Puerto Rico Federal Credit Union

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

For the years ended
December 31, 2020 and 2019

Puerto Rico Federal Credit Union

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CONTENTS

LLAVONA CASAS CPA-PSC
Tus socios para el éxito

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Puerto Rico Federal Credit Union
Guaynabo, Puerto Rico

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Puerto Rico Federal Credit Union ("the credit union") which comprise the statements of financial condition as of December 31, 2020 and 2019, and the related statements of income and expenses, changes in members' equity, comprehensive net income, and cash flows for the years then ended, and the corresponding notes to the 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 the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the

INDEPENDENT AUDITORS' REPORT (CONTINUED)

reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION ON ACCOUNTING PRINCIPLES GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Puerto Rico Federal Credit Union, as of December 31, 2020 and 2019, and the results of its operations, changes in members' equity, comprehensive net income and cash flows for the years then ended, in accordance with generally accepted accounting principles in the United States of America.

San Juan, Puerto Rico
March 26, 2021

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Puerto Rico Federal Credit Union
STATEMENTS OF FINANCIAL CONDITION
December 31, 2020 and 2019

Assets	**2020**	**2019**
Cash, cash equivalents and restricted cash	$ 38,286,355	$ 12,799,688
Certificates of deposits	5,671,278	11,574,405
Investment securities available for sale	25,173,702	19,673,584
Loans to members, net allowance for loan losses	91,428,096	98,271,354
Accrued interest receivable	374,725	385,955
Property and equipment, net	5,761,630	5,890,295
NCUSIF deposit	1,312,715	1,201,873
Investment in credit corporate union	996,936	967,234
Prepaid expenses and other assets	334,567	371,926
Total assets	$ 169,340,004	$ 151,136,314
Liabilities and Members' Equity		
Members' shares and savings accounts	$ 144,219,853	$ 123,723,846
Borrowed funds	-	3,472,000
Accrued interest payable	74,994	72,425
Accounts payable and accrued liabilities	673,460	536,441
Total liabilities	144,968,307	127,804,712
Members' Equity		
Regular reserve	2,947,255	2,947,255
Undivided earnings	21,234,601	20,418,670
Accumulated other comprehensive income (loss)	189,841	(34,323)
Total members' equity	24,371,697	23,331,602
Total liabilities and members' equity	$ 169,340,004	$ 151,136,314

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

Puerto Rico Federal Credit Union
STATEMENTS OF INCOME AND EXPENSES
For the years ended December 31, 2020 and 2019

	2020	2019
Interest Income:		
Interest on loans	$ 5,284,491	$ 4,995,088
Interest on investment securities and savings	609,171	678,232
Total interest income	5,893,662	5,673,320
Interest expense:		
Interest and dividends on members' shares, savings accounts and borrowed funds	(1,344,935)	(1,210,830)
Net interest income	4,548,727	4,462,490
Provision for loan losses	(580,600)	(266,574)
Net interest income after provision for loan losses	3,968,127	4,195,916
Service fee and non-interest income	558,576	555,517
Non-Interest expenses:		
Compensation and benefits	1,448,236	1,452,048
Office operations	601,921	499,243
Occupancy and related	601,020	680,919
Professional services and contracted services	424,359	243,243
Education and promotional	187,718	230,377
Data Processing	157,475	118,878
Loss on disposal of assets	5,262	87,736
Loss (gain) on sale of investment securities	(69,896)	190,815
Other	354,677	421,779
Total non-interest expenses	3,710,772	3,925,038
Net Income	$ 815,931	$ 826,395

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

Puerto Rico Federal Credit Union
STATEMENTS OF CHANGES IN MEMBERS' EQUITY
For the years ended December 31, 2020 and 2019

	Regular Reserve	Undivided Earnings	Accumulated Other Comprehensive Income/(loss)	Total
Balance, December 31, 2018	$ 2,437,522	$ 20,102,008	$ (431,535)	$ 22,107,995
Transfer from undivided earnings To regular reserve	509,733	(509,733)	-	-
Net income	-	826,395	-	826,395
Other comprehensive income	-	-	397,212	397,212
Balance, December 31, 2019	2,947,255	20,418,670	(34,323)	$ 23,331,602
Net income	-	815,931	-	815,931
Other comprehensive income	-	-	224,164	224,164
Balance, December 31, 2020	$ 2,947,255	$ 21,234,601	$ 189,841	$ 24,371,697

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

Puerto Rico Federal Credit Union
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2020 and 2019

	2020	2019
Net Income	$ 815,931	$ 826,395
Other Comprehensive income:		
Changes in net unrealized gain on investment securities available for sale during the year	224,164	397,212
Total comprehensive income	$1,040,095	$1,223,607

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

Puerto Rico Federal Credit Union
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Net income	$ 815,931	$ 826,395
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	246,443	298,623
Provision for possible loan losses	580,600	266,574
Loss on disposition of assets	5,262	87,736
Loss (gain) on sale of investment securities	(69,896)	190,815
Premium amortization and discount accretion, net	3,204	1,732
Net unamortized deferred origination fees	(11,274)	(9,973)
Recoveries on charged-off loans	272,252	355,717
(Increase) decrease in assets:		
Accrued interest receivable	11,230	41,253
Prepaid expenses and other assets	32,097	(45,524)
(Decrease) increase in liabilities:		
Accrued interest payable	2,569	17,211
Accounts payable and accrued liabilities	137,019	(1,544,967)
Total adjustments	1,209,506	(340,803)
Net cash provided by operating activities	2,025,437	485,592
Cash flows from investing activities:		
Cash proceeds from maturities, disposition and return on principal over investments	25,035,854	28,822,154
Net (increase) decrease in certificates of deposit	5,903,127	(3,908,405)
Adquisition of investment securities available for sale	(30,245,116)	(7,436,894)
Net (increase) decrease in loans to members	6,001,680	(9,129,237)
Acquisitions of property and equipment	(117,778)	(152,314)
Investment in credit corporate union	(29,702)	(358,240)
Deposit in NCUSIF	(110,842)	(84,035)
Net cash provided (used) by investing activities	6,437,223	(21,702,911)
Cash flows from financing activities:		
Net increase in shares and savings accounts	20,496,007	6,087,112
Net decrease in borrowed funds	(3,472,000)	(1,971,761)
Net cash provided by financing activities	17,024,007	4,115,351
Net increase in cash, cash equivalents and restricted cash	25,486,667	12,353,972
Cash, cash equivalents and restricted cash at beginning of year	12,799,688	445,716
Cash, cash equivalents and restricted cash at end of year	$ 38,286,355	$ 12,799,688

