

**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
AUDITED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**



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

INDEPENDENT AUDITOR'S REPORT

I audited the accompanying balance sheet of Cooperativa de Ahorro y Crédito de Rincón as of June 30, 2012, and the related statements of Income, changes in member's equity and cash flows for the year then ended. These financial statements are the responsibility of the Administration of the Cooperative. My responsibility is to express an opinion on these financial statements based on my audit. The financial statements of the Cooperative as of June 30, 2011 were audited by another auditor whose report dated August 30, 2011, issued a qualified opinion. The information for the year is presented for comparative purposes only and some items were reclassified for comparative purposes of presentation, which led changes in financial position and the results of its activities for the year presented.

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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my 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.

**Board of Directors
Cooperativa de Ahorro y Crédito
de Rincón
Rincón, Puerto Rico
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The effect of this difference in presentation increases the member's participation and decreases the debts by \$227,840,340 and \$193,427,460 for the years ended June 30, 2012 and 2011 respectively. The net income also decreases by \$7,988,348 and \$7,738,851 for the years ended June 30, 2012 and 2011 respectively.

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 present, 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 year ended June 30, 2012 in conformity with the generally accepted accounting principles used in the United States of America and Puerto Rico.

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 31 and 32 is presented for purposes of additional analysis and is not a require 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.



A handwritten signature in blue ink that reads 'Jesus M. Mora'.

September 7, 2012
Guaynabo, Puerto Rico

License Num. 4290
Expiration date December 1, 2013.

Stamp # E44830 from the
Puerto Rico Society of CPA's
was affixed to the original.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
ASSETS		
LOANS RECEIVABLE , net of provision for uncollectible loans (Notes 1 and 3)	\$ 256,185,400	\$ 249,662,627
CASH IN HAND AND IN BANKS (NOTES 1 AND 2):	65,678,666	54,351,257
CERTIFICATES OF DEPOSIT (Maturity in three Months or less) (Note 2)	93,026,165	106,295,739
INVESTEMENTS (NOTES 1 AND 5): Investments in securities classified as Held-to maturity Cooperative entities	160,445,000 <u>7,807,414</u> 168,252,414	128,144,886 <u>7,057,822</u> 135,202,708
PROPERTY AND EQUIPMENT, NET (NOTES 1 AND 6)	4,116,235	4,181,916
OTHER ASSETS:		
Interest receivable	2,130,514	2,470,288
Accounts receivable	175,922	168,820
Prepaid expenses	118,955	113,947
Others (NOTE 10)	<u>2,030,093</u>	<u>1,905,360</u>
	<u>4,455,484</u>	<u>4,658,415</u>
Total assets	<u>\$ 591,714,364</u>	<u>\$ 554,352,662</u>

LIABILITIES AND MEMBERS' EQUITY

LIABILITES

DEPOSITS (NOTE 4):		
Savings accounts	\$ 128,070,259	\$ 102,979,624
Certificates of deposits	201,056,184	226,345,396
Christmas and Summers savings plan	<u>1,413,251</u>	<u>485,132</u>
Total deposits	330,539,694	329,810,152
ACCOUNTS PAYABLE AND ACCRUED EXPENSES (NOTE 11)	<u>2,367,459</u>	<u>2,153,317</u>
Total liabilities	<u>332,907,153</u>	<u>331,963,469</u>

MEMBERS' EQUITY (NOTE 1)

