

*COOPERATIVA DE AHORRO Y CREDITO
RAFAEL CARRIÓN JR.*

Audited Financial Statements
(Include Independent Auditors' Report)

December 31, 2021 and 2020

Evelyn Carmona Rivera
Certified Public Accountant

*COOPERATIVA AHORRO Y CREDITO DE
RAFAEL CARRIÓN JR.*

December 31, 2021 and 2020

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INDEPENDENT AUDITORS' REPORT

Board of Directors

Cooperativa de Ahorro y Crédito Rafael Carrión, Jr.

Corporación para la Supervisión y Seguro

de Cooperativas de Puerto Rico

San Juan, Puerto Rico

Opinion

I have audited the financial statements of Cooperativa de Ahorro y Crédito Rafael Carrión, Jr. (a cooperative), which comprise the statement of financial condition as of December 31, 2021 and 2020, and the related statements of income and expenses, changes in Members' Equity and cash flows for the years then ended, and the related notes to the financial statements.

In my opinion, due to the significant of issues discussed in the Basis for Adverse Opinion paragraph, the financial statements referred to above not present fairly, in all material respect, the financial condition of Cooperativa de Ahorro y Crédito Rafael Carrión, Jr. as of December 31, 2021 and 2020, and the results of its operations, changes in partners equity and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for the Adverse Opinion

As described in the Note 1 of the financial statements, the cooperative presented the financial statements conformity with Law 255 of October 28, 2002, as amended by the Law 255 of December 15, 2016, which is considered a base of accounting practices different to them accounting principles generally accepted in the United States of America.

The effect on the financial statements of the variances between the regulatory base and accounting principles generally accepted in the United States of America are significant. If the financial statements had been classified in accordance with generally accepted accounting principles, the total assets would decrease by \$2,405,649 and \$2,742,264; the liabilities would increase by \$23,883,994 and \$23,695,899 and the participation of the members equity would decrease by \$26,289,643 and \$26,438,163 for the years ended on December 31, 2021 and 2020. For the year ended December 31, 2021, the operating result would change from a net income of \$503,795 to a net loss of \$1,901,854 and for the year ended December 31, 2020 the operating result would change from a net income \$556,733 to a net loss of \$2,785,732.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America (GAAS). My responsibilities under those standards are further described in

the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Cooperativa de Ahorro y Crédito Rafael Carrión, Jr. and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audits. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Cooperativa de Ahorro y Crédito Rafael Carrión, Jr.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Instrumentation Services, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Instrumentation Services, Inc.'s ability to continue as a going concern for a reasonable period of time.

Board of Directors
Cooperativa de Ahorro y Crédito Rafael Carrión, Jr.

I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identified during the audit.

Opinion on the Regulatory Basis of Accounting

In my opinion, the financial statements referred to above present fairly, in all material respect, the financial condition of Cooperativa de Ahorro y Crédito Rafael Carrión, Jr. as of December 31, 2021 and 2020, and the results of its operations, changes in member's equity and cash flows for the years then ended in conformity with the base regulatory described in the note 1 of the financial statements

Regulatory Basis of Accounting

As described in the Note 1 of the financial statements, the cooperative presented the financial statements conformity with Law 255 of October 28, 2002, as amended by the Law 255 of December 15, 2016.

April 5, 2022
San Juan, Puerto Rico

License Expire December 2023

The stamp #Exxxxxxxx of the Colegio de Contadores Públicos Autorizados de P.R. was affixed to the original of this report.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
STATEMENT OF FINANCIAL CONDITION
December 31, 2021 and 2020
See Auditor's Report