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

Supplemental Disclosures of Cash Flow Information

Interest and dividend paid for the years ended December 31, 2020 and 2019 was approximately $1,342,367 and $1,194,000, respectively.

Also, during the years ended December 31, 2020 and 2019, unrealized gain/(loss) on securities available for sale were recognized for $224,164 and $397,212, respectively.

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

1. ORGANIZATION

Puerto Rico Federal Credit Union ("Credit Union") is located in Guaynabo Puerto Rico and was organized and chartered under the Federal Credit Union Act ("The Law"). The Credit Union is organized to promote thrift among its members by receiving savings from its members in the form of shares and deposits to provide sources of financing. Its powers are limited to those granted in its regulations and the Law. The Credit Union is governed by the rules established in its statutes and the regulations issued by the National Credit Union Administration (NCUA), the regulatory entity. As of December 31, 2020, and 2019, the NCUA insured the Credit Union shares members' accounts up to $250,000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented following the accounting principles generally accepted in the United States of America (U.S. GAAP). The most significant policies are as follows:

Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make certain 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 those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses.

Reclassifications

Certain figures in the accompanying 2019 financial statements were reclassified to conform to the 2020 presentation.

Concentrations of Credit Risk

Financial instruments that potentially subject the Credit Union to credit risk include cash balances and certificate of deposits with several financial institutions located in Puerto Rico and the United States, which were insured for up to $250,000 by the U.S. Federal Deposit Insurance Corporation (FDIC). The balances may exceed amounts insured by the FDIC.

Credit risk for loans receivable and share accounts are also concentrated since most of the Credit Union's members are located in the Puerto Rico geographical area.

Cash and Cash Equivalents

For purposes of the cash flow statements, the Credit Union considers cash and cash equivalents, the change fund, current accounts in local banks, money market accounts and certificates of deposit that have a maturity date of three months or less from the date of purchase. Certificates of deposit with a maturity date in excess of 90 days from the date of purchase are presented in a separate line in the statement of financial condition.

Restricted Cash

The Credit Union adopted the ASU 2016-18 Accounting Standard, to identify its restricted cash in the statement of financial condition and in the statement of cash flows. Restricted cash is an asset that is reserved for a particular purpose primarily to satisfy regulatory or contractual requirements. Restricted assets subject to these specific requirements are segregated from other assets to mark clear boundaries of their use.

Investment Securities

Investments are made in accordance with the Credit Union's policies, which incorporate the regulations of National Credit Union Administration (NCUA), hence they are principally in federally sponsored and guaranteed financial instruments. Investment securities are classified and accounted for as investments available-for-sale or held to maturity, according to the requirements of ASC 320, *Accounting for Certain Investments in Debts and Equity Securities*. Interest income is recorded on an accrual basis. In addition, management evaluates individually all investments to determine if any decrease in market value is temporary or not. Any non-temporary decrease is reflected in earnings of the current period and the carrying value of the investment is reduced.

<u>Investment securities held-to-maturity</u>

Investment securities held-to-maturity are those which the management has the intent to hold to maturity. These investments are reported at cost, adjusted for amortization of premiums or accretion of discounts, which are recognized in investment interest income using the effective interest method over the period of maturity. Any permanent reduction in the net realizable value of these investments below their cost is recognized as a loss charged to earnings. Gains and losses on the sale of investments are recognized using the specific cost of each investment.

Investment securities available-for-sale

Investment securities available-for-sale are presented at fair market value. Unrealized gains and losses on securities available for sale are excluded from earnings and recognized as an increase or decrease in other comprehensive income. Investment securities in this classification could be sold any time in response to economic and strategic factors.

Other than temporary decline in the fair market value

Declines in the fair value of held to maturity and available for sale securities below their cost that are other than temporary are reflected as realized losses. In estimating other than temporary impairment, management considers, among others: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) that the Credit Union does not intend to sell these securities, and (4) it is more likely than not that the Credit Union will have the ability to hold the securities for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans to Members and Allowance for Loan Losses

Loans to Members

The Credit Union extends credit to its members through personal loans, auto loans, mortgages, credit cards and lines of credit. During 2020 and 2019, the Credit Union originated loans with an aggregated dollar value of approximately $22,626,000 and $37,204,000, respectively. Loans are stated at the amount of unpaid principal, reduced by an allowance for loan losses and net origination fees. Interest on loans to members is recognized over the terms of the loans and is calculated on principal amounts outstanding.

The accrual of interest on loans is discontinued at the time the loan is 60 days delinquent unless the credit is well-secured and in the process of collection. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Deferred Loan Origination Costs

Certain direct loan origination costs are deferred and recognized as an adjustment to interest income over the contractual life of the loans.

Allowance for loan losses

The allowance for loan losses (allowance) is an estimate of loan losses inherent in the Credit Union's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Loan losses are charged-off against the allowance when the Credit Union determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic assessment of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

For purposes of determining the allowance, the Credit Union has segmented certain loans in the portfolio by product type. Loans are divided into the following segments: personal loans, auto loans, mortgages, credit cards and lines of credit. The Credit Union further disaggregates these segments into classes based on the associated risks within those segments. Consumer loans are divided into secured and unsecured. The allowance for loan losses is established through a provision for loan losses charged to expenses. Loans are charged against the allowance for loan losses when management believes that the collectability of the principal is unlikely. The recoveries of balances previously charged to the allowance for loan losses are credited to the allowance.