Shares, par value \$10	227,840,340	193,427,460
Indivisible Capital	20,282,609	18,774,207
Technological development reserve	1,000,000	811,646
Contingency reserve	1,500,000	1,325,000
Undistributed earnings	<u>8,184,262</u>	<u>8,050,880</u>
Total Members' Equity	<u>258,807,211</u>	<u>222,389,193</u>
Total Liabilities and Members' Equity	<u>\$ 591,714,364</u>	<u>\$ 554,352,662</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
INTEREST INCOME:		
Loans	\$ 18,405,357	\$ 18,951,053
Certificates and savings accounts	3,787,036	4,336,046
Investments	6,521,488	5,288,206
	<u>28,713,881</u>	<u>28,575,305</u>
INTEREST EXPENSE:		
Deposits	2,080,761	1,899,770
Certificates of deposits	5,122,855	6,438,816
	<u>7,203,616</u>	<u>8,338,586</u>
NET INTEREST INCOME BEFORE PROVISION FOR UNCOLLECTIBLE LOANS	21,510,265	20,236,719
PROVISION FOR UNCOLLECTIBLE LOANS	<u>3,000,000</u>	<u>3,110,303</u>
NET INTEREST INCOME AFTER PROVISION FOR UNCOLLECTIBLE LOANS	<u>18,510,265</u>	<u>17,126,416</u>
OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries and related expenses	2,990,417	2,893,527
Professional Services	183,190	181,000
Promotion and cooperative education	522,644	507,888
Facilities, equipment and maintenance	601,714	486,633
Effects and other office expenses	691,568	534,837
Insurances	2,597,806	2,283,725
Board of Directors and Committees expenses	422,665	351,829
Others and Miscellaneous	174,926	120,417
	<u>8,184,930</u>	<u>7,359,856</u>
INCOME FROM OPERATIONS	10,325,335	9,766,560
OTHER INCOME / (EXPENSES):		
Money orders, mortgages and services commissions	292,759	223,381
MasterCard expenses– net	(16,761)	(27,149)
Share Draft, net	(14,232)	(12,008)
ATM income, net	52,234	39,044
Loss on assets disposal	(399,889)	(229,632)
Other income	345,836	322,096
	<u>259,947</u>	<u>315,732</u>
NET INCOME BEFORE INCOME TAX EXPENSES	10,585,282	10,082,292
INCOME TAX EXPENSES (NOTE 1)	<u>529,264</u>	<u>504,115</u>
NET INCOME AFTER INCOME TAX EXPENSES	<u>\$ 10,056,018</u>	<u>\$ 9,578,177</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, 2012 AND 2011**

	<u>Shares</u>	<u>Indivisible Capital Reserve</u>	<u>Technological Development Reserve</u>	<u>Contingency Reserve</u>	<u>New Branch Reserve</u>	<u>Undistributed Earnings</u>	<u>Total</u>
BALANCE JUNE 30, 2010	\$ 156,700,664	\$ 16,858,571	\$ 600,000	\$ 1,325,000	\$ 600,000	\$ 7,796,647	\$ 183,880,882
Additional investments by members	57,658,654	-	-	-	-	-	57,658,654
Withdrawals by members	(28,690,709)	-	-	-	-	-	(28,690,709)
Withheld from net income to reserves	-	-	211,646	-	(211,646)	-	-
Withheld for reserves	-	1,915,636	-	-	-	(1,915,636)	-
Use of reserve	-	-	-	-	(388,354)	388,354	-
Transfer to accounts payable	-	-	-	-	-	(37,811)	(37,811)
Capitalized net income	7,758,851	-	-	-	-	(7,758,851)	-
Net income for the year	-	-	-	-	-	9,578,177	9,578,177
BALANCE JUNE 30, 2011	193,427,460	18,774,207	811,646	1,325,000	-	8,050,880	222,389,193
Additional investments by members	60,054,034	-	-	-	-	-	60,054,034
Withdrawals by members	(33,629,502)	-	-	-	-	-	(33,629,502)
Withheld from net income to reserves	-	-	188,354	175,000	-	(363,354)	-
Withheld for reserves	-	1,508,402	-	-	-	(1,508,402)	-
Transfer to accounts payable	-	-	-	-	-	(62,532)	(62,532)
Capitalized net income	7,988,348	-	-	-	-	(7,988,348)	-
Net income for the year	-	-	-	-	-	10,056,018	10,056,018
BALANCE JUNE 30, 2012	<u>\$ 227,840,340</u>	<u>\$ 20,282,609</u>	<u>\$ 1,000,000</u>	<u>\$ 1,500,000</u>	<u>\$ -</u>	<u>\$ 8,184,262</u>	<u>\$ 258,807,211</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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 10,056,018	\$ 9,578,177
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	336,633	291,051
Provision for uncollectible accounts	3,000,000	3,110,303
Capitalized dividends in cooperative entities	(125,959)	(23,987)
(Increase) / decrease in other assets	(196,958)	333,536
Loss on foreclosed properties	399,889	229,632
Gain on assets disposition	(2,577)	(846)
Increase / (Decrease) in:		
Accounts payable and accrued expenses	151,610	(177,587)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,618,656	13,340,279
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans	(9,522,773)	(6,085,891)
(Increase) Decrease in certificates of deposit (more than three months)	13,269,574	(3,230,574)
Increase in investments in other cooperatives	(623,633)	(480,526)
Increase in marketable securities	(32,300,114)	(45,470,625)
Investment in property and equipment	(268,375)	(514,203)
NET CASH USED IN INVESTING ACTIVITIES	(29,445,321)	(55,781,819)