ASSETS	<u>2021</u>	<u>2020</u>
CASH AND CASH EQUIVALENTS	\$2,736,943	\$5,398,428
TIME DEPOSITS (MATURITY OF THREE MONTHS OR MORE)	18,000,000	14,750,000
INVESTMENTS-HELD TO MATURITY	24,393,559	25,837,157
SPECIAL INVESTMENTS (Bonds of Puerto Rico) Note 6	-----	-----
LOANS, Net of Allowance for loan losses	24,700,880	20,902,068
INVESTMENTS IN COOPERATIVE ENTITIES	1,002,428	950,727
FURNITURE & EQUIPMENTS (Net of Accumulated Depreciation)	61,088	50,078
OTHER ASSETS		
IMPAIRMENT LAW 220 (Realized loss)	2,405,649	2,742,264
INTEREST RECEIVABLE	123,526	124,809
PREPAID INSURANCES AND PREPAID EXPENSES	<u>154,247</u>	<u>167,515</u>
	<u>2,683,422</u>	<u>3,034,588</u>
TOTAL ASSETS	<u>\$73,578,320</u>	<u>\$70,923,046</u>
<u>LIABILITIES & MEMBER'S EQUITY</u>		
DEPOSITS	\$42,256,892	\$40,512,468
DEPOSITS (See Note #3)	233,075	248,068
SCHOLARSHIP PROGRAM	<u>461,913</u>	<u>227,960</u>
ACCOUNTS PAYABLE AND ACCRUED EXPENSES	42,951,880	40,988,496
TOTAL LIABILITIES		
<u>MEMBER'S EQUITY</u>		
Shares \$10.00, par value	\$23,883,994	\$23,695,899
Reserve for risk capital	4,450,731	4,425,541
Special temporality reserve – Required by COSSEC	703,585	489,472
Contingency Reserve	50,379	-----
Vountary Reserve	1,059,190	1,059,190
Surplus unrestricted	<u>478,561</u>	<u>264,448</u>
TOTAL MEMBERS' EQUITY	<u>30,626,440</u>	<u>29,934,550</u>
TOTAL <u>LIABILITIES & MEMBER'S EQUITY</u>	<u>\$73,578,320</u>	<u>\$70,923,046</u>

The accompanying notes form an integral part of these financial statements.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
STATEMENTS OF INCOME AND EXPENSES
FOR THE YEARS ENDED December 31, 2021 and 2020
See Auditor's Report

	<u>2021</u>	<u>2020</u>
INCOME FROM FINANCING OPERATIONS		
Interests income (Note 1)		
Loans	\$1,209,072	\$1,166,074
Savings, time deposits and investments	<u>865,784</u>	<u>897,330</u>
Total interest income	2,074,856	2,063,404
Interests expenses (Note 1) :	<u>413,874</u>	<u>434,845</u>
Net interest income before allowance for loans and accounts receivable losses	1,660,982	1,628,559
Allowance for uncollectible loans and accounts	<u>-----</u>	<u>-----</u>
Total net interest income	<u>1,660,982</u>	<u>1,628,559</u>
OTHER INCOME	<u>5,782</u>	<u>1,692</u>
Total income	<u>1,666,764</u>	<u>1,630,251</u>
GENERAL AND ADMINISTRATIVE EXPENSES:		
Salaries	189,055	136,429
Payroll taxes, fringe benefits and medical plan	43,196	35,290
Annual meeting and other activities	29,306	7,504
Insurance	296,531	276,255
Education	12,440	13,983
Depreciation	9,969	20,369
Professional Services	76,416	97,437
Office and mailing expenses	7,587	8,830
Repair and maintenance	74,697	73,756
Bank charges and related	31,613	27,072
Utilities	5,774	3,301
Board of directors and committees' expense	26,856	17,513
Advertising and Promotion	900	-----
Other expenses	<u>22,014</u>	<u>19,165</u>
Total general and administrative expenses	<u>826,354</u>	<u>736,904</u>
Net income before Loss for special amortization-Law 220	840,410	893,347
Loss for special amortization-Law 220	<u>(336,615)</u>	<u>(336,614)</u>
Net Income (Net Loss)	<u>\$503,795</u>	<u>\$556,733</u>

The accompanying notes form an integral part of these financial statements.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDED December 31, 2021 and 2020
See Auditor's Report

