

**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**



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**TABLE OF CONTENTS**

	<b><u>PAGES</u></b>
<b>INDEPENDENT AUDITOR'S REPORT .....</b>	<b>1-3</b>
<b>FINANCIAL STATEMENTS:</b>	
<b>BALANCE SHEETS.....</b>	<b>4</b>
<b>INCOME STATEMENTS.....</b>	<b>5</b>
<b>STATEMENTS OF CHANGES IN         MEMBERS' EQUITY.....</b>	<b>6</b>
<b>STATEMENTS OF CASH FLOWS .....</b>	<b>7-8</b>
<b>NOTES TO THE FINANCIAL STATEMENTS .....</b>	<b>9-32</b>
<b>SUPPLEMENTARY INFORMATION:</b>	
<b>STATEMENTS OF OPERATIONS.....</b>	<b>34-35</b>





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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, 2014 and 2013, 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 \$235,598,920 and \$236,495,439 for the years ended June 30, 2014 and 2013 respectively. The net income also decreases by \$8,612,000 and \$8,159,562 for the years ended June 30, 2014 and 2013 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, 2014 and 2013 in conformity with the generally accepted accounting principles used in the United States of America and Puerto Rico.



**Board of Directors**  
**Cooperativa de Ahorro y Crédito**  
**de Rincón**  
**Rincón, Puerto Rico**  
**Page 3**

**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 34 and 35 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 5, 2014  
Guaynabo, Puerto Rico

License Num. 4290  
Expiration date December 1, 2016.

Stamp # E133727 from the  
Puerto Rico Society of CPA's  
was affixed to the original.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON  
BALANCE SHEETS  
JUNE 30, 2014 AND 2013**

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b><u>ASSETS</u></b>		
<b>LOANS RECEIVABLE</b> , net of provision for uncollectible loans (Notes 1 and 3)	\$ 262,184,086	\$ 260,611,985
<b>CASH IN HAND AND IN BANKS (NOTES 1 AND 2):</b>	52,137,517	34,033,412
<b>CERTIFICATES OF DEPOSIT</b> ( Maturity in three Months or less) (Note 2)	73,935,165	95,085,165
<b>INVESTEMENTS (NOTES 1 AND 5):</b> Investments in securities classified as Held-to maturity Cooperative entities	208,230,429 8,668,386 <u>216,898,815</u>	195,138,146 8,328,428 <u>203,466,574</u>
<b>PROPERTY AND EQUIPMENT, NET (NOTES 1 AND 6)</b>	3,930,208	3,857,502
<b>OTHER ASSETS:</b>		
Interest receivable	2,831,502	2,655,717
Accounts receivable	461,770	176,671
Prepaid expenses	121,506	106,182
<b>Others (NOTE 10)</b>	4,569,444	2,457,740
	<u>7,984,222</u>	<u>5,396,310</u>
Total assets	<u>\$ 617,070,013</u>	<u>\$ 602,450,948</u>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITES**

<b>DEPOSITS (NOTE 4):</b>		
Savings accounts	\$ 151,214,570	\$ 132,883,196
Certificates of deposits	187,358,246	194,459,930
Christmas and Summers savings plan	4,223,544	2,346,642
	<u>342,796,360</u>	<u>329,689,768</u>
Total deposits		
<b>ACCOUNTS PAYABLE AND ACCRUED EXPENSES (NOTE 11)</b>	<u>2,211,033</u>	<u>2,221,258</u>
Total liabilities	<u>345,007,393</u>	<u>331,911,026</u>

