 193,115,524</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES (CONTINUED)

Marketable Securities

As of June 30, 2015, the cooperative maintained its investments in the following brokerage firms:

	<u>2015</u>	
<u>Type of investments</u>	<u>Amortized Cost</u>	<u>Market Value</u>
UBS Financial Services	\$ 31,340,000	\$ 15,857,421
Popular Securities	46,845,000	37,790,401
Merrill Lynch	25,444,839	23,910,199
Kovak Securities	12,300,000	12,424,508
IFS Securities	18,150,000	17,957,690
Santander Securities	2,000,000	940,880
RD Capital	15,705,000	14,633,911
Multi-Bank Securities	41,790,000	40,705,648
Capital Guardian, LLC	9,260,000	9,153,575
	<u>\$ 202,834,839</u>	<u>\$ 173,374,233</u>

The amortized cost and estimated market value of investment securities at June 30, 2015 by maturity, is presented below. Expected maturities of investments may differ from the original contract because the borrower has the right to cancel the obligation or pre-pay.

<u>Maturity</u>	<u>Amortized Cost</u>	<u>Market Value</u>
One year or less	\$ 16,395,000	\$ 12,935,142
More than one to five years	7,000,000	3,626,290
More than five years to ten years	66,465,000	66,399,589
More than ten years	112,974,839	90,413,212
	<u>\$ 202,834,839</u>	<u>\$ 173,374,233</u>

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Cooperative to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES (CONTINUED)

Marketable Securities

As of June 30, 2015, the cooperative has approximately \$65,240,000 in bonds issued by the Commonwealth of Puerto Rico with scheduled maturities during the next 14 years. Such investments are classified as Held to Maturity (HTM), an accounting classification that registers the investment at its carried amortized cost. Due to market perspectives about the issuer, at June 30, 2015 the subject bonds reflected an unrealized loss approximately \$27,857,368. Because of recent downgrades in the rating of the Commonwealth's debt, it is understood that the unrealized loss estimate will continue experiencing fluctuations.

Cooperative's management evaluated, under current circumstances, the recognition of other than temporary impairment (OTTI) is required. It is management understanding that the accounting treatment given by Cooperative is adequate, therefore it is not required the recognition of an adjustment to provide for other than temporary impairment bases on the following:

- Cooperative is well capitalized with adequate liquidity, hence not forcing to dispose the investment in bonds of the Commonwealth of Puerto Rico, before its scheduled maturity.
- Management do not have available any other information that might indicate that the issuer will not be able to repay the subject obligations at maturity.

Notwithstanding the above, Cooperative's management and the Board of Directors will continue their monitoring of the related portfolio.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

6- PROPERTY AND EQUIPMENT

As of June 30, 2015 and 2014 the property and equipments consists of the following:

<u>Description:</u>	<u>2015</u>	<u>2014</u>
Building and improvements	\$ 6,382,046	\$ 4,775,010
Auto	68,182	39,995
Furniture and equipment	<u>3,247,143</u>	<u>2,742,189</u>
	9,697,371	7,557,194
Less accumulated depreciation	<u>(4,208,885)</u>	<u>(3,801,986)</u>
	5,488,486	3,755,208
Land	<u>175,000</u>	<u>175,000</u>
	<u><u>\$ 5,663,486</u></u>	<u><u>\$ 3,930,208</u></u>

7 - CONCENTRATION OF RISK

The Cooperative maintains cash accounts in several banks and cooperative entities in Puerto Rico. The accounts in banks are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$ 250,000 and accounts in cooperative institutions are insured up to \$ 250,000 COSSEC. At June 30, 2015 and 2014 stood at over cooperative housing banks and cooperatives in the amount of \$140,783,685 and \$ 117,772,503, respectively.

8 - MARKET VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, accrued interest receivable and payable Accrued expenses and other

The book value of cash and cash equivalents, accrued interest receivable and accrued expenses and other payables approximates their market value due to the short term nature of these instruments.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014**

8 - MARKET VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Loans Receivable

The market value of loans receivable is based on the discounted value of future cash flows expected to be received for a loan or group of loans using current rates at which similar loans could be made to borrowers with similar credit ratings and the same remaining maturities. This method considers changes in interest rates and changes in credit risk within the chosen discount rate. A particular interest rate can be applied to homogeneous categories of loans, such as credit cards and car loans and mortgage loans.