	Shares	Reserve for Capital risk	Contingency Reserve	Voluntary Reserve	Special Temporarity Reserve by COSSEC	Surplus
BALANCE AS OF DECEMBER 31, 2019	\$22,614,406	\$4,397,705	\$1,059,190	\$-----	\$-----	\$825,224
Member additional investment	1,385,117	-----	-----	-----	-----	-----
Member withdrawals	(903,825)	-----	-----	-----	-----	-----
Capitalize surplus	600,201	-----	-----	-----	-----	(600,201)
Reserve for capital risk	-----	27,837	-----	-----	-----	(27,837)
Transfer to other reserves	-----	-----	-----	-----	489,472	(489,472)
Net Income December 31, 2020	-----	-----	-----	-----	-----	<u>556,733</u>
BALANCE AS OF DECEMBER 31, 2020	23,695,899	4,425,541	1,059,190	-----	489,472	264,448
Reclassification			(1,059,190)	1,059,190		
Member additional investment	2,021,282	-----	-----	-----	-----	-----
Member withdrawals	(1,833,187)	-----	-----	-----	-----	-----
Capitalize surplus	-----	-----	-----	-----	-----	-----
Transfer to other reserves	-----	25,190	50,379	-----	214,113	(289,682)
Net income December 31, 2021	-----	-----	-----	-----	-----	<u>503,795</u>
BALANCE A OF DE DECEMBER 31, 2021	<u>\$23,883,994</u>	<u>\$4,450,731</u>	<u>\$50,379</u>	<u>\$1,059,190</u>	<u>\$703,585</u>	<u>\$478,561</u>

The accompanying notes form an integral part of these financial statements.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED December 31, 2021 and 2020
See Auditor's Report

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (Net Loss)	\$503,795	\$556,733
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,969	20,369
Provision for loan losses	-----	-----
Loss for special amortization-Law 220	336,615	336,614
Decrease (increase) in interest receivable	32,523	1,858
Decrease (increase) in prepaid expenses	(17,972)	(4,079)
(Decrease) increase in accounts payable	<u>218,960</u>	<u>(420,758)</u>
Total adjustments	<u>580,095</u>	<u>(65,996)</u>
Net cash provided by operating activities	<u>1,083,890</u>	<u>490,737</u>
CASH FLOWS INVESTING ACTIVITIES		
Decrease in loans, net	(3,962,811)	428,951
Recoveries (from loan charged to reserve)	163,999	72,577
Investment in Cooperatives entities	(51,701)	(31,397)
Purchase of fixed assets	(20,979)	(50,000)
Reduction of savings certificates	(3,250,000)	(1,750,000)
Purchase of securities	<u>1,443,598</u>	<u>660,612</u>
Net cash (used) by investment activities	<u>(5,677,894)</u>	<u>(669,257)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in members savings account	1,744,424	3,280,860
Increase (decrease) in shares	<u>188,095</u>	<u>481,292</u>
Net cash by provided financing activities	<u>1,932,519</u>	<u>3,762,152</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(2,661,485)</u>	<u>3,583,632</u>
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,398,428</u>	<u>1,814,796</u>
CASH & CASH EQUIVALENTS AT END OF YEAR	<u><u>\$2,736,943</u></u>	<u><u>\$5,398,428</u></u>

The Cooperative policy is to consider as cash equivalents investments in saving certificates with maturity of three months or less. Stock withdrawals include payment transfers to loans that do not require cash payments. There are loans granted and collected that include transactions that were made through loan renewals which did not affect cash. During the year ended December 31, 2021 and 2020, the Cooperative paid in stock dividend amounting \$0.00 and \$600,201. The Cooperative paid \$413,246 and \$434.173 for interests over its saving and time deposits accounts during the years ended December 31, 2021 and 2020.

The accompanying notes form an integral part of these financial statements.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
NOTES TO FINANCIAL STATEMENTS
As of DECEMBER 31, 2021 AND 2020
See Auditor's Report

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Cooperative was created under the Law of General Credit Union Societies as amended. It is also regulated by Law 255 of October 28, 2002. These entities are engaged principally in collecting investments in shares and deposits from its members and to provide them financing services. This institution is a closed Cooperative whose members are exclusively employees and pensioner of Banco Popular de Puerto Rico, subsidiary and main company.

b. Summary of Significant Accounting Policies

1) Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that 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 these estimates.

2) Interest income and expenses

Interest income over loans is recorded using the simple-interest method on a principal outstanding amount. Interest receivable is accrued for a period not exceeding ninety days. Expenses are recorded using the accrual basis of accounting.

3) Surplus distribution

Each Credit Union should distribute its year end surplus after deducting an amount equal to 5% for years 2021 and 2020 and to be provided to the Risk Capital Reserve and also deducting any other required and voluntary reserves. Such surplus can be distributed in form interest over shares paid but not withdrawn at the end of year or as patronage dividends based on interest paid by members over loans.