**MEMBERS' EQUITY (NOTE 1)**

Shares, par value \$10	235,598,920	236,495,349
Indivisible Capital	24,263,700	22,535,002
Technological development reserve	1,500,000	1,000,000
Contingency reserve	2,000,000	1,848,770
Undistributed earnings	8,700,000	8,660,801
	<u>272,062,620</u>	<u>270,539,922</u>
Total Members' Equity		
Total Liabilities and Members' Equity	<u>\$ 617,070,013</u>	<u>\$ 602,450,948</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>INTEREST INCOME:</b>		
Loans	\$ 18,634,832	\$ 18,807,244
Certificates and savings accounts	2,060,058	2,695,076
Investments	8,634,592	7,584,766
	<u>29,329,482</u>	<u>29,087,086</u>
<b>INTEREST EXPENSE:</b>		
Deposits	1,895,352	1,771,406
Certificates of deposits	2,972,941	3,668,329
	<u>4,868,293</u>	<u>5,439,735</u>
<b>NET INTEREST INCOME BEFORE PROVISION FOR UNCOLLECTIBLE LOANS</b>	24,461,189	23,647,351
<b>PROVISION FOR UNCOLLECTIBLE LOANS</b>	4,412,125	4,247,320
<b>NET INTEREST INCOME AFTER PROVISION FOR UNCOLLECTIBLE LOANS</b>	<u>20,049,064</u>	<u>19,400,031</u>
<b>OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES:</b>		
Salaries and related expenses	3,312,582	3,063,056
Professional Services	422,103	274,844
Promotion and cooperative education	437,602	469,704
Facilities, equipment and maintenance	745,925	738,804
Effects and other office expenses	695,105	645,816
Insurances	2,634,467	2,590,748
Board of Directors and Committees expenses	448,669	343,638
Others and Miscellaneous	264,944	175,990
	<u>8,961,397</u>	<u>8,302,600</u>
<b>TOTAL OPERATING, GENERAL AND ADMINISTRATIVE EXPENSES</b>	<u>8,961,397</u>	<u>8,302,600</u>
<b>INCOME FROM OPERATIONS</b>	11,087,667	11,097,431
<b>OTHER INCOME / (EXPENSES):</b>		
Money orders, mortgages and services commissions	293,831	315,887
MasterCard expenses– net	( 28,640)	( 11,172)
Share Draft, net	( 18,343)	( 25,450)
ATM income, net	46,636	46,464
Loss on assets disposal	( 613,972)	( 528,199)
Other income	312,749	367,003
	<u>( 7,739)</u>	<u>164,533</u>
<b>TOTAL OF OTHER INCOME</b>	<u>( 7,739)</u>	<u>164,533</u>
<b>NET INCOME</b>	<u>\$ 11,079,928</u>	<u>\$ 11,261,964</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, 2014 AND 2013**

	<u>Shares</u>	<u>Indivisible Capital Reserve</u>	<u>Technological Development Reserve</u>	<u>Contingency Reserve</u>	<u>Undistributed Earnings</u>	<u>Total</u>
<b>BALANCE JUNE 30, 2012</b>	\$ 227,840,340	\$ 20,282,609	\$ 1,000,000	\$ 1,500,000	\$ 8,184,262	\$ 258,807,211
Additional investments by members	43,981,515	-	-	-	-	43,981,515
Withdrawals by members	( 43,486,068 )	-	-	-	-	( 43,486,068 )
Withheld from net income to reserves	-	-	-	348,770	( 348,770 )	-
Withheld for reserves	-	2,252,393	-	-	( 2,252,393 )	-
Transfer to accounts payable	-	-	-	-	( 24,700 )	( 24,700 )
Capitalized net income	8,159,562	-	-	-	( 8,159,562 )	-
Net income for the year	-	-	-	-	11,261,964	11,261,964
<b>BALANCE JUNE 30, 2013</b>	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
<b>BALANCE JUNE 30, 2014</b>	<u>\$ 235,598,920</u>	<u>\$ 24,263,700</u>	<u>\$ 1,500,000</u>	<u>\$ 2,000,000</u>	<u>\$ 8,700,000</u>	<u>\$ 272,062,620</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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 11,079,928	\$ 11,261,964
<b>ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Depreciation	394,897	398,665
Provision for uncollectible accounts	4,412,125	4,247,320
Capitalized dividends in cooperative entities	( 199,769 )	( 156,818 )
(Increase) / decrease in other assets	( 3,201,884 )	( 1,469,025 )
Loss on foreclosed properties	613,972	528,199
Gain on assets disposition	-	( 30,953 )
Increase / (Decrease) in:		
Accounts payable and accrued expenses	( 59,026 )	( 170,901 )
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>13,040,243</b>	<b>14,608,451</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Net increase in loans	( 5,984,226 )	( 8,673,905 )
(Increase) Decrease in certificates of deposit (more than three months)	21,150,000	( 2,059,000 )
Increase in investments in other cooperatives	( 140,189 )	( 364,196 )
Increase in marketable securities	( 13,092,283 )	( 34,693,146 )
Investment in property and equipment	( 467,603 )	( 108,979 )
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>1,465,699</b>	<b>( 45,899,226 )</b>