The allowance consists of specific and general components. The specific component covers impaired loans and troubled debt restructurings and the specific allowances are established for these loans based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment or class of loans. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The Credit Union maintains a separate general valuation allowance for each portfolio segment.

These portfolio segments include consumer (unsecured and secured personal loans, auto, credit cards and lines of credit) and mortgage, and with risk characteristics described as follows:

Consumer: The consumer loan portfolio usually comprises a large number of small loans, including automobile and personal loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

Mortgage: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Credit Union will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Troubled Debt Restructurings

Under certain circumstances, the Credit Union will provide borrowers relief through loan restructurings. A loan restructuring represents a troubled debt restructuring (TDR) if for economic or legal reasons related to the borrower's financial difficulties the Credit Union grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

Loan Charge-off Policies

The Credit Union's quality control process includes preparing lists to monitor and track delinquent loans. Tracking the loans on these lists enables management to assess the performance of the loan portfolio and act to mitigate risk therein through necessary changes in policy and procedures. The quality control process also serves as a tool to assist the Credit Union in identifying loans for charge-off on a timely basis. All loans will be charged-off once deemed uncollectible.

Generally, non-performing loans are deemed to be a loss when they become three months delinquent unless it is determined prior that there is no collectability based on the established loan life collections process. This process includes well defined procedures and guidelines used to identify, monitor, and address non-performing loans and when they should be considered for charge-off.

Accounts Receivable

Accounts receivable are stated at their net realizable value.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Depreciation and amortization are computed using the straight-line- method over the estimated useful lives of the assets. Land is stated at cost. Assets classified as construction in process are not depreciated until the asset has been completed and placed into service. Expenditures for maintenance and repairs are charged to operations as incurred. The cost and related accumulated depreciation are eliminated from the accounts when assets are disposed. Any resulting gain or loss is reflected in the results of operations.

Impairment of Long-Lived Assets

The Credit Union periodically reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No indications of impairment are evident at December 31, 2020 and 2019.

NCUSIF Deposit

The deposit in the National Credit Union Share Insurance Fund (NCUSIF) is accordance with National Credit Union Administration (NCUA) regulations, requiring the maintenance of a deposit by each insured credit union in an amount equal to one percent

(1%) of its insured shares. The deposit would be refunded to the credit union if: (1) the insurance coverage is terminated, (2) The Credit Union converts to insurance coverage from another source; (3) the operations of the fund are transferred from the NCUA Board.

Assets Acquired in Liquidation of Loans

Assets acquired in liquidation of loans represent collateral used to secure members' loans that have been acquired by the Credit Union in an effort to settle the members' loan and are recorded at the lower of cost or market less costs of sale. Upon acquisition, the Credit Union determines fair value of the collateral and any losses are charged-off through the allowance for loan losses. The Credit Union continues to review the properties for subsequent impairment and any subsequent declines in fair value are recorded through current period earnings.

Members' Shares Accounts

The dividend rates are set by the Credit Union's Board of Directors based on an evaluation of current and future market conditions. Dividends on members' shares accounts are based on available earnings at the end of the corresponding period and are not guaranteed by the Credit Union. Dividends are credited to the members' share accounts on the last day of the month for which dividends are declared. Members share accounts are subordinated to all other liabilities of the Credit Union upon liquidation.

Members' Equity

Puerto Rico Federal Credit Union is required by regulation to maintain a statutory reserve ("Regular reserves"); representing a regulatory restriction of members' equity, and thus these regular reserves are not available for the payment of dividends on share accounts. The statutory reserve consists of $2,947,255 for both years 2020 and 2019. Other appropriated members' equity amounts may be established or transferred at the discretion of the Board of Directors.

Comprehensive Income

Accounting principles generally require revenue, expenses, gains and losses to be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on investment securities, are reported as separate component of members' equity in the statements of financial condition.

Advertising and Promotional Costs

Advertising and promotional costs are included in education and promotional expense and are expensed as incurred.

Federal and State Income Taxes

The Credit Unions is exempt, by statute, from federal and state income taxes.

Recent Accounting Pronouncements: *FASB Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses: Measurement of Credit Losses on Financial Instruments*

The FASB issued ASU 2016-13 in June 2016, which replaces the incurred loss model with a current expected credit loss ("CECL") model. The CECL model applies to financial assets subject to credit losses and measured at amortized cost and certain off-balance sheet exposures. Under current U.S. GAAP, an entity reflects credit losses on financial assets measured on an amortized cost basis only when losses are probable and have been incurred, generally considering only past events and current conditions in making these determinations. ASU 2016-13 prospectively replaces this approach with a forward-looking methodology that reflects the expected credit losses over the lives of financial assets, starting when such assets are first acquired. Under the revised methodology, credit losses will be measured based on past events, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets. ASU 2016-13 also revises the approach to recognizing credit losses for available-for-sale securities by replacing the direct write-down approach with the allowance approach and limiting the allowance to the amount at which the security's fair value is less than the amortized cost. In addition, ASU 2016-13 provides that the initial allowance for credit losses on purchased credit impaired financial assets will be recorded as an increase to the purchase price, with subsequent changes to the allowance recorded as a credit loss expense. ASU 2016-13 also expands disclosure requirements regarding an entity's assumptions, models and methods for estimating the allowance for credit losses. The amendments of this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted as of January 1, 2022.