4) Investments in cooperative entities

The Cooperative has investments in other Cooperatives, they are stated at cost plus any stock dividend declared.

5) Furniture, equipment, and depreciation

Furniture and equipment are carried at cost. The depreciation is provided using the straight-line method with monthly charges to the operations of the Cooperative during the estimated useful life of the assets.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
NOTES TO FINANCIAL STATEMENTS
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6) Investments in marketable securities

The Cooperative accounts for its investments in marketable securities using the FASB ASC 320, Debts and Equity Securities.

Available for sale securities – Investments in this classification is stated at market value. Net unrealized gain or losses are recognized through a valuation allowance that is shown as a reduction or addition in the carrying value of the related securities and as a corresponding reduction or addition in member equity.

Should any security be sold, cost of the securities for purposes of computing gain and losses are determined by the specific identification method.

Held to Maturity – Investments in this classification are stated at amortized cost. The Cooperative has both the positive intent and ability to hold its investment to maturity.

7) Members' shares

Members' shares are accounted using the cash method. This method is generally accepted for Cooperatives in Puerto Rico. The Cooperative does not issue share certificates. However, it maintains a statement of account for each member which shows their participation in the Cooperative capital. There is no limitation in the amount that each member can invest in shares. The Cooperative internal policies stipulate that each member should subscribe at least twelve shares in a year. The Cooperative member can withdraw shares only if they are not given as collateral for loans granted to members. Shares withdrawals are approved by the Board of Directors. The par value of shares should not be less than \$10.

8) Industry accounting practices that differ from accounting principles generally accepted in the United States of America

Shares and surplus

Credit Unions in Puerto Rico present their shares in the members' equity section of the balance sheet. Accounting principles generally accepted in the United States of America require that such amounts be presented in the liability section of the balance sheet.

The Cooperative records its loans origination fees as income for the year in which the loans are granted. Accounting principles generally in the United States of America require that such fees and certain direct loan origination costs, be deferred using the interest method over the contractual life of the loans adjusted for estimated prepayment based on the Credit Union historical prepayment experience.

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
NOTES TO FINANCIAL STATEMENTS
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Also, the Credit Union is permitted to create reserves from its net earnings which are consumed through charges to it based on its purposes. Accounting principles generally accepted in the United States of America require that any reserve should be created with charges to operation.

9) Indivisible Capital

Article 6.02 of Act No. 255, known as "Ley de Sociedades Cooperativas de Ahorro y Crédito de 2014", provide among other things: The Cooperative will maintain a capital reserve that will be known as indivisible capital and all cooperatives that have reached a minimum of 8% of their risk assets, will have the power to reduce the contribution to the capital reserve. The 35% of indivisible capital must be kept invested in eligible liquid assets. See Note 12.

10) As of June 30, 2021, credit unions are required (CC #2021-02) to establish a contingency reserve and separate ten percent (10%) of the economies and incorporate it annually into said contingency reserve. This reserve cannot be made available without the prior authorization of COSSEC.

2. Loans & Allowance for Loan Losses

The loan portfolio of the Cooperative consists principally of personal loans, financing the acquisition of stocks, and home improvements. The loans are granted from a period of 1 to 120 months, depend of the type of loan, nevertheless, a significant portion of the personal loans is renewed before their maturity. The annual interest varies from 2% to 14% depending also on the type of loan. Most of these loans are collateralized by shares and deposits of debtor's members and other members (co debtors) that unconditionally guaranty the debt.

The following is a list of loans and accounts receivable portfolios by category as of December 31, 2021 and 2020:

	2021	2020
Personal	\$17,280,817	\$13,142,789
Collateral	<u>7,880,741</u>	<u>8,116,799</u>
	25,161,558	21,259,588
Less provision for doubtful accounts	<u>(460,678)</u>	<u>(357,520)</u>
	<u>\$24,700,880</u>	<u>\$20,902,068</u>

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
NOTES TO FINANCIAL STATEMENTS
As of DECEMBER 31, 2021 AND 2020
See Auditor's Report