Investments in commercial paper and certificates of savings

The market value of investments in commercial paper and certificates of savings (with a maturity greater than three months) was determined using the quoted market prices for these types of investments.

Deposits and shares

The market value of deposits from members and nonmembers constant maturity is estimated using rates currently offered for deposits with similar remaining maturities. The market value of deposits with no fixed maturity and shares is the amount payable on demand at the reporting date.

The book value and estimated market value of the financial instruments of the Cooperative to June 30, 2015 and 2014 are as follows:

	<u>Book Value</u>		<u>Market Values</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Assets:				
Loans, net	\$260,434,554	\$262,184,086	\$260,434,554	\$262,184,086
Cash and cash equivalents	\$ 59,087,490	\$ 52,137,517	\$ 59,087,490	\$ 52,137,517
Investments in marketable securities and certificate of deposits	\$290,645,134	\$282,165,594	\$261,184,528	\$267,050,689
Liabilities and Members' Equity				
Deposits	\$344,706,347	\$342,796,360	\$344,706,347	\$342,796,360
Accounts payable and Accrued expenses	\$ 2,116,158	\$ 2,211,033	\$ 2,116,158	\$ 2,211,033
Shares	\$249,805,535	\$235,598,920	\$249,805,535	\$235,598,920



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014**

9- COMMITMENTS AND CONTINGENCIES

Commitment to extend credit

As of June 30, 2015 and 2014, the Cooperative had committed to extend credit or had approved but not disbursed, loans and lines of credit that are not reflected in its financial statements, related to their program of MasterCard amounting to \$3,582,083 and \$3,688,828, respectively.

Rent agreement

On September 24, 2010 the Cooperative signed a lease for a term of five (5) years for a facility in Mayaguez Mall Commercial Center, where they opened a new branch. This contract provides for a fee of \$ 3,868 monthly rent for the first five (5) years until 31 December 2015. Future minimum payments for the years ended June 30, under this lease is as follows:

For the year ended June 30:

2016	\$ 23,208
	\$ 23,208

Legal Actions

The Cooperative is involved in various legal actions commonly associated with financial institutions of their nature. The total effect of these, based on the opinion of management and its legal counsel is not, nor will be, significant to the financial statements of the Cooperative.

10 - OTHERS ASSETS

As of June 30, 2015 and 2014 other assets were as follows:

<u>Description:</u>	<u>2015</u>	<u>2014</u>
Office supplies	\$ 20,047	\$ 34,744
Foreclosed properties, net of reserves	5,571,403	4,482,745
Deposits	40,455	40,455
Others	25,300	11,500
	\$ 5,657,205	\$ 4,569,444



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014**

11 - ACCOUNTS PAYABLES AND ACCRUED EXPENSES

As of June 30, 2015 and 2014 accounts payable and accrued expenses were as follows:

<u>Description:</u>	<u>2015</u>	<u>2014</u>
Unclaimed funds	\$ 449,173	\$ 416,474
Mortgage Origination fees	66,715	72,025
Manager checks and money orders	37,493	49,988
Vacations	278,135	270,576
Withholding of mortgage property insurance	602,749	531,158
Accrued interest payable	212,997	257,371
Others accounts and accrued expenses	468,896	613,441
	<u>\$ 2,116,158</u>	<u>\$ 2,211,033</u>

12 - INDIVISIBLE CAPITAL

Law No. 255, Article 6.02, stipulates that Credit Union will maintain a reserve of non distributable capital known as indivisible capital. Thirty five percent (35%) of this reserve will be kept in liquid accounts.