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Increase in deposits	13,106,592	( 849,926)
Share investment by members	43,548,451	43,981,515
Share redeemed by members	<u>( 53,056,880)</u>	<u>( 43,486,068)</u>
<b>NET CASH PROVIDED BY FINANCING ACTIVITIES</b>	<u>3,598,163</u>	<u>( 354,479)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	18,104,105	( 31,645,254)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING</b>	<u>34,033,412</u>	<u>65,678,666</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<u>\$ 52,137,517</u>	<u>\$ 34,033,412</u>
<b>SUPPLEMENTARY INFORMATION:</b>		
Interest payments	<u>\$ 4,921,540</u>	<u>\$ 5,491,539</u>
<b>SUPPLEMENTARY INFORMATION ON INVESTMENT AND FINANCING ACTIVITY THAT DOES NOT AFFECT CASH:</b>		
Capitalized net income	<u>\$ 8,612,000</u>	<u>\$ 8,159,562</u>
Withheld from net income to Indivisible Capital Reserve	<u>\$ 1,728,698</u>	<u>\$ 2,252,393</u>
Transfer from net income to accounts payable	<u>\$ 48,801</u>	<u>\$ 24,700</u>
Transfer / (use) reserve to undistributed earnings	<u>\$ 651,230</u>	<u>\$ 348,770</u>

The accompanying notes are an integral part of these statements.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014 AND 2013**

**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, 2014 AND 2013**

**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, 2014 AND 2013**

**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, 2014 and 2013 are \$3,156,289 and \$2,719,489, respectively.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014 AND 2013**

**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, 2014 AND 2013**

**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, 2014 and 2013 the Credit Union has paid a total investment of \$5,961,657 and annual premium of \$1,332,991.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 AND 2013**

**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, 2014 and 2013, the amount of \$61,053,437 and \$57,530,162, respectively in certificates, savings accounts and investment securities that are not available to be used in current and normal operations, as follows:

	<u>2014</u>	<u>2013</u>
<b><u>Liquidity Required</u></b>		
Indivisible capital reserve (35%)	\$ 8,492,295	\$ 7,887,251
Deposits on demand, net of pledged deposits (15%)	21,453,189	18,801,782
Certificates of deposits, net of crossed Investements with matures of:		
- in 30 days (25%)	3,825,132	3,283,310
- more than 30 days (15%)	24,856,158	26,246,504
Deposits for determinated events:		
Chistmas-Coop (8.33% x 9 months)	2,214,950	1,183,124
Summer-Coop (8.33% x 2 months)	211,713	128,191
<b>Total required liquidity</b>	<b>61,053,437</b>	<b>57,530,162</b>
<b><u>Liquidity Available</u></b>		
Liquids funds available:		
Certificates of deposits	78,460,165	88,735,165
Cash and cheking accounts	41,262,517	34,033,412
Investments in securities	193,115,524	189,018,592
Interest receivable	2,831,502	1,516,773
<b>Total available liquidity</b>	<b>315,669,708</b>	<b>313,303,942</b>
Excess of liquid funds over those required by law	<b>\$ 254,616,271</b>	<b>\$ 255,773,780</b>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**3- LOANS AND PROVISION UNCOLLECTIBLE LOANS**

The loan portfolio consists of the following types at June 30, 2014 and 2013:

	<u><b>2014</b></u>	<u><b>2013</b></u>
<b><u>Commercial:</u></b>		
Commercial	\$ 4,606,561	\$ 5,521,116
Non profit organization	822,914	1,028,367
Total commercial	<u>5,429,475</u>	<u>6,549,483</u>
<b><u>Consumers:</u></b>		
Personal	98,548,536	97,159,533
Mortgages	129,704,692	129,928,577
Restructured Mortgages	7,037,825	-
Restructured	1,518,510	6,266,973
Auto	8,949,000	8,824,261
Emergency	13,720,292	14,100,912
Credit cards	3,772,618	3,915,769
Insurances	134,432	129,183
Equipments	9,492	13,185
Total consumers	<u>263,395,397</u>	<u>260,338,393</u>
Total loans	268,824,872	266,887,876
Less: provision for uncollectible loans (Note 1)	<u>( 6,640,786)</u>	<u>( 6,275,891)</u>
Total loans, net	<u>\$ 262,184,086</u>	<u>\$ 260,611,985</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)**