ANALYSIS OF THE ACCUMULATED ALLOWANCE FOR LOAN LOSSES

The change in the allowance for loans losses as of December 31, 2021 and 2020 is as follows:

	2021	2020
Beginning balance	\$357,520	\$445,157
Allowance for the period	-----	-----
Charge off	163,998	72,577
Recoveries	(60,840)	(160,214)
Ending balance	<u>\$460,678</u>	<u>\$357,520</u>

3 CASH RESTRICTED

The General Law of Cooperative Organism (Law 255) requires the following:

- a. A 25% should be segregated annually from the net incomes of the period to be provided for a Risk Capital Reserve.
- b. The Cooperative should segregate and maintain 15% of the demand deposits in liquid funds.
- c. The Cooperative should segregate and maintain 15% of its time deposits with maturities more than 30 days in liquid funds. Also, 25% segregation is required for those time deposits with maturities of 30 days or less, net of those pledges with loans.
- d. The Cooperative will accumulate monthly an 8.33% from these special deposits accounts (Christmas Club and Summer Club) up to accumulate a 100% and segregate that portion in liquid funds.

As a result of above requirements, the Cooperative maintained as of December 31, 2021 and 2020 and approximate amount of \$8,035,747 and \$7,517,415, respectively, in time deposits and savings accounts that are not available for the normal operations of the entity. They are as follows:

	2021	2020
AVAILABLE		
Cash, savings certificates and savings	\$20,736,943	\$20,148,428
Accrued interest receivable	83,308	103,237
Investments at market value	<u>24,438,124</u>	<u>26,960,281</u>
	<u>45,258,375</u>	<u>47,211,946</u>
REQUIRED		
Reserved for risk capital (35%)	1,557,756	1,548,939
Demand deposits and interest (15%)	6,189,970	5,925,219
Special deposit accounts	<u>556,077</u>	<u>561,589</u>
	<u>8,303,803</u>	<u>8,035,747</u>
EXCESS OF AVAILABLE FUND OVER LAW REQUIREMENTS	<u>\$36,954,572</u>	<u>\$39,176,199</u>

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
NOTES TO FINANCIAL STATEMENTS
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See Auditor's Report

4 INVESTMENTS

The Cooperative maintained the following investment classified held to maturity securities at December 31, 2021:

Type of investment	Book Value	Unrealized Gain or (Loss)	Market Value
FHLB	\$7,467,204	\$(143,936)	\$7,323,268
GNMA	95,353	(4,061)	91,292
FNMA	12,178,101	310,115	12,488,216
Federal Farm Credit	3,107,946	(71,628)	3,036,318
FHLM	1,044,976	(46,496)	998,480
USTN	<u>499,979</u>	<u>571</u>	<u>500,550</u>
	<u>\$24,393,559</u>	<u>\$44,565</u>	<u>\$24,438,124</u>

The stated maturity of marketable securities is as follows. Expected maturity will differ from contractual maturities because borrowers may have the right to call or prepay obligations without call or prepayment penalties. At December 31, 2021 and 2020 the maturities are the follows:

	2021		2020	
Maturity	Amortized Cost	Market Value	Amortized Cost	Market Value
Less than one year	499,979	500,550	\$4,283,469	4,321,287
1-5 years	1,771,231	1,796,185	647,447	649,381
6-10 years	5,946,665	5,961,482	7,654,940	8,019,132
Over 10 years	<u>16,175,684</u>	<u>16,179,907</u>	<u>13,251,301</u>	<u>13,970,481</u>
	<u>\$24,393,559</u>	<u>\$24,438,124</u>	<u>\$25,837,157</u>	<u>\$26,960,281</u>

The Cooperative maintained the following investments classified held to maturity securities at December 31, 2020:

Type of investment	Book Value	Unrealized Gain or (Loss)	Market Value
FHLB	\$6,430,688	\$(3,823)	\$6,426,865
GNMA	1,827,678	(9,108)	1,818,570
FNMA	10,602,378	346,452	10,948,830
Federal Farm Credit	3,646,780	<u>(22,183)</u>	3,624,597
FHLM	490,895	<u>(5,346)</u>	485,549
USTN	<u>3,499,350</u>	<u>(4,480)</u>	<u>3,494,870</u>
	<u>\$26,497,769</u>	<u>\$301,512</u>	<u>26,799,281</u>

COOPERATIVA DE AHORRO Y CRÉDITO RAFAEL CARRIÓN JR.
NOTES TO FINANCIAL STATEMENTS
As of DECEMBER 31, 2021 AND 2020
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Special Investments Bonds of Puerto Rico:

As of December 31, 2019, the Cooperative had sold all of its special investments in bonds of Puerto Rico.