Starting on February 1, 2006 Law No. 58 amends Law No. 255 stipulating that the levels of indivisible capital that credit unions must achieve in respect to accounts subject to risk will be the following:

- by December 31, 2005, a minimum of 5.5%
- by December 31, 2006, a minimum of 6.0%
- by December 31, 2007, a minimum of 6.5%
- by December 31, 2008, a minimum of 7.0%
- by December 31, 2009, a minimum of 7.5%
- by December 31, 2010, a minimum of 8.0%

Starting January 1, 2011 all Credit Unions must maintain a minimum indivisible capital of eight percent (8%) of the total of the accounts subject to risk. Failure to meet minimum capital requirements can initiate certain mandatory- and possibly additional discretionary- actions by regulator that, if undertaken, could have a direct material effect on the Credit Union's financial statements.

The Cooperativa de Ahorro y Crédito de Rincón has a 18.09% and 17.66%, level of indivisible capital at June 30, 2015 and 2014, respectively.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

13- MEDICAL INSURANCE

The Cooperative provides medical insurance for its employees. It provides 80% of the premium costs for employees covered by the family plan and 100% of the premium costs for employees covered by the individual plan. The medical insurance expenses for the years ended June 30, 2015 and 2014 were \$282,103 and \$273,261, respectively.

14- LINE OF CREDIT

Unused line of credit with a commercial bank for the amount of \$6,000,000; collateralized by certified of deposits. This line will bear interest at 4.25% on the balance owed. This agreement expires in September 2014. At June 30, 2015 the cooperative had no outstanding balance on it.

15 - PENSION PLAN

The plan is a defined contribution plan (401-K) covering all of the credit union employees. Employees are required to contribute up to 10% of their salaries to the plan. The credit union contribution to the plan for the year ended June 30, 2015 and 2014 amounted to \$283,745 and \$238,649, respectively.

16 - PROMOTION

The promotion campaign expenses are recognized in the year incurred; the promotional expenses for this year amounted to \$354,442 and \$327,398, respectively.

17 - RECLASSIFICATIONS

Certain reclassifications were made to the financial statements of 2014 to agree with the presentation adopted in the financial statements of 2015.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2015 AND 2014

18 -SUBSEQUENT EVENTS

For the year ended June 30, 2015, the Cooperative adopted ASC 855 ("formerly FASB 165"), related to subsequent events. ASC 855 establishes general standards for accounting and disclosure of events that occur after the date of the reporting, but before the date of the financial statements. Specifically, sets the period after the date of the Balance during which management should evaluate the Cooperative events or transactions that may occur and need to be recorded or disclosed in the financial statements, the circumstances under which the Cooperative should recognize and publicize these events, and the type of disclosure that should be offered to these events that occurred after the date of the Balance.

In accordance with ASC 855, the Cooperative evaluated its subsequent events until August 27, 2015, the date these financial statements were ready to be issued. Cooperative management understands that there is no material event occurred subsequent to June 30, 2015 required to be registered or you need additional disclosure in the financial statements.



SUPPLEMENTARY INFORMATION



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>	<u>VARIANCE</u>
Loans interest	\$ 18,633,391	\$ 18,669,009	(\$ 35,618)
Less: credits reports costs	(39,648)	(34,177)	(5,471)
Interest and loans commissions	18,593,743	18,634,832	(41,089)
Savings and certificates of deposits interest	1,507,754	2,060,058	(552,304)
Dividends	217,178	199,769	17,409
Investments interest	7,894,585	8,434,823	(540,238)
Interest and dividends from investments	8,111,763	8,634,592	(522,829)
TOTAL INTEREST INCOME	28,213,260	29,329,482	(1,116,222)
Deposits	2,210,426	1,895,352	315,074
Certificates of deposits	2,404,274	2,972,941	(568,667)
TOTAL INTEREST EXPENSE	4,614,700	4,868,293	(253,593)
Net interest income before			
Provision for uncollectible loans	23,598,560	24,461,189	(862,629)
Less: Provision for uncollectible loans	(4,506,485)	(4,412,125)	(94,360)
NET INTEREST INCOME	19,092,075	20,049,064	(956,989)
Salaries, vacations and bonus	2,784,511	2,526,900	257,611
Payroll taxes	288,806	248,649	40,157
Medical insurance	282,103	273,261	8,842
Pension plan	283,745	238,649	45,096
Others benefits	14,192	25,123	(10,931)
Salaries and related expenses	3,653,357	3,312,582	340,775
Audit	20,000	20,000	-
Others	445,030	402,103	42,927
Professional services	465,030	422,103	42,927
Promotion and ads	354,442	327,398	27,044
Cooperative education	27,422	35,061	(7,639)
Seminars	30,072	33,367	(3,295)
Donations	31,499	41,776	(10,277)
Promotion and cooperative education	443,435	437,602	5,833
Depreciation	404,654	394,897	9,757
Repairs and maintenance	268,171	281,197	(13,026)
Rents	73,133	69,831	3,302
Facilities, equipments and maintenance	745,958	745,925	33