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

<b>June 30, 2014</b>	<b><u>Commercial</u></b>	<b><u>Consumo</u></b>	<b><u>Total</u></b>
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>

  

<b>June 30, 2013</b>	<b><u>Commercial</u></b>	<b><u>Consumo</u></b>	<b><u>Total</u></b>
Balance, beginning of year	\$ 8,087	\$ 5,013,629	\$ 5,021,716
Provision for loans losses	504,066	3,743,254	4,247,320
Loans charged off	-	( 3,195,846)	( 3,195,846)
Recoveries	-	202,700	202,700
Balance at end of year	<u>\$ 512,153</u>	<u>\$ 5,763,737</u>	<u>\$ 6,275,890</u>
Individually evaluated for impairment	<u>\$ 1,124,219</u>	<u>\$ -</u>	<u>\$ 1,124,219</u>
Collectively evaluated for impairment	<u>\$ -</u>	<u>\$ 12,801,886</u>	<u>\$ 12,801,886</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, 2014 and 2013, 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, 2014 AND 2013**

**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, 2014 and 2013:

<b>June 30, 2014</b>	<b>Pass</b>	<b>Special mention</b>	<b>Substandar</b>	<b>Total</b>
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>
<b>June 30, 2013</b>	<b>Pass</b>	<b>Special mention</b>	<b>Substandar</b>	<b>Total</b>
Commercial	\$ 4,536,536	\$ 675,215	\$ 309,365	\$ 5,521,116
Non profit organizations	1,028,367	-	-	1,028,367
Total commercial	<u>\$ 5,564,903</u>	<u>\$ 675,215</u>	<u>\$ 309,365</u>	<u>\$ 6,549,483</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013:

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

  

June 30, 2013	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	\$ 139,639	\$ 675,215	\$ 309,365	\$1,124,219	\$ 4,396,897	\$ 5,521,116	\$ 4,536,536	\$ 984,580
Non profit organizations	-	-	-	-	1,028,367	1,028,367	1,028,367	-
Total comercial	\$ 139,639	\$ 675,215	\$ 309,365	\$1,124,219	\$ 5,425,264	\$ 6,549,483	\$ 5,564,903	\$ 984,580

**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, 2014 and 2013:

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
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



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**3- LOANS AND PROVISION UNCOLLECTIBLE LOANS (CONTINUED)**

Below is aging categories of consumer loans at June 30, 2014 and 2013:

June 30, 2013	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	\$ 2,647,084	\$ 3,499,977	\$ 1,253,214	\$ 7,400,275	\$ 89,759,258	\$ 97,159,533	\$ 90,651,027	\$ 6,508,506
Mortgages	1,150,269	1,281,069	1,174,746	3,606,084	126,322,493	129,928,577	126,835,005	3,093,572
Restructured	136,491	207,656	-	344,147	5,922,826	6,266,973	6,059,317	207,656
Auto	20,577	19,358	10,840	50,775	8,773,486	8,824,261	8,773,486	50,775
Emergency	509,607	591,109	66,206	1,166,922	12,933,990	14,100,912	13,097,338	1,003,574
Credit cards	157,440	43,100	32,880	233,420	3,682,349	3,915,769	3,764,840	150,929
Insurances	-	-	-	-	129,183	129,183	129,183	-
Equipments	263	-	-	263	12,922	13,185	13,185	-
<b>Total loans</b>	<b>\$ 4,621,731</b>	<b>\$ 5,642,269</b>	<b>\$ 2,537,886</b>	<b>\$ 12,801,886</b>	<b>\$ 247,536,507</b>	<b>\$ 260,338,393</b>	<b>\$ 249,323,381</b>	<b>\$ 11,015,012</b>

Below are the types of loans that compose consumer loans ranked by credit scores at the time of granting at June 30, 2014 and 2013:

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	728,612	250,694	154,889	251,756	132,559
Auto	453,585	774,922	1,323,839	4,075,830	2,320,824
Emergency	2,399,775	1,879,217	2,644,912	3,209,017	3,587,371
Credit cards	320,496	245,929	557,611	1,293,441	1,355,141
Insurances	1,403	5,897	4,808	15,375	106,949
Equipments	1,070	494	3,866	2,438	1,624
<b>Total loans</b>	<b>\$ 26,825,938</b>	<b>\$ 24,077,396</b>	<b>\$ 40,162,796</b>	<b>\$ 118,820,755</b>	<b>\$ 53,508,512</b>