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in deposits	729,542	13,477,531
Share investment by members	60,054,034	57,658,654
Share redeemed by members	<u>(33,629,502)</u>	<u>(28,690,709)</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	<u>27,154,074</u>	<u>42,445,476</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	11,327,409	3,936
CASH AND CASH EQUIVALENTS AT BEGINNING	<u>54,351,257</u>	<u>54,347,321</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	<u><u>\$ 65,678,666</u></u>	<u><u>\$ 54,351,257</u></u>
SUPPLEMENTARY INFORMATION:		
Interest payments	<u>\$ 7,263,930</u>	<u>\$ 8,474,353</u>
SUPPLEMENTARY INFORMATION ON INVESTMENT AND FINANCING ACTIVITY THAT DOES NOT AFFECT CASH:		
Capitalized net income	<u>\$ 7,988,348</u>	<u>\$ 7,758,851</u>
Withheld from net income to Indivisible Capital Reserve	<u>\$ 1,508,402</u>	<u>\$ 1,915,636</u>
Transfer from net income to accounts payable	<u>\$ 62,532</u>	<u>\$ 37,811</u>
Transfer / (use) reserve to undistributed earnings	<u>\$ 363,354</u>	<u>(\$ 388,354)</u>



The accompanying notes are an integral part of these statements.

COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012 AND 2011

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, 2012 AND 2011

**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, 2012 AND 2011

**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, 2012 and 2011 are \$2,957,560 and \$2,652,203, respectively.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

**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, 2012 AND 2011

**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 .20% and .41% of the total shares and deposits as of June 30th of each year, depending on the CAEL classification determined.

As of June 30, 2012 and 2011 the Credit Union has paid a total investment of \$5,418,385 and annual premium of \$1,388,186.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

**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. 7 OF MARCH 9, 2009

Law no. 7, as amended, was approved March 9, 2009. This law is known as "Special Law Declaring a State of Fiscal Emergency and Establishing an integral plan of fiscal stability to save the credit of Puerto Rico". The law stipulates a special contribution of five percent (5%) over all Credit Unions that have a net income of \$250,000 or more. The special contribution will be calculated over the established net economies in conformity with the dispositions of Law 285.

This law will be valid starting January 1, 2009 and will end December 31, 2011, unless the predetermined amount of \$690,000,000 is reached before this time. The predetermined amount was stipulated in Section 15 of Law 37 of July 10, 2009.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

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, 2012 and 2011, the amount of \$57,196,770 and \$55,198,890, respectively in certificates, savings accounts and investment securities that are not available to be used in current and normal operations, as follows:

	<u>2012</u>	<u>2011</u>
<u>Liquidity Required</u>		
Indivisible capital reserve (35%)	\$ 7,098,913	\$ 6,570,972
Deposits on demand, net of pledged deposits (15%)	18,018,429	14,356,370
Certificates of deposits, net of crossed Investments with matures of:		
- in 30 days (25%)	5,183,817	3,531,424
- more than 30 days (15%)	25,894,487	30,407,955
Deposits for determinated events:		
Chistmas-Coop (8.33% x 9 months)	984,320	323,118
Summer-Coop (8.33% x 2 months)	16,804	9,051
Total required liquidity	57,196,770	55,198,890
<u>Liquidity Available</u>		
Liquids funds available:		
Certificates of deposits	79,335,165	90,795,739
Cash and cheking accounts	65,678,666	54,351,257
Investments in securities	163,638,149	128,859,882
Interest receivable	919,489	809,002
Total available liquidity	309,571,469	274,815,880
Excess of liquid funds over those required by law	\$ 252,374,699	\$ 219,616,990