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015 AND 2014**

	<u>2015</u>	<u>2014</u>	<u>VARIANCE</u>
Office supplies	\$ 216,263	\$ 156,122	\$ 60,141
Telephone and fax	157,809	144,808	13,001
Utilities	235,093	243,574	(8,481)
Postages and meters	188,415	150,601	37,814
Office supplies and others	<u>797,580</u>	<u>695,105</u>	<u>102,475</u>
COSSEC insurance	1,425,029	1,332,991	92,038
Members insurance	962,142	962,616	(474)
Surety insurance	249,747	230,418	19,329
Equipments insurance	62,919	58,318	4,601
Others insurance	61,109	50,124	10,985
Insurance and surety	<u>2,760,946</u>	<u>2,634,467</u>	<u>126,479</u>
Annual meeting	198,647	185,529	13,118
Per diem Board of directors and committees	78,717	78,880	(163)
Meetings Board of directors and committees	214,493	184,260	30,233
Board of Directors and comités	<u>491,857</u>	<u>448,669</u>	<u>43,188</u>
Bank charges	62,665	68,542	(5,877)
Representation	82,231	66,640	15,591
Dues	14,745	10,091	4,654
Taxes	100,463	40,026	60,437
Others	72,326	79,645	(7,319)
Others and miscellaneous	<u>332,430</u>	<u>264,944</u>	<u>67,486</u>
Total operating, general and administratives expenses	<u>9,690,593</u>	<u>8,961,397</u>	<u>729,196</u>
INCOME FROM OPERATIONS	<u>9,401,482</u>	<u>11,087,667</u>	<u>(1,686,185)</u>
OTHERS INCOME / (EXPENSES):			
Share draft accounts	11,536	14,140	(2,604)
Less: related expenses	(43,468)	(32,483)	(10,985)
Share draft expenses, net	<u>(31,932)</u>	<u>(18,343)</u>	<u>(13,589)</u>
Money orders, and utilities commissions	43,506	47,143	(3,637)
Mortgages commissions	226,487	246,688	(20,201)
Money orders and services commissions	<u>269,993</u>	<u>293,831</u>	<u>(23,838)</u>
ATM income	144,590	134,187	10,403
Less: related expenses	(108,079)	(87,551)	(20,528)
ATM income, net	<u>36,511</u>	<u>46,636</u>	<u>(10,125)</u>
Late fees from loans	268,321	244,737	23,584
Loan cancellation charges	8,440	9,611	(1,171)
Gain on assets disposal	114,993	-	114,993
Miscellaneous	63,073	58,401	4,672
Others income	<u>454,827</u>	<u>312,749</u>	<u>142,078</u>
MasterCard income	113,889	112,622	1,267
Less: related expenses	(123,660)	(141,262)	17,602
MasterCard expenses, net	<u>(9,771)</u>	<u>(28,640)</u>	<u>18,869</u>
Loss on assets disposal	<u>(747,360)</u>	<u>(613,972)</u>	<u>(133,388)</u>
TOTAL OTHERS INCOME	<u>(27,732)</u>	<u>(7,739)</u>	<u>(19,993)</u>
NET INCOME	<u>\$ 9,373,750</u>	<u>\$ 11,079,928</u>	<u>(\$ 1,706,178)</u>