  

June 30, 2013	Credit Score				Otros
	< 600	601 - 650	651 - 700	701 +	
Personal	\$ 12,188,630	\$ 9,007,895	\$ 16,807,144	\$ 47,208,211	\$ 11,947,653
Mortgages	13,199,059	12,738,735	19,224,157	66,744,018	18,022,608
Restructured	2,355,185	985,009	414,124	1,135,386	1,377,269
Auto	578,462	615,040	1,589,808	4,991,530	1,049,421
Emergency	3,106,427	2,206,463	2,822,286	3,870,880	2,094,856
Credit cards	440,263	254,965	614,841	1,257,321	1,348,379
Insurances	3,261	10,378	4,751	24,938	85,855
Equipments	1,939	1,427	5,093	4,305	421
<b>Total loans</b>	<b>\$ 31,873,226</b>	<b>\$ 25,819,912</b>	<b>\$ 41,482,204</b>	<b>\$ 125,236,589</b>	<b>\$ 35,926,462</b>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013:

<u>June 30, 2014</u>	<u>Balance of Loan to Value (LTV)</u>				<u>Total</u>
	<u>0 – 80%</u>	<u>81% – 90%</u>	<u>90% – 100%</u>	<u>&gt; 100%</u>	
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
<b>Total loans</b>	<b>\$ 99,448,835</b>	<b>\$ 29,889,926</b>	<b>\$ 934,236</b>	<b>\$ 6,469,520</b>	<b>\$ 136,742,517</b>

  

<u>June 30, 2013</u>	<u>Balance of Loan to Value (LTV)</u>				<u>Total</u>
	<u>0 – 80%</u>	<u>81% – 90%</u>	<u>90% – 100%</u>	<u>&gt; 100%</u>	
First mortgages	\$ 114,571,431	\$ 10,714,185	\$ 1,904,077	\$ 2,738,884	\$ 129,928,577
<b>Total loans</b>	<b>\$ 114,571,431</b>	<b>\$ 10,714,185</b>	<b>\$ 1,904,077</b>	<b>\$ 2,738,884</b>	<b>\$ 129,928,577</b>

**DELINQUENT LOANS**

Below is the portfolio of delinquent loans by type of loan and the allocated reserve at June 30, 2014 and 2013:

<u>June 30, 2014</u>	<u>Principal Balance Unpaid</u>	<u>Allocated Reserve</u>
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
<b>Total delinquent loans</b>	<b>\$ 14,320,000</b>	<b>\$ 5,207,169</b>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013:

<u>June 30, 2013</u>	<u>Principal Balance Unpaid</u>	<u>Allocated Reserve</u>
Commercial:		
Commercial	\$ 1,124,219	\$ 468,643
Total commercial	<u>1,124,219</u>	<u>468,643</u>
Consumers:		
Personal	7,400,275	2,687,344
Mortgages	3,606,084	778,123
Restructured	344,147	126,927
Autos	50,775	24,634
Emergency	1,166,922	411,408
Credit cards	233,420	85,917
Equipments	263	53
Total consumer	<u>12,801,886</u>	<u>4,114,406</u>
Total delinquent loans	<u>\$ 13,926,105</u>	<u>\$ 4,583,049</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, 2014 and 2013:

<u>June 30, 2013</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 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>

<u>June 30, 2013</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	62	\$ 6,266,973	\$ 410,168	3	\$ 344,147	\$ 126,927
Total loans	<u>62</u>	<u>\$ 6,266,973</u>	<u>\$ 410,168</u>	<u>3</u>	<u>\$ 344,147</u>	<u>\$ 126,927</u>





**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013:

<b>June 30, 2014</b>	<b>Interest Rate and Expiration Date</b>	<b>Principal Reduction</b>	<b>Others</b>	<b>Total</b>
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>
<b>June 30, 2013</b>	<b>Interest Rate and Expiration Date</b>	<b>Principal Reduction</b>	<b>Others</b>	<b>Total</b>
Restructured	\$ 6,266,973	\$ -	\$ -	\$ 6,266,973
Total loans	<u>\$ 6,266,973</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,266,973</u>

**4- DEPOSITS**

At June 30, 2014 and 2013 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, 2014 AND 2013**

**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, 2014 and 2013 is \$ 749,338 and \$ 565,626, respectively.

**5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES**

**Cooperatives entities**

Shares in cooperative entities and contributions as of June 30, 2014 and 2013 consist of the following:

<b><u>Description:</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
COSSEC (Note 1)	\$ 5,961,657	\$ 5,801,518
Cooperativa de Seguros de Vida	851,244	851,244
Cooperativa de Seguros Múltiples	100,520	94,830
Liga de cooperativas	1,011	1,011
FIDECoop	1,061,670	961,110
Banco Cooperativo	605,234	571,665
Others Cooperatives	<u>87,050</u>	<u>47,050</u>
Total investment in shares of Cooperatives entities	<u>\$ 8,668,386</u>	<u>\$ 8,328,428</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, 2014 and 2013 the capitals amounted to contribution required.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013, investments were as follows:

<b><u>Type of investments</u></b>	<b><u>2014</u></b>		
	<b><u>Amortized Cost</u></b>	<b><u>Unrealized Gain (Loss)</u></b>	<b><u>Market Value</u></b>
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>

<b><u>Type of investments</u></b>	<b><u>2013</u></b>		
	<b><u>Amortized Cost</u></b>	<b><u>Unrealized Gain (Loss)</u></b>	<b><u>Market Value</u></b>
Federal Farm Credit Bks (FFCB)	\$ 8,995,000	(\$ 633,426)	\$ 8,361,574
Federal Home Loan Bank Systems	22,104,839	( 742,226)	21,362,613
Federal National Mortgage Association (FNMA)	32,360,000	( 2,260,812)	30,099,188
P.R. Agencies Securities	81,760,000	868,207	82,628,207
Other Government Securities	49,918,307	( 3,351,297)	46,567,010
	<u>\$ 195,138,146</u>	<u>(\$ 6,119,554)</u>	<u>\$ 189,018,592</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014 AND 2013**

**5- INVESTMENT IN COOPERATIVES ENTITIES AND SECURITIES (CONTINUED)**

**Marketable Securities**

As of June 30, 2014, the cooperative maintained its investments in the following brokerage firms:

**2014**

<b><u>Type of investments</u></b>	<b><u>Amortized Cost</u></b>	<b><u>Market Value</u></b>
UBS Financial Services	\$ 34,000,000	\$ 28,624,889
Popular Securities	50,000,000	44,643,209
Merrill Lynch	32,749,839	31,611,820
Kovak Securities	7,000,000	7,065,310
IFS Securities	12,000,000	11,608,000
Santander Securities	6,305,000	5,822,968
RD Capital	19,385,590	19,287,423
Multi-Bank Securities	41,790,000	39,726,355
Capital Guardian, LLC	5,000,000	4,725,550
	<u>\$ 208,230,429</u>	<u>\$ 193,115,524</u>

The amortized cost and estimated market value of investment securities at June 30, 2014 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.

<b><u>Maturity</u></b>	<b><u>Amortized Cost</u></b>	<b><u>Market Value</u></b>
One year or less	\$ 21,405,000	\$ 21,265,791
More than one to five years	25,865,590	23,061,213
More than five years to ten years	46,590,000	45,773,560
More than ten years	114,369,839	103,014,960
	<u>\$ 208,230,429</u>	<u>\$ 193,115,524</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**6- PROPERTY AND EQUIPMENT**

As of June 30, 2014 and 2013 the property and equipments consists of the following:

<b><u>Description:</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Building and improvements	\$ 4,775,010	\$ 4,737,335
Auto	39,995	35,961
Furniture and equipment	<u>2,742,189</u>	<u>2,352,256</u>
	7,557,194	7,125,552
Less accumulated depreciation	<u>( 3,801,986)</u>	<u>( 3,443,050)</u>
	3,755,208	3,682,502
Land	<u>175,000</u>	<u>175,000</u>
	<u><u>\$ 3,930,208</u></u>	<u><u>\$ 3,857,502</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, 2014 and 2013 stood at over cooperative housing banks and cooperatives in the amount of \$117,772,503 and \$ 122,848,962, 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, 2014 AND 2013**

**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, 2014 and 2013 are as follows:

	<b><u>Book Value</u></b>		<b><u>Market Values</u></b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Assets:				
Loans, net	\$262,184,086	\$260,611,985	\$262,184,086	\$260,611,985
Cash and cash equivalents	\$ 52,137,517	\$ 34,033,666	\$ 41,262,517	\$ 34,033,666
Investments in marketable securities and certificate of deposits	\$282,165,594	\$290,223,311	\$267,050,689	\$284,103,757
Liabilities and Members' Equity				
Deposits	\$342,796,360	\$329,689,768	\$342,796,360	\$329,689,768
Accounts payable and Accrued expenses	\$ 2,211,033	\$ 2,221,258	\$ 2,211,033	\$ 2,221,258
Shares	\$235,598,920	\$236,495,349	\$235,598,920	\$236,495,349