3. CASH AND CASH EQUIVALENTS

As of December 31, 2020, and 2019, the balance of cash, cash equivalents and restricted cash consisted of the following:

	2020	2019
Operating accounts	$ 34,317,371	$ 6,301,024
Savings and money market accounts	2,412,729	5,735,955
Change fund and petty cash	435,262	384,110
Certificate of deposit with original maturity of less than 90 days	992,000	250,000
Total cash and cash equivalents	$ 38,157,362	$ 12,671,089
Restricted cash	128,993	128,599
Total cash, cash equivalents and restricted cash	$ 38,286,355	$ 12,799,688

The Bank deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Association (NCUA) up to $250,000 per institution. At December 31, 2020 and 2019, the bank balance of deposits in commercial banks amounting to approximately $32,835,005 and $2,636,452, respectively, exceeded the amounts covered by federal depository insurance limits. There was no bank balance of deposits exceeding the NCUA depository insurance limits at December 31, 2020 and 2019 and the balance of deposits in *Banco Cooperativo* amounting to approximately $1,361,359 and $1,394,612 and were uninsured at December 31,2020 and 2019, respectively.

Restricted Cash

The Credit Union adopted the ASU 2016-18 Accounting Standard, to identify its restricted cash in the statement of financial condition and in the statement of cash flows. Restricted cash is an asset that is reserved for a particular purpose primarily to satisfy regulatory or contractual requirements. Restricted assets subject to these specific requirements are segregated from other assets to mark clear boundaries of their use. As of December 31, 2020, and 2019, the Credit Union had deposited $128,993 and $128,599, respectively, in restricted cash for the payment of property taxes and insurance on properties that serve as collateral under mortgage loans.

4. CERTIFICATES OF DEPOSITS

As of December 31, 2020, and 2019, the Credit Union maintains certificates of deposits mostly in denominations of equal or less than $250,000. The schedules maturities at the end of period were as follows:

	2020	2019
Due in one year or less	$ 2,475,000	$ 6,059,405
Due after one year through three years	1,604,278	5,165,000
Due after three years through five years	1,592,000	350,000
Total certificates of deposits	$ 5,671,278	$ 11,574,405

5. INVESTMENT SECURITIES

At December 31, 2020 and 2019 the investment securities available for sale were $25,173,702 and $19,673,584, respectively. As of December 31, 2020, and 2019, the amortized cost and the estimate fair market value of investment securities available for sale were as follows:

2020

Available for sale:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Collateralized Mortgage Obligations (CMO)	$ 3,461,035		$ (65,293)	$ 3,395,742
Federal Home Loan Bank (FHLB)	2,508,500		(11,210)	2,497,290
Federal Home Loan Mortgage Corporation (FHLMC)	1,494,960		(1,390)	1,493,570
Federal National Mortgage Association (FNMA)	3,559,226	100,663		3,659,889
Federal Agriculture Mortgage Corpotation (FAMCA)	505,000		(5,240)	499,760
Federal Farm Credit Bank (FFCB)	3,500,000		(16,467)	3,483,533
Mortgage Back Securities Pools (MBS)	3,484,379		(63,530)	3,420,849
Municipal Bonds	6,470,760	252,309		6,723,069
Total	$ 24,983,860	$ 352,972	$ (163,130)	$ 25,173,702

2019

Available for sale:

Type of Investment	Amortized Cost	Unrealized Gain	Unrealized Loss	Market Value
Federal Home Loan Bank Boston (FHLBB)	$ 3,000,000	$ -	$ (10,320)	$ 2,989,680
Federal Home Loan Bank (FHLB)	5,000,000	-	(6,350)	4,993,650
Federal Home Loan Mortgage Corporation (FHLMC)	8,000,000	-	(10,515)	7,989,485
Federal National Mortgage Association (FNMA)	2,236,260	9,097	-	2,245,357
Federal Home Mortgage Association (FHMA)	500,000	-	(125)	499,875
Government National Mortgage Association (GNMA)	261,177	-	(4,854)	256,323
Mortgage Back Securities Pools	710,470	-	(11,256)	699,214
Total	$ 19,707,907	$ 9,097	$ (43,420)	$ 19,673,584

The amortized cost and estimated fair value of investment securities at December 31, 2020 and 2019, by contractual maturity, are shown below. Investment expected maturities may differ from original contractual maturities because of borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2020		2019	
Due Date	**Amortized Cost**	**Market Value**	**Amortized Cost**	**Market Value**
Due in one year or less	$ -	$ -	$ 500,000	$ 499,515
Due in one to five years	1,452,267	1,473,096	15,500,000	15,480,835
Due after five years through ten years	8,188,709	8,502,061	3,707,907	3,693,234
Due more than ten years	15,342,884	15,198,545	-	-
Total	$ 24,983,860	$ 25,173,702	$ 19,707,907	$ 19,673,584

Unrealized losses as of December 31, 2020 and 2019 have not been recognized into income because they are not considered to be other-than temporary. Management considers the unrealized losses to be market driven, rather than credit driven and no loss will be realized unless the securities are sold.

	As of December 31, 2020					
	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Collateralized Mortgage Obligations (CMO)	$ 3,395,742	$ (65,293)	$ -	$ -	$ 3,395,742	$ (65,293)
Federal Home Loan Bank (FHLB)	2,497,290	(11,210)	-	-	2,497,290	(11,210)
Federal Home Loan Mortgage Corporation (FHLMC)	1,493,570	(1,390)	-	-	1,493,570	(1,390)
Federal Agriculture Mortgage Corpotation (FAMCA)	499,760	(5,240)	-	-	499,760	(5,240)
Federal Farm Credit Bank (FFCB)	3,483,532	(16,467)	-	-	3,483,532	(16,467)
Mortgage Back Securities Pools (MBS)	3,420,849	(63,530)	-	-	3,420,849	(63,530)
	$ 14,790,743	$ (163,130)	$ -	$ -	$ 14,790,743	$ (163,130)