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS

The loan portfolio consists of the following types at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
<u>Commercial:</u>		
Commercial	\$ 5,530,585	\$ 4,657,681
Non profit organization	<u>1,018,440</u>	<u>1,030,930</u>
Total commercial	<u>6,549,025</u>	<u>5,688,611</u>
<u>Consumers:</u>		
Personal	83,102,486	74,548,697
Mortgages	139,998,317	139,928,321
Restructured	4,968,658	5,059,056
Auto	7,958,620	9,239,218
Emergency	14,593,212	15,305,345
Credit cards	3,867,355	3,893,780
Insurances	145,800	191,559
Equipments	<u>23,643</u>	<u>35,866</u>
Total consumers	<u>254,658,091</u>	<u>248,201,842</u>
Total loans	261,207,116	253,890,453
Less: provision for uncollectible loans (Note 1)	<u>(5,021,716)</u>	<u>(4,227,826)</u>
Total loans, net	<u>\$ 256,185,400</u>	<u>\$ 249,662,627</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

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

June 30, 2012	<u>Commerci</u> <u>al</u>	<u>Consumo</u>	<u>Total</u>
Balance, beginning of year	\$ 4,410	\$ 4,223,416	\$ 4,227,826
Provision for loans losses	3,677	2,996,323	3,000,000
Loans charged off	-	(2,378,724)	(2,378,724)
Recoveries	-	172,614	172,614
Balance at end of year	<u>\$ 8,087</u>	<u>\$ 5,013,629</u>	<u>\$ 5,021,716</u>
Individually evaluated for impairment	<u>\$ 309,620</u>	<u>\$ -</u>	<u>\$ 309,620</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 12,049,632</u>	<u>\$ 12,049,632</u>

June 30, 2011	<u>Commerci</u> <u>al</u>	<u>Consumo</u>	<u>Total</u>
Balance, beginning of year	\$ 4,410	\$ 3,812,127	\$ 3,816,537
Provision for loans losses	-	3,110,303	3,110,303
Loans charged off	-	(2,769,330)	(2,769,330)
Recoveries	-	70,316	70,316
Balance at end of year	<u>\$ 4,410</u>	<u>\$ 4,223,416</u>	<u>\$ 4,227,826</u>
Individually evaluated for impairment	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 13,556,733</u>	<u>\$ 13,556,733</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, 2012 and 2011, 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, 2012 AND 2011

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:

June 30, 2012	Pass	Special mention	Substandar	Total
commercial	\$ 5,530,585	\$ -	\$ -	\$ 5,530,585
Non profit organizations	1,018,440	-	-	1,018,440
Total commercial	<u>\$ 6,549,025</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,549,025</u>

The Cooperative monitors the aging of its commercial portfolio in order to manage credit risk. Below are the categories of aging commercial portfolio:

June 30, 2012	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	\$ 309,620			\$ 309,620	\$ 5,220,965	\$ 5,530,585	\$ 5,220,965	\$ 309,620
Non profit organizations	-	-	-	-	1,018,440	1,018,440	1,018,440	-
Total commercial	<u>\$ 309,620</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 309,620</u>	<u>\$ 6,239,405</u>	<u>\$ 6,549,025</u>	<u>\$ 6,239,405</u>	<u>\$ 309,620</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

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, 2012:

June 30, 2012	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	\$ 1,647,923	\$ 1,337,712	\$ 1,282,026	\$ 4,267,661	\$ 78,834,825	\$ 83,102,486	\$ 79,316,976	\$ 3,785,510
Mortgages	1,793,121	683,344	3,220,233	5,696,698	134,301,619	139,998,317	135,079,421	4,918,896
Restructured	-	504,628	-	504,628	4,464,030	4,968,658	4,464,030	504,628
Auto	33,305	12,465	8,181	53,951	7,904,669	7,958,620	7,904,669	53,951
Emergency	576,853	455,715	201,075	1,233,643	13,359,569	14,593,212	13,506,662	1,086,550
Credit cards	176,212	51,156	65,513	292,881	3,574,474	3,867,355	3,609,953	257,402
Insurances	-	-	-	-	145,800	145,800	145,800	-
Equipments	170	-	-	170	23,473	23,643	23,473	170
Total loans	<u>\$ 4,227,584</u>	<u>\$ 3,045,020</u>	<u>\$ 4,777,028</u>	<u>\$ 12,049,632</u>	<u>\$ 242,608,459</u>	<u>\$ 254,658,091</u>	<u>\$ 244,050,984</u>	<u>\$ 10,607,107</u>

Below are the types of loans that compose consumer loans ranked by credit scores at the time of granting:

June 30, 2012	Credit Score				Otros
	< 600	601 - 650	651 - 700	701 +	
Personal	\$ 12,403,390	\$ 8,792,470	\$ 13,362,836	\$ 38,083,037	\$ 10,460,753
Mortgages	15,311,134	14,073,263	19,048,933	73,023,168	18,541,819
Restructured	1,779,575	985,707	177,245	1,002,761	1,023,370
Auto	532,764	587,686	1,230,891	4,927,402	679,877
Emergency	3,141,622	2,493,410	2,747,012	4,240,211	1,970,957
Credit cards	526,642	354,810	529,140	1,189,773	1,266,990
Insurances	5,186	5,201	6,108	20,596	108,709
Equipments	1,886	2,695	9,145	9,472	445
Total loans	<u>\$ 33,702,199</u>	<u>\$ 27,295,242</u>	<u>\$ 37,111,310</u>	<u>\$ 122,496,420</u>	<u>\$ 34,052,920</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

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.

<u>June 30, 2012</u>	Balance of Loan to Value (LTV)				Total
	<u>0 – 80%</u>	<u>81% – 90%</u>	<u>90% – 100%</u>	<u>> 100%</u>	
First mortgages	<u>\$ 97,989,222</u>	<u>\$ 34,489,404</u>	<u>\$ 1,279,944</u>	<u>\$ 6,239,747</u>	<u>\$ 139,998,317</u>
Total loans	<u>\$ 97,989,222</u>	<u>\$ 34,489,404</u>	<u>\$ 1,279,944</u>	<u>\$ 6,239,747</u>	<u>\$ 139,998,317</u>

DELINQUENT LOANS

Below is the portfolio of delinquent loans by type of loan and the allocated reserve:

<u>June 30, 2012</u>	Principal Balance Unpaid	Allocated Reserve
Commercial:		
Commercial	<u>\$ 309,620</u>	<u>\$ 3,096</u>
Total commercial	<u>309,620</u>	<u>3,096</u>
Consumo:		
Personal	4,267,661	2,027,463
Mortgages	5,696,698	966,402
Restructured	504,628	100,926
Autos	53,951	21,523
Emergency	1,233,643	460,637
Credit cards	292,881	126,334
Equipments	<u>170</u>	<u>-</u>
Total consumer	<u>12,049,632</u>	<u>3,703,285</u>
Total delinquent loans	<u>\$ 12,359,252</u>	<u>\$ 3,706,381</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011**

3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)

Below is the summary of loans modified and classified as restructured and those restructured that after granting entered in delinquencies:

<u>June 30, 2012</u>	<u>Loans restructured</u>			<u>Past due restructured loans</u>		
	<u>Number of loans</u>	<u>Principal Balance</u>	<u>Allocated Reserva</u>	<u>Number of loans</u>	<u>Principal Balance</u>	<u>Allocated Reserva</u>
Restructured	49	\$ 4,968,658	\$ 105,343	1	\$ 504,628	\$ 100,926
Total loans	49	\$ 4,968,658	\$ 105,343	1	\$ 504,628	\$ 100,926

Following is a summary of the type of concession granted to restructured loans for the year ended June 30, 2012:

<u>June 30, 2012</u>	<u>Interest Rate</u>	<u>Expiration Date</u>	<u>Principal Reduction</u>	<u>Others</u>	<u>Total</u>
Restructured	\$ 4,968,658	\$ -	\$ -	\$ -	\$ 4,968,658
Total loans	\$ 4,968,658	\$ -	\$ -	\$ -	\$ 4,968,658

4- DEPOSITS

At June 30, 2012 and 2011 member regular savings accounts earn interest at annual percentage of 2.00%, computed daily. For nonmembers annual interest regular savings accounts are .75%. 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, 2012 AND 2011**

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, 2012 and 2011 is \$ 569.699 and \$ 490.539, respectively.