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**9- COMMITMENTS AND CONTINGENCIES**

**Commitment to extend credit**

As of June 30, 2014 and 2013, 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 \$3,688,828 and \$3,719,683, 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:

2015	\$ 46,416
2016	<u>23,208</u>
	<u>\$ 69,624</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, 2014 and 2013 other assets were as follows:

<b><u>Description:</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
Office supplies	\$ 34,744	\$ 21,865
Foreclosed properties, net of reserves	4,482,745	2,385,050
Deposits	41,955	39,506
Others	<u>10,000</u>	<u>11,319</u>
	<u>\$ 4,569,444</u>	<u>\$ 2,457,740</u>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2014 AND 2013**

**11 - ACCOUNTS PAYABLES AND ACCRUED EXPENSES**

As of June 30, 2014 and 2013 accounts payable and accrued expenses were as follows:

<u>Description:</u>	<u>2014</u>	<u>2013</u>
Unclaimed funds	\$ 416,474	\$ 317,017
Mortgage Origination fees	72,025	63,405
Manager checks and money orders	49,988	72,198
Vacations	270,576	225,090
Withholding of mortgage property insurance	531,158	471,934
Accrued interest payable	257,371	310,618
Others accounts and accrued expenses	613,441	760,996
	<u>\$ 2,211,033</u>	<u>\$ 2,221,258</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 17.66% and 17.14%, level of indivisible capital at June 30, 2014 and 2013, respectively.





**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**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, 2014 and 2013 were \$273,261 and \$274,004, 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, 2014 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, 2014 AND 2013 amounted to \$238,649 and \$223,027, respectively.

**16 - PROMOTION**

The promotion campaign expenses are recognized in the year incurred; the promotional expenses for this year amounted to \$327,398 and \$375,525, respectively.

**17 - RECLASSIFICATIONS**

Certain reclassifications were made to the financial statements of 2013 to agree with the presentation adopted in the financial statements of 2014.



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2014 AND 2013**

**18 -SUBSEQUENT EVENTS**

For the year ended June 30, 2014, 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 5, 2014, the date these financial statements were ready to be issued. Cooperative management understands that there is no material event occurred subsequent to June 30, 2014 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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>	<u>VARIANCE</u>
Loans interest	\$ 18,669,009	\$ 18,841,582	(\$ 172,573)
Less: credits reports costs	( 34,177)	( 34,338)	161
<b>Interest and loans commissions</b>	<b>18,634,832</b>	<b>18,807,244</b>	<b>( 172,412)</b>
Savings and certificates of deposits interest	<b>2,060,058</b>	<b>2,695,076</b>	<b>( 635,018)</b>
Dividends	199,769	156,818	42,951
Investments interest	8,434,823	7,427,948	1,006,875
<b>Interest and dividends from investments</b>	<b>8,634,592</b>	<b>7,584,766</b>	<b>1,049,826</b>
<b>TOTAL INTEREST INCOME</b>	<b>29,329,482</b>	<b>29,087,086</b>	<b>242,396</b>
Deposits	1,895,352	1,771,406	123,946
Certificates of deposits	2,972,941	3,668,329	( 695,388)
<b>TOTAL INTEREST EXPENSE</b>	<b>4,868,293</b>	<b>5,439,735</b>	<b>( 571,442)</b>
Net interest income before			
Provision for uncollectible loans	24,461,189	23,647,351	813,838
Less: Provision for uncollectible loans	( 4,412,125)	( 4,247,320)	( 164,805)
<b>NET INTEREST INCOME</b>	<b>20,049,064</b>	<b>19,400,031</b>	<b>649,033</b>
Salaries, vacations and bonus	2,526,900	2,328,883	198,017
Payroll taxes	248,649	237,142	11,507
Medical insurance	273,261	274,004	( 743)
Pension plan	238,649	223,027	15,622
Others benefits	25,123	-	25,123
<b>Salaries and related expenses</b>	<b>3,312,582</b>	<b>3,063,056</b>	<b>249,526</b>
Audit	20,000	20,000	-
Others	402,103	254,844	147,259
<b>Professional services</b>	<b>422,103</b>	<b>274,844</b>	<b>147,259</b>
Promotion and ads	327,398	375,525	( 48,127)
Cooperative education	35,061	31,188	3,873
Seminars	33,367	22,868	10,499
Donations	41,776	40,123	1,653
<b>Promotion and cooperative education</b>	<b>437,602</b>	<b>469,704</b>	<b>( 32,102)</b>
Depreciation	394,897	398,665	( 3,768)
Repairs and maintenance	281,197	268,751	12,446
Rents	69,831	71,388	( 1,557)
<b>Facilities, equipments and maintenance</b>	<b>745,925</b>	<b>738,804</b>	<b>7,121</b>