Law 220 adopted by the Cooperative during the year ended December 31, 2016 allows any loss attributable to special investments in the sale (disposal), retention or related to the application of a pronouncement of the generally accepted principles of accounting be amortized for a period not to exceed 15 years, to be named as Losses under Special Amortization.

The realized loss in the sale of the special investments is as follows:

	<u>Selling Price</u>	<u>Amortized Cost (Before any impairment)</u>	<u>Realized Loss</u>	<u>Amortization of Loss - years 2017 - 2021</u>	<u>Realized loss classified as Reserve of Impairment in Other Assets Law 220</u>
Bonds of Puerto Rico	<u>\$5,084,881</u>	<u>\$11,200,000</u>	<u>\$6,115,119</u>	<u>(\$3,709,470)</u>	<u>\$2,405,649</u>

5. THE LAW OF CORPORACIÓN PARA LA SUPERVISIÓN Y SEGURO DE COOPERATIVA DE PUERTO RICO (COSSEC)

On August 17, 2001, the Law No. 114 of Corporación para la Supervisión y Seguro de Cooperativas de Puerto Rico (COSSEC) as amended, states the following:

- a. Starting with the first day of the following month this law was created, the maximum quantity combines with shares and deposits of members and non-members account will be insured up to \$250,000 for the 2021 and 2020, respectively.
- b. The insurance company will have the obligation to decree and establish the maximum insurance coverage mentioned above, on the dates that are stipulated in this Article. Nevertheless, the Board will have the authority not to approve such increase when based on experiences of the losses reported on insurance coverage of shares and deposits, the economic condition or then increased will not be favorable.
- c. Each Cooperative insured must maintain in the Corporation as a capital contribution and as determined by the Corporation an equal amount of 1% of the total shares and deposits that each Cooperative holds each June 30 of each year of operations. As presented in a certified statement of shares and deposits on in

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the certified balance sheets required by this law. The Corporation will establish the rules and procedures to determine annual amount of the deposits to be

considered as contributed capital that should be maintained by each insured Cooperative. Also, will establish the rules and procedures to determine the annual increase of the contribution based on the related increased in shares and deposits of its insured.

When the sum of unrestricted reserves not segregated for the payment of losses and the total capital of the insurance company exceeds 2% of the total shares and deposits insured, the insurance company will use the excess for the payment of interest over capital. Such interests are determined based in the average yield of total assets of the insurance Company for the period of twelve months before the date in which payments will occur reduced by 1%.

Each cooperative will pay annual insurance premium that fluctuates between .0162540% up to .433900% of the total of shares and deposits held at each June 30 of each year. The insurance premium is based on the cooperative's CAEL classification of the quarterly march report of every year.

<u>CAEL Classification</u>		<u>Standard Premium</u>
One	(1)	0.00162540
Two	(2)	0.00201689
Three	(3)	0.00242295
Four	(4)	0.00334908
Five	(5)	0.00433900

6. DEPOSITS

The savings account pays annual interests that are paid semiannually every February and August of each year. The interest is accumulated monthly and is calculated based on average daily balance. It is a policy of the Cooperative to allow deposit withdrawals in any working day, but the Board of Directors may require 30 days advance notification of withdrawals interest in those situations they may believe is necessary. The annual interest paid was 1.00% for the year 2021 and 2020.

The balances of Taxes Club, Christmas Club and Summer Club are paid on April, May and November, respectively, and pay an annual interest of .75% the year 2021 and 2020.

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7. ACCOUNT PAYABLE COOPERATIVE LEAGUE

The Credit Union is required by Law to contribute on tenth of 1% of its operational volume of business and up to a limit of \$4,000 and another 5% of its net income up to a maximum of \$6,000 when the volume of business is more than \$4,000,000 to the Cooperative League of Puerto Rico to be used for educational and promotional purposes. The amount is payable to the league and must not exceed \$10,000.