5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES

Cooperatives entities

Shares in cooperative entities and contributions as of June 30, 2012 and 2011 consist of the following:

<u>Description:</u>	<u>2012</u>	<u>2011</u>
COSSEC (Note 1)	\$ 5,418,385	\$ 4,814,275
Cooperativa de Seguros de Vida	851,244	851,244
Cooperativa de Seguros Múltiples	89,674	85,812
Liga de cooperativas	1,011	1,011
FIDECOop	865,328	769,104
Banco Cooperativo	548,722	528,326
Others Cooperatives	33,050	8,050
Total investment in shares of Cooperatives entities	<u>\$ 7,807,414</u>	<u>\$ 7,057,822</u>

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, 2012 and 2011 the capitals amounted to contribution required.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

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, 2012 and 2011, investments were as follows:

<u>Type of investments</u>	<u>2012</u>		
	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Federal Farm Credit Bks (FFCB)	\$ 23,485,000	(\$ 34,514)	\$ 23,450,486
Federal Home Loan Bank Systems	14,250,000	344,160	14,594,160
Federal National Mortgage Association (FNMA)	26,900,000	31,261	26,931,261
P.R. Agencies Securities	87,760,000	2,983,780	90,743,780
Other Government Securities	8,050,000	104,050	8,154,050
	<u>\$ 160,445,000</u>	<u>\$ 3,428,737</u>	<u>\$ 163,873,737</u>

<u>Type of investments</u>	<u>2011</u>		
	<u>Amortized Cost</u>	<u>Unrealized Gain (Loss)</u>	<u>Market Value</u>
Federal Farm Credit Bks (FFCB)	\$ 3,953,920	\$ 30,080	\$ 3,984,000
Federal Home Loan Bank Systems	34,400,966	221,018	34,621,984
Federal National Mortgage Association (FNMA)	7,000,000	(34,510)	6,965,490
P.R. Agencies Securities	82,790,000	498,408	83,288,408
	<u>\$ 128,144,886</u>	<u>\$ 714,996</u>	<u>\$ 128,859,882</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES (CONTINUED)

Marketable Securities

As of June 30, 2012 and 2011, the cooperative maintained its investments in the following brokerage firms:

2012

<u>Type of investments</u>	<u>Amortized Cost</u>	<u>Market Value</u>
UBS Financial Services	\$ 34,000,000	\$ 35,683,154
Popular Securities	47,220,000	48,607,118
Merrill Lynch	25,100,000	25,246,621
Kovak Securities	6,000,000	6,068,940
Rehmann Financial	5,500,000	5,503,025
Santander Securities	6,305,000	6,347,625
RD Capital	8,050,000	8,154,051
Multi-Bank Securities	21,270,000	21,229,447
Oriental Financial Services	7,000,000	7,033,756
	<u>\$ 160,445,000</u>	<u>\$ 163,873,737</u>

The amortized cost and estimated market value of investment securities at June 30, 2012 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	\$ 1,800,000	\$ 1,814,418
More than one to five years	34,300,000	35,023,089
More than five years to ten years	7,500,000	7,589,070
More than ten years	116,845,000	119,447,160
	<u>\$ 160,445,000</u>	<u>\$ 163,873,737</u>



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

6- PROPERTY AND EQUIPMENT

As of June 30, 2012 and 2011 the property and equipments consists of the following:

<u>Description:</u>	<u>2012</u>	<u>2011</u>
Building and improvements	\$ 4,678,435	\$ 4,678,435
Auto	35,961	35,961
Furniture and equipment	<u>2,288,107</u>	<u>2,020,523</u>
	7,002,503	6,734,919
Less accumulated depreciation	<u>(3,061,268)</u>	<u>(2,728,003)</u>
	3,941,235	4,006,916
Land	<u>175,000</u>	<u>175,000</u>
	<u><u>\$ 4,116,235</u></u>	<u><u>\$ 4,181,916</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, 2012 and 2011 stood at over cooperative housing banks and cooperatives in the amount of \$ 151,717,397 and \$ 154,742,810, 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, 2012 AND 2011

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, 2012 and 2011 are as follows:

	<u>Book Value</u>		<u>Market Values</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:				
Loans, net	\$256,185,400	\$249,662,627	\$256,185,400	\$249,662,627
Cash and cash equivalents	\$ 65,678,666	\$ 54,351,257	\$ 65,678,666	\$ 54,351,257
Investments in marketable securities and certificate of deposits	\$253,471,165	\$234,440,625	\$256,899,902	\$235,155,621
Liabilities and Members' Equity				
Deposits	\$330,539,694	\$329,810,152	\$330,539,694	\$329,810,152
Accounts payable and Accrued expenses	\$ 2,367,459	\$ 2,153,317	\$ 2,367,459	\$ 2,153,317
Shares	\$227,840,340	\$193,427,460	\$227,840,340	\$193,427,460



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

9- COMMITMENTS AND CONTINGENCIES

Commitment to extend credit

As of June 30, 2012 and 2011, 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 \$3,719,683 and \$5,401,453, 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:

2013	\$ 46,416
2014	46,416
2015	46,416
2016	<u>23,208</u>
	<u>\$ 162,456</u>

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, 2012 and 2011 other assets were as follows:

<u>Description:</u>	<u>2012</u>	<u>2011</u>
Office supplies	\$ 27,981	\$ 29,600
Foreclosed properties, net of reserves	1,955,643	1,834,154
Deposits	39,019	32,196
Others	<u>7,450</u>	<u>9,410</u>
	<u>\$ 2,030,093</u>	<u>\$ 1,905,360</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011**

11 - ACCOUNTS PAYABLES AND ACCRUED EXPESSES

As of June 30, 2012 and 2011 accounts payable and accrued expenses were as follows:

<u>Description:</u>	<u>2012</u>	<u>2011</u>
Unclaimed funds	\$ 261,959	\$ 164,604
Mortgage Origination fees	68,279	66,689
Manager checks and money orders	44,807	36,299
Vacations	207,048	212,463
Income tax payable	529,264	504,115
Withholding of mortgage property insurance	455,862	406,705
Accrued interest payable	362,422	422,736
Others accounts and accrued expenses	437,818	339,706
	<u>\$ 2,367,459</u>	<u>\$ 2,153,317</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 14.24% and 15.53%, level of indivisible capital at June 30, 2012 and 2011, respectively.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

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, 2012 and 2011 were \$259,403 and \$254,497, 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, 2012 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, 2012 AND 2011 amounted to \$221,011 and \$208,307, respectively.

16 - PROMOTION

The promotion campaign expenses are recognized in the year incurred; the promotional expenses for this year amounted to \$420,646 and \$410,782, respectively.

17 - RECLASSIFICATIONS

Certain reclassifications were made to the financial statements of 2011 to agree with the presentation adopted in the financial statements of 2012.



COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2012 AND 2011

18 -SUBSEQUENT EVENTS

For the year ended June 30, 2012, 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 September 7, 2012, the date these financial statements were ready to be issued. Cooperative management understands that there is no material event occurred subsequent to June 30, 2012 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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>	<u>VARIANCE</u>
Loans interest	\$ 18,439,983	\$ 18,976,326	(\$ 536,343)
Less: credits reports costs	(34,626)	(25,273)	(9,353)
Interest and loans commissions	18,405,357	18,951,053	(545,696)
Savings and certificates of deposits interest	3,787,036	4,336,046	(549,010)
Dividends	125,959	23,987	101,972
Investments interest	6,395,529	5,264,219	1,131,310
Interest and dividends from investments	6,521,488	5,288,206	1,233,282
TOTAL INTEREST INCOME	28,713,881	28,575,305	138,576
Deposits	2,080,761	1,899,770	180,991
Certificates of deposits	5,122,855	6,438,816	(1,315,961)
TOTAL INTEREST EXPENSE	7,203,616	8,338,586	(1,134,970)
Net interest income before			
Provision for uncollectible loans	21,510,265	20,236,719	1,273,546
Less: Provision for uncollectible loans	(3,000,000)	(3,110,303)	110,303
NET INTEREST INCOME	18,510,265	17,126,416	1,383,849
Salaries, vacations and bonus	2,249,471	2,203,882	45,589
Payroll taxes	236,808	224,246	12,562
Medical insurance	259,403	254,497	4,906
Pension plan	221,011	208,307	12,704
Others benefits	23,724	2,595	21,129
Salaries and related expenses	2,990,417	2,893,527	96,890
Audit	20,000	15,000	5,000
Others	163,190	166,000	(2,810)
Professional services	183,190	181,000	2,190
Promotion and ads	420,645	410,782	9,863
Cooperative education	40,400	32,972	7,428
Seminars	20,688	17,865	2,823
Donations	40,911	46,269	(5,358)
Promotion and cooperative education	522,644	507,888	14,756
Depreciation	336,633	291,051	45,582
Repairs and maintenance	191,773	155,616	36,157
Rents	73,308	39,966	33,342
Facilities, equipments and maintenance	601,714	486,633	115,081



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON
STATEMENT OF OPERATIONS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>	<u>VARIANCE</u>
Office supplies	\$ 161,663	\$ 148,575	\$ 13,088
Telephone and fax	168,268	95,417	72,851
Utilities	236,332	187,128	49,204
Postages and meters	125,305	103,717	21,588
Office supplies and others	691,568	534,837	156,731
COSSEC insurance	1,388,186	1,163,610	224,576
Members insurance	887,557	846,516	41,041
Surety insurance	214,117	184,656	29,461
Equipments insurance	52,462	43,300	9,162
Others insurance	55,484	45,643	9,841
Insurance and surety	2,597,806	2,283,725	314,081
Annual meeting	210,856	147,588	63,268
Per diem Board of directors and committees	79,494	69,055	10,439
Meetings Board of directors and committees	132,315	135,186	(2,871)
Board of Directors and comités	422,665	351,829	70,836
Bank charges	71,323	54,321	17,002
Representation	29,309	24,789	4,520
Dues	10,591	9,196	1,395
Taxes	45,072	15,183	29,889
Others	18,631	16,928	1,703
Others and miscellaneous	174,926	120,417	54,509
Total operating, general and administratives expenses	8,184,930	7,359,856	825,074
INCOME FROM OPERATIONS	10,325,335	9,766,560	558,775
OTHERS INCOME / (EXPENSES):			
Share draft accounts	14,747	15,522	(775)
Less: related expenses	(28,979)	(27,530)	(1,449)
Share draft expenses, net	(14,232)	(12,008)	(2,224)
Money orders, and utilities commissions	33,889	30,144	3,745
Mortgages commissions	258,870	193,237	65,633
Money orders and services commissions	292,759	223,381	69,378
ATM income	99,453	72,824	26,629
Less: related expenses	(47,219)	(33,780)	(13,439)
ATM income, net	52,234	39,044	13,190
Late fees from loans	269,239	246,487	22,752
Loan cancellation charges	48,400	25,630	22,770
Gain on assets disposal	2,577	846	1,731
Miscellaneous	25,620	49,133	(23,513)
Others income	345,836	322,096	23,740
MasterCard income	109,653	102,322	7,331
Less: related expenses	(126,414)	(129,471)	3,057
MasterCard expenses, net	(16,761)	(27,149)	10,388
Loss on assets disposal	(399,889)	(229,632)	(170,257)
TOTAL OTHERS INCOME	259,947	315,732	(55,785)
NET INCOME, BEFORE INCOME TAXES	\$ 10,585,282	\$ 10,082,292	\$ 502,990