	As of December 31, 2019					
	Continuing Unrealized Losses for Less Than 12 months		Continuing Unrealized Losses for 12 months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Federal Home Loan Bank Boston (FHLBB)	$ -	-	$ 2,989,680	(10,320)	$ 2,989,680	$ (10,320)
Federal Home Loan Bank (FHLB)	-	-	4,993,650	(6,350)	4,993,650	(6,350)
Federal Home Loan Mortgage Corporation (FHLMC)	-	-	7,989,485	(10,515)	7,989,485	(10,515)
Federal Home Mortgage Association (FHMA)	-	-	499,875	(125)	499,875	(125)
Government National Mortgage Association (GNMA)	256,323	(4,854)	-	-	256,323	(4,854)
Mortgage Back Securities Pools	699,214	(11,256)	-	-	699,214	(11,256)
Total	$ 955,537	$ (16,110)	$ 16,472,690	$ (27,310)	$ 17,428,227	$ (43,420)

During the year ended December 31, 2019, the Credit Union sold investments originally held to maturity to cover liquidity and operational needs. The unrealized losses of the investments were recognized against operations immediately upon reclassification. The investments at December 31, 2020 and 2019, were classified as available for sale based on management's intent and ability to hold the securities to maturity.

6. LOANS

As of December 31, 2020, and 2019, the portfolio of loans to members of the Credit Union by type was as follows:

	2020	2019
Loans		
Personal	31,493,337	29,202,324
Auto	43,938,361	51,595,377
Mortgage	13,690,053	14,184,433
Credit cards	3,647,092	4,411,875
Lines of credit	261,502	352,632
Total consumer	93,030,345	99,746,641
Total loans	$ 93,030,345	$ 99,746,641
Less: Allowance for loan losses	(1,416,328)	(1,278,092)
Plus: Net unamortized deferred origination fees	(185,921)	(197,195)
Total loans to members, net	$ 91,428,096	$ 98,271,354

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2020:

2020

	Personal	Auto	Mortgage	Credit Cards	Lines of Credit	Total
Beginning balance	$ 510,902	$ 442,011	$ 182,990	$ 140,941	$ 1,248	$ 1,278,092
Loans charge-offs	381,920	233,752	-	98,944	-	714,616
Recoveries of loans previously reserved	42,598	195,879	-	33,775	-	272,252
Provision during the year	523,739	49,318	(14,577)	19,337	2,783	580,600
Ending Balance	$ 695,319	$ 453,456	$ 168,413	$ 95,109	$ 4,031	$ 1,416,328
Evaluation of allowance:						
Allowance evaluated individually	$ 86,028	$ 17,832	$ 43,081	$ 1,341	$ 1,637.00	$ 149,919
Allowance evaluated collectively	609,291	435,624	125,332	93,768	2,394	1,266,409
Total	$ 695,319	$ 453,456	$ 168,413	$ 95,109	$ 4,031	$ 1,416,328
Loan ending Balance:						-
Evaluated individually for impariment	$ 110,735	$ 21,893	$ 1,847,629	$ 5,363	$ 6,549	$ 1,992,169
Evaluated collectivelly for impariment	31,382,602	43,916,468	11,842,424	3,641,729	254,953	91,038,176
Total	$ 31,493,337	$ 43,938,361	$ 13,690,053	$ 3,647,092	$ 261,502	$ 93,030,345

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2019:

2019

	Personal	Auto	Mortgage	Credit Cards	Lines of Credit	Total
Beginning balance	$ 230,046	$ 861,829	$ 229,657	$ 193,611	$ 11,615	$ 1,526,758
Provision during the year	554,773	(281,767)	(36,300)	40,235	(10,367)	266,574
Recoveries of loans previously reserved	50,974	261,393	-	43,350	-	355,717
Loans charge-offs	(324,890)	(399,445)	(10,367)	(136,255)	-	(870,957)
Ending Balance	$ 510,903	$ 442,010	$ 182,990	$ 140,941	$ 1,248	$ 1,278,092
Evaluation of allowance:						
Allowance evaluated individually	$ 110,592	$ 74,549	$ 124,611	$ 33,611	$ -	$ 343,363
Allowance evaluated collectively	400,311	367,461	58,379	107,330	1,248	934,729
Total	$ 510,903	$ 442,010	$ 182,990	$ 140,941	$ 1,248	$ 1,278,092
Loan ending Balance:						-
Evaluated individually for impariment	$ 82,896	$ 139,393	$ 2,097,548	$ 33,612	$ -	$ 2,353,449
Evaluated collectivelly for impariment	29,119,428	51,455,984	12,086,885	4,378,263	352,632	97,393,192
Total	$ 29,202,324	$ 51,595,377	$ 14,184,433	$ 4,411,875	$ 352,632	$ 99,746,641

Loans to members in which the accrual of interest has been discontinued or reduced amounted to $862,164 and $617,215 at December 31, 2020 and 2019, respectively. If interest on those had been accrued, such income would have approximately $12,000 and $18,000, respectively.

The following table presents the aging of the recorded investment in past due loans at December 31, 2020:

Age Analysis of Loan to members Receivables by Category as of December 31, 2020

December 31, 2020	Current	60-90	91-120	Over 121	Total	Non Accruing
Personal	$ 31,382,602	$ 110,735	$ -	$ -	$ 31,493,337	$ 110,735
Auto	43,876,252	62,109	-	-	43,938,361	62,109
Mortgage	13,410,902	-	-	279,151	13,690,053	279,151
Credit cards	3,641,729	5,363	-	-	3,647,092	5,363
Lines of credit	254,953	-	6,549	-	261,502	6,549
Total loans to members	$ 92,566,438	$ 178,207	$ 6,549	$ 279,151	$ 93,030,345	$ 463,907

The following table presents the aging of the recorded investment in past due loans at December 31, 2019:

Age Analysis of Loan to members Receivables by Category as of December 31, 2019

December 31, 2019	Current	60-90	91-120	Over 121	Total	Non Accruing
Personal	$ 29,119,428	$ 72,322	$ 10,574	$ -	$ 29,202,324	$ 82,896
Auto	51,455,984	136,777	-	2,616	51,595,377	139,393
Mortgage	13,823,119	63,990	143,772	153,552	14,184,433	361,314
Credit cards	4,378,263	21,235	12,377		4,411,875	33,612
Lines of credit	352,632	-	-	-	352,632	-
Total loans to members	$ 99,129,426	$ 294,324	$ 166,723	$ 156,168	$ 99,746,641	$ 617,215

Credit Quality Information

Consumer Loans - The use of risk classifications in consumer loans allows management to estimate their exposure to different types of risk. The Credit Union has established policies to evaluate application for loans using FICO credit scores, among other information, provided by major credit reporting agencies. A FICO score is a credit score developed by a third party that take information and analyze it to predict consumer behavior, such as how likely someone is to pay their bills on time or not, or whether they are able to handle a larger credit line. Generally, the FICO score range is 300 to 850, with the higher number representing less risk to the lender.

Credit Quality Levels, Credit Score and Loans to Members' Risk Exposure

The different levels of risk of loss established internally by the Credit Union according to the FICO credit scores are as follows:

Level 1 - 720 or more, member has little or no additional risk.

Level 2 - 719 to 670, member represents a nominal risk of loss.

Level 3 – 669 -620 or less, member is experiencing some degree of financial difficulty, and represents a potential risk of loss.

Level 4 - 619 or less, member represents a high degree of risk of loss.

These levels are reviewed periodically, as well as other statistics and external factors, to monitor the performance of the portfolio.

The following table represents the recorded investment in consumer loans based on FICO score for the years ended December 31, 2020:

			2020 FICO SCORE		
	Over 720	719-670	669-620	619 or less	Total
Personal	$ 19,334,454	$ 7,315,407	$ 3,109,205	$ 1,734,271	$ 31,493,337
Auto	31,021,149	6,701,946	3,915,721	2,299,545	43,938,361
Mortgage	8,385,451	2,821,299	689,777	1,793,526	13,690,053
Credit Cards	1,314,498	991,137	767,652	573,805	3,647,092
Lines of Credit	88,009	109,552	39,363	24,578	261,502
Total	$ 60,143,561	$ 17,939,341	$ 8,521,718	$ 6,425,725	$ 93,030,345

The following table represents the recorded investment in consumer loans based on FICO score for the years ended December 31, 2019:

	2019 FICO SCORE				
	Over 720	719-670	669-620	619 or less	Total
Personal	$ 15,543,500	$ 6,763,771	$ 2,689,984	$ 4,205,069	$ 29,202,324
Auto	33,291,584	8,772,146	2,097,192	7,434,455	51,595,377
Mortgage	8,403,410	2,766,880	991,986	2,022,157	14,184,433
Credit Cards	1,542,495	1,122,955	711,652	1,034,773	4,411,875
Lines of Credit	87,313	139,062	67,339	58,918	352,632
Total	$ 58,868,302	$ 19,564,814	$ 6,558,153	$ 14,755,372	$ 99,746,641

Loan impairment is measured by estimating the expected future cash flows or by valuing the underlying collateral. The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2020 and 2019:

	Impaired Loans by Category for the year ended December 31, 2020		**Impaired Loans by Category for the year ended December 31, 2019**	
	Unpaid Principal of Impaired Loans (cases)	Specific Associated Allowance for the Impaired Loan (Cases)	Unpaid Principal of Impaired Loans (cases)	Specific Associated Allowance for the Impaired Loan (Cases)
Consumer:				
Personal	$ 110,735	$ 58,537	$ 33,612	$ 32,037
Auto	677,408	95,933	29,026	67,361
Mortgage	62,109	17,832	110,367	13,813
Credit cards	6,549	1,637	82,896	4,622
Lines of credit	5,363	1,341	361,314	7,307
Total	$ 862,164	$ 175,280	$ 617,215	$ 125,140

The following table presents the restructured loans by category:

For the year ended December 31, 2020

	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Personal	9	$ 73,791	$ 18,448	-	$ -	$ -
Total	9	$ 73,791	$ 18,448	-	$ -	$ -

For the year ended December 31, 2019

	Restructured Loans			Delinquent Loans		
	Loans Count	Principal Balance	Assigned Allowance	Loans Count	Principal Balance	Assigned Allowance
Consumer:						
Personal	4	$ 40,241	$ 10,060	-	$ -	$ -
Total	4	$ 40,241	$ 10,060	-	$ -	$ -

Loans to Related Parties

Certain officers, directors, and employees had loans with the Credit Union during 2020 and 2019. Such loans were in the ordinary course of business at normal credit terms including interest rates and collateralization and do not represent more than a normal risk of collection. Total loans outstanding to these related parties at December 31, 2020 and 2019, amounted to $691,212 and $860,898, respectively. The following table presents the movement of the loans to related parties during the years ended December 31, 2020 and 2019, and shares collateralizing such loans at December 31, 2020 and 2019:

	2020	**2019**
Beginning balance of loans	$ 860,898	$ 418,764
Originations	148,795	453,556
Collections	(318,481)	(826,106)
Ending balance of loans	691,212	860,898
Shares	$1,125,263	$1,015,331

7. ACCRUED INTEREST RECEIVABLE

At December 31, 2020 and 2019, the following were the components of accrued interest receivable:

	2020	2019
Accrued interests on loans	$ 276,814	$ 270,382
Accrued interests on investments	97,911	115,573
Total accrued interest receivable	$ 374,725	$ 385,955

8. PROPERTY AND EQUIPMENT

As of December 31, 2020, and 2019, the property and equipment was composed of the following:

	Useful Life (in Years)	2020	2019
Buildings	40	$ 3,708,120	$ 3,708,120
Furniture and fixtures	1-10	988,706	932,241
Vehicle	5	14,500	14,500
Information systems	3-5	1,499,612	1,459,823
		6,210,938	6,114,684
Less accumulated depreciation and amortization		(3,802,095)	(3,577,176)
		2,408,843	2,537,508
Land		3,352,787	3,352,787
Total property and equipment		$ 5,761,630	$ 5,890,295

Depreciation and amortization expense for the years ended December 31, 2020 and 2019, was approximately $246,443 and $298,623, respectively, and is included in occupancy and related expense.