8. ACCOUNTS PAYABLE

Accounts payable as of december31, 2021 and 2020 consist of the following:

	<u>2021</u>	<u>2020</u>
Collections (Payroll) from members to be distributed	\$295,872	\$1,780
Accrued expenses	69,385	108,012
Interests payable	3,897	3,269
Accrued vacation leave	2,207	-----
Loan insurances	-----	19,910
Outstanding checks	<u>90,552</u>	<u>94,989</u>
	<u><u>\$461,913</u></u>	<u><u>\$227,960</u></u>

9. SCHOLARSHIP PROGRAM

During 1982 the Cooperative established a scholarship program. The purpose of the program is to grant members sons a scholarship to those who are university students and qualify under the program requirements. For this program, the Cooperative has investment by the amount of \$\$52,802.00. The Cooperative which is invested in accounts time deposits saving accounts and federal bonds. The account payable in the amount of \$233,075 represents the accumulated dividends and interest income available for the payment of the scholarships. Program disbursements are limited only to the scholarships granted. During 2021 and 2020 they granted scholarships amounting \$15,000 for each year.

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10. FINANCIAL INSTRUMENTS WITH CONCENTRATION RISK:

Most of the Cooperative's commercial activity is with its members. Loans totaling \$25,161,558 and \$21,259,588 were to be collected from members as of December 31, 2021 and 2020. The Cooperative requires that all loans have collateral in the form of shares, deposits, guarantee insurance or co-debtors so as not to incur losses.

The Cooperative has all of its investments and cash deposits with Banco Popular de Puerto Rico a high credit quality bank. The accounts at the institution are covered by the Bank's Federal Deposit Insurance Corporation (FDIC) up to a maximum of \$250,000 as of December 31, 2021 and 2020, respectively. As of December 31, 2021, the Cooperative had cash deposit in excess of the insured amounts of \$20,459,141.

11. LINE OF CREDIT

The Cooperative has a line of credit amount to \$250,000 approved by Banco Popular de Puerto Rico, interest at prime rate.

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12. Determination of Indivisible Capital – 2021:

	Amount
Elements of Indivisible Capital:	
Statutory Reserve (Regular Reserve)	\$4,450,731
Other Reserves	1,813,154
15% Undivided earning	71,784
Portion of Allowance for loss for non-arrear loans	<u>115,975</u>
Total of indivisible capital	<u>\$6,451,644</u>

DETERMINATION OF ASSETS SUBJECTS TO RISK

Elements of assets subjects to risk:

Total assets	\$73,578,320
Reserve for loan losses	<u>460,678</u>
	\$74,038,998

ZERO PERCENT RISK WEIGHT

100% The portion of shares and deposits on guaranteed of loans.	\$9,974,511
Investment in COSSEC.	656,924

20 PERCENT RISK WEITH

80% Cash items in process of collections (including demand deposits)	589,554
80% Interest in process of collection	66,646
80% Debt obligations and securities, and the portion of claims that are issued, insured or unconditionally guaranteed by Commonwealth of Puerto Rico and agencies, or US Central Government and agencies but whose debt obligations are not explicitly guaranteed by the full faith and credit of US or Puerto Rico Government. These agencies include <i>Federal Home Loan Mortgage Corporation (FHLMC)</i> , <i>Federal National Mortgage Association (FNMA)</i> , <i>Farm Credit System</i> , <i>Federal Home Loan Bank System</i> , and <i>Student Loan Marketing Association (SLMA)</i> .	19,514,847
80% Deposits, loans, debt obligations and securities, and the portions of claims, that are issued, insured o unconditionally guarantee by Commonwealth of Puerto Rico or US Central Government, including Cooperative Bank of Puerto Rico. Shares of non-profit organizations are excluded.	16,000,000
80% Of the shares and preferred shares backing in the following Credit Union Institutions: Cooperative Bank, Seguros Multiples and COSVI Life Insurance, subject to that they maintain the par value, according to audit financial statements and may be redeemable.	97,998
80% Prepaid insurances to cover institution risk.	59,227

50 PERCENT RISK WEIGHTH

50% Investments in shares in Central Credit Union Institutions if they don't have deficit or undivided loss.	605
Total non-risk assets	<u>46,960,312</u>