**COOPERATIVA DE AHORRO Y CRÉDITO DE RINCON  
STATEMENT OF OPERATIONS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>	<u>VARIANCE</u>
Office supplies	\$ 156,122	\$ 149,885	\$ 6,237
Telephone and fax	144,808	135,361	9,447
Utilities	243,574	231,406	12,168
Postages and meters	150,601	129,164	21,437
<b>Office supplies and others</b>	<b>695,105</b>	<b>645,816</b>	<b>49,289</b>
COSSEC insurance	1,332,991	1,332,991	-
Members insurance	962,616	926,340	36,276
Surety insurance	230,418	221,366	9,052
Equipments insurance	58,318	61,902	( 3,584)
Others insurance	50,124	48,149	1,975
<b>Insurance and surety</b>	<b>2,634,467</b>	<b>2,590,748</b>	<b>43,719</b>
Annual meeting	185,529	107,143	78,386
Per diem Board of directors and committees	78,880	69,074	9,806
Meetings Board of directors and committees	184,260	167,421	16,839
<b>Board of Directors and comités</b>	<b>448,669</b>	<b>343,638</b>	<b>105,031</b>
Bank charges	68,542	69,406	( 864)
Representation	66,640	37,022	29,618
Dues	10,091	8,761	1,330
Taxes	40,026	20,143	19,883
Others	79,645	40,658	38,987
<b>Others and miscellaneous</b>	<b>264,944</b>	<b>175,990</b>	<b>88,954</b>
<b>Total operating, general and administratives expenses</b>	<b>8,961,397</b>	<b>8,302,600</b>	<b>658,797</b>
<b>INCOME FROM OPERATIONS</b>	<b>11,087,667</b>	<b>11,097,431</b>	<b>( 9,764)</b>
<b>OTHERS INCOME / (EXPENSES):</b>			
Share draft accounts	14,140	13,788	352
Less: related expenses	( 32,483)	( 39,238)	6,755
<b>Share draft expenses, net</b>	<b>( 18,343)</b>	<b>( 25,450)</b>	<b>7,107</b>
Money orders, and utilities commissions	47,143	40,041	7,102
Mortgages commissions	246,688	275,846	( 29,158)
<b>Money orders and services commissions</b>	<b>293,831</b>	<b>315,887</b>	<b>( 22,056)</b>
ATM income	134,187	118,715	15,472
Less: related expenses	( 87,551)	( 72,251)	( 15,300)
<b>ATM income, net</b>	<b>46,636</b>	<b>46,464</b>	<b>172</b>
Late fees from loans	244,737	257,664	( 12,927)
Loan cancellation charges	9,611	31,890	( 22,279)
Gain on assets disposal	-	30,953	( 30,953)
Miscellaneous	58,401	46,496	11,905
<b>Others income</b>	<b>312,749</b>	<b>367,003</b>	<b>( 54,254)</b>
MasterCard income	112,622	115,874	( 3,252)
Less: related expenses	( 141,262)	( 127,046)	( 14,216)
<b>MasterCard expenses, net</b>	<b>( 28,640)</b>	<b>( 11,172)</b>	<b>( 17,468)</b>
<b>Loss on assets disposal</b>	<b>( 613,972)</b>	<b>( 528,199)</b>	<b>( 85,773)</b>
<b>TOTAL OTHERS INCOME</b>	<b>( 7,739)</b>	<b>164,533</b>	<b>( 172,272)</b>
<b>NET INCOME</b>	<b>\$ 11,079,928</b>	<b>\$ 11,261,964</b>	<b>(\$ 182,036)</b>