During previous years, the Credit Union installed solar panels to reduce energy use and costs in its main building, under a renewable energy systems program, at an original acquisition cost of $538,054. During the year ended December 31, 2019, the Credit Union received a reimbursement as an incentive under the program of $124,483. The Credit Union recorded the reimbursement as a reduction of the original cost and reduced depreciation expense prospectively.

9. INVESTMENT IN CORPORATE FEDERAL CREDIT UNION

As of December 31, 2020, and 2019, the balance of the investment in the Corporate One Federal Credit Union was $996,936 and $967,234, respectively. This deposit is not subject to the insurance of the National Credit Union Insurance Fund or other deposit insurance.

10. OTHER ASSETS

As of December 31, 2020. and 2019, the other assets were composed of the following:

	2020	2019
Assets acquired on liquidation of loans	$ 40,000	$ 91,000
Prepaid expenses	228,588	188,744
Deposits and security bonds	39,567	72,565
Accounts receivable	26,169	19,423
Others	243	194
Total other assets	$ 334,567	$ 371,926

11. MEMBERS' SHARES ACCOUNTS

Members' shares accounts are summarized as follows:

	Weighted-Average Dividend Rate at December 31	2020	2019
Shares drafts	0.21%	$ 4,413,231	$ 4,189,234
Regular shares	0.47%	83,530,618	70,192,831
Christmas and summer clubs	1.00%	4,505,419	3,306,717
Share certificates	1.46%	51,770,585	46,035,064
Total members shares accounts		$ 144,219,853	$ 123,723,846

At December 31, 2020, scheduled maturities of share certificates are as follows:

Year ending December 31,	Amount
2021	$ 23,179,613
2022	8,419,600
2023	8,528,614
2024	7,529,995
2025	3,763,763
Thereafter	349,000
	$ 51,770,585

Share and deposit amounts up to $250,000 per ownership interest are federally insured through the National Credit Union Share Insurance Fund. Individual deposit account balances exceeding $250,000 at December 31, 2020 and 2019, totaled $5,008,633 and $3,671,313, respectively.

Interest expense on members' shares, savings accounts and borrowed funds is summarized as follows:

Type	2020	2019
Regular shares	$ 339,178	$ 319,207
Share drafts	9,079	12,422
Christmas and summer clubs	41,565	44,004
Share certificates	900,181	706,833
Total interest expense on members' shares and savings	1,290,003	1,082,466
Interest expense on borrowed funds	54,932	128,364
Total interest expense	$ 1,344,935	$ 1,210,830

12. BORROWED FUNDS

The Credit Union has outstanding the following borrowed funds at December 31, 2020 and 2019:

	2020	2019
Fixed rate note with Primary Financial - Corporate One Credit Union bearing interest at 1.95% and 3.05%, respectively, interest was payable monthly and principal was payable with a single payment on May 31, 2020.	$ -	$ 1,984,000
Fixed rate note with Primary Financial - Corporate One Credit Union bearing interest at 2.35% and 2.70%, respectively, interest was payable monthly and principal was payable with a single payment on May 31, 2020.	-	1,488,000
Advances under line of credit	-	
Total borrowed funds	$ -	$ 3,472,000

The Credit Union maintains some credit agreements with Corporate One Federal Credit Union with outstanding balances of $0 and $3,472,000 at December 31, 2020 and 2019, respectively, in form of fixed rate term notes. Interest rates on advances are determined at the time of the advances and collateral are also pledged at the time of the advance.

The Credit Union also maintains a line-of-credit with Corporate One Federal Credit Union at a variable rate of interest, guaranteed by all assets, maximum credit available of $10,000,000 at December 31, 2020. With certain exceptions, substantially all assets of the Credit Union serve as collateral for the credit facilities. Interest rates on advances are determined at the time of the advances.

There was no balance outstanding under any credit facilities as of December 31, 2020.

13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

As of December 31, 2020, and 2019 the composition of accruals and other liabilities is as follows:

	2020	2019
Accrued payroll and related	$ 111,394	$ 117,981
Accrued liabilities	50,571	66,411
Accounts payable	298,362	214,634
Auto loan registration	8,242	6,532
Escrow accounts	128,993	128,599
Other	75,898	2,284
Total accruals and other liabilities	$ 673,460	$ 536,441

14. SERVICE FEE AND NON-INTEREST INCOME

Service fee and non-interest income for the years ended December 31, 2020 and 2019 are as follows:

	2020	2019
ATM card fees	$ 154,287	$ 132,512
Share draft fees	20,573	26,420
ACH fees	17,262	22,488
Credit card fees	80,059	86,911
Late charges	86,042	80,764
Dormant account charges	30,827	15,669
Mortgage origination fees	21,078	27,324
Loan refinancing fees	8,675	14,193
Overdraft fees	3,705	6,332
Miscellaneous	136,068	142,904
Total service fee and non-interest income	$ 558,576	$ 555,517

15. NON-INTEREST EXPENSES

The detail of non-interest expenses for the years ended December 31, 2020 and 2019 were as follows:

	2020	2019
Compensation and benefits	$ 1,448,236	$ 1,452,048
Office operations	601,921	499,243
Occupancy and related:		
Depreciation and amortization	246,443	298,623
Utilities	23,825	26,395
Insurance	134,040	144,982
Repairs and maintenance	75,984	89,156
Security	120,728	121,763
	601,020	680,919
Professional services and contracted services	424,359	243,243
Education and promotional	187,718	230,377
Data processing	157,475	118,878
Loss (gain) on disposal of assets	5,262	87,736
Loss (gain) on sale of investment securities	(69,896)	190,815
Other operating expenses:		
Credit reports and collection	56,819	36,723
Annual meeting	13,721	54,840
Federal operating	40,763	31,190
Equipment and software maintenance	151,183	71,383
Directors and committee	16,236	47,736
Dues and subscriptions	13,685	12,757
Armored services	13,686	17,839
Other miscellaneous	48,584	149,311
Total other operating expenses	354,677	421,779
Total non-interest expenses	$ 3,710,772	$ 3,925,038

16. EMPLOYEE BENEFIT PLAN

The Credit Union maintains a 401k employee benefit plan that substantially covers all of its employees. A Credit Union makes contributions to the plan as follows (1) the Credit Union will make a match of employee contributions up to a maximum of 3% of their basic salary. In addition, the Credit Union will provide half of each additional percent that the employee contributes up to a maximum of 2% of the employee basic salary (2) the Credit Union may make other discretionary contributions of its undivided earnings. During the years ended as of December 31, 2020 and 2019, the Credit Union determined not to contribute additional amounts from their undivided earnings to the employee benefit plan.

During the years ended December 31, 2020 and 2019, Puerto Rico Federal Credit Union contributed $23,915 and $15,387, respectively, to the employee benefit plan.

17. UNCERTAINTIES, COMMITMENTS AND CONTINGENCIES

Fiscal Crisis

The Commonwealth of Puerto Rico remains amid a profound fiscal crisis affecting the central government and many of its instrumentalities, public corporations and municipalities. This fiscal crisis has been primarily the result of economic contraction, persistent and significant budget deficits, a high debt burden, unfunded legacy obligations, and lack of access to the capital markets, among other factors. As a result of the crisis, the Commonwealth and certain of its instrumentalities have been unable to make debt service payments on their outstanding bonds and notes since 2016. The escalating fiscal and economic crisis and imminent widespread defaults prompted the U.S. Congress to enact the Puerto Rico Oversight, Management, and Economic Stability Act (“PROMESA”) in June 2016. The Commonwealth and several of its instrumentalities are currently in the process of restructuring their debts through the debt restructuring mechanisms provided by PROMESA.

PROMESA

PROMESA, among other things, created a seven-member federally-appointed oversight board (the “Oversight Board”) with ample powers over the fiscal and economic affairs of the Commonwealth, its public corporations, instrumentalities and municipalities and established two mechanisms for the restructuring of the obligations of such entities. Pursuant to PROMESA, the Oversight Board will remain in place until market access is restored and balanced budgets, in accordance with modified accrual accounting, are produced for at least four consecutive years. In August 2016, President Obama appointed the seven voting members of the Oversight Board through the process established in PROMESA, which authorized the President to select the members from several lists required to be submitted by congressional leaders. The constitutionality of such appointments, however, is currently being challenged before the U.S. Supreme Court. In October 2016, the Oversight Board designated the Commonwealth and all its public corporations and instrumentalities as "covered entities" under PROMESA. The only Commonwealth government entities that were not subject to such initial designation were the Commonwealth's municipalities. In May 2019, however, the Oversight Board designated all the Commonwealth's municipalities as covered entities. At the Oversight Board's request, covered entities are required to submit fiscal plans and annual budgets to the Oversight Board for its review and approval. They are also required to seek Oversight Board approval to issue, guarantee or modify their debts and to enter into contracts with an aggregate value of $10 million or more. Finally, covered entities are potentially eligible to avail themselves of the debt restructuring processes provided by PROMESA.

Risks and Uncertainties related to COVID-19

The COVID-19 pandemic has caused significant disruption in economic activity in the Credit Union's markets. In response to the COVID-19 pandemic, Puerto Rico's Governor has issued several executive orders including, among other things, a stay-at-home mandate on March 15, 2020, which was subsequently extended until June 15, 2020, the lockdown of non-essential businesses, and a nightly curfew. On May 4, 2020, the Puerto Rico government began to implement a plan for the gradual reopening of the economy. While substantially all parts of the economy of Puerto Rico have reopened, under new guidelines that affect how individuals interact and how businesses and governments operate, the operations and financial results of the Credit Union have been and could continue to be adversely affected by the COVID-19 pandemic.

The Credit Union's business, financial condition and results of operations generally rely upon the ability of the Credit Union's borrowers to repay their loans, the value of collateral underlying the Credit Union's secured loans, and demand for loans and other products and services that the Credit Union offers, which are highly dependent on the business environment in the primary markets in which the Credit Union operates.

Governments globally intervened with fiscal policies to mitigate the impact of the COVID-19 pandemic, including through the Coronavirus Aid, Relief, and Economic Security Act of 2020 (the "CARES Act of 2020") in the U.S., which were intended to provide economic relief to businesses and individuals. Some of the provisions of the CARES Act of 2020 improved the ability of impacted borrowers to repay their loans, including by providing direct cash payments to eligible taxpayers, including Puerto Rico residents, below specified income limits, expanded unemployment insurance benefits and eligibility, and relief designed to prevent layoffs and business closures at small businesses. The absence of further relief considering the continuing pandemic may adversely affect the ability of borrowers to continue to repay their loans.

Exposure of the Credit Union

The credit quality of Credit Union's loan portfolio reflects, among other things, the general economic conditions in Puerto Rico and other adverse conditions affecting Puerto Rico consumers and businesses. The effects of the prolonged recession have been reflected in limited loan demand, an increase in the rate of foreclosures and delinquencies on loans granted in Puerto Rico. While PROMESA provides a process to address the Commonwealth's fiscal crisis, the length and complexity of the Title III proceedings for the Commonwealth