Total of risk assets **\$27,078,686**

Indivisible capital to risk assets ratio **23.83%**

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13.Reconciliation from statutory presentation to GAAP:

STATEMENT OF FINANCIAL CONDITION		Reclassifica- tions & Adjustments to convert to <u>GAAP</u>	<u>US GAP</u>
ASSETS	<u>Statutory COSSEC</u>		
CASH AND CASH EQUIVALENTS	\$2,736,943	\$-----	\$2,736,943
TIME DEPOSITS (MATURITY OF THREE MONTHS OR MORE	18,000,000	-----	18,000,000
INVESTMENTS-HELD TO MATURITY	24,393,559	-----	24,393,559
SPECIAL INVESTMENTS (Bonds of Puerto Rico) Note 6	-----	-----	-----
LOANS, Net of Allowance for loan losses	24,700,880	-----	24,700,880
INVESTMENTS IN COOPERATIVE ENTITIES	1,002,428	-----	1,002,428
FURNITURE AND EQUIPMENTS	61,088	-----	61,088
IMPAIRMENT LAW 220 (Realized loss)	2,405,649	(2,405,649)	-----
OTHER ASSETS	<u>277,773</u>	-----	<u>277,773</u>
TOTAL ASSETS	<u>\$73,578,320</u>	<u>\$(2,405,649)</u>	<u>\$71,172,671</u>
<u>LIABILITIES & MEMBER'S EQUITY</u>			
DEPOSITS	\$42,256,892	\$-----	\$42,256,892
SHARES	-----	23,883,994	23,883,994
PAYABLE, ACCRUED EXPENSES, SCHOLARSHIP	<u>694,988</u>	-----	<u>694,988</u>
TOTAL LIABILITIES	42,951,880	23,883,994	66,835,874
<u>MEMBER'S EQUITY</u>			
Shares \$10.00, par value	23,883,994	(23,883,994)	-----
Dividends	-----	-----	-----
Reserve for risk capital and other reserves	6,263,885	-----	6,263,885
Surplus unrestricted	264,448	-----	264,448
Net income (Net Loss)	<u>214,113</u>	<u>(2,405,649)</u>	<u>(2,191,536)</u>
TOTAL MEMBERS' EQUITY	<u>30,626,440</u>	<u>(26,289,643)</u>	<u>4,336,797</u>
TOTAL <u>LIABILITIES & MEMBER'S EQUITY</u>	<u>\$73,578,320</u>	<u>(2,405,649)</u>	<u>\$71,172,671</u>

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13. Reconciliation from statutory presentation to GAAP: Continuation

STATEMENT OF INCOME AND EXPENSES	<u>Statutory</u> <u>COSSEC</u>	Adjustments to convert to <u>GAAP</u>	<u>US GAP</u>
INCOME FROM FINANCING OPERATIONS			
INCOME (ALL SOURCES)	\$2,080,638	\$-----	\$2,080,638
Interests expenses (Note 1) :	413,874	-----	413,874
GENERAL AND ADMINISTRATIVE EXPENSES	<u>826,354</u>	<u>-----</u>	<u>826,354</u>
Net income before Loss for special amortization-Law 220	840,410		840,410
Loss for special amortization-Law 220	<u>336,615</u>	<u>2,405,649</u>	<u>2,742,264</u>
Net Income (Net Loss)	<u>\$503,795</u>	<u>\$(2,405,649)</u>	<u>\$(1,901,854)</u>

14. Reclassifications:

Certain items in the financial statements for the year 2020 were reclassified to conform to the presentation of the year 2021. These reclassifications did not affect the results of operations of the Cooperative.

15. Subsequent Events and COVID-19:

The management of the Cooperative has evaluated its subsequent events (events occurring after December 31, 2021) through April 5, 2022 which represents the date the financial statements were issued or available to be issued. No material event occurred subsequent to December 31, 2021 that requires recording or that needs disclosure in the financial statements.

During the year 2021 the COVID 19 Pandemic continued. At the date of issuance of the financial statements, the Cooperative's hours of service was its usual schedule and they are maintained with the rules of physical distancing and all sanitary measures. The management understands that this situation will not have any impact on the operating results for the year ended December 31, 2022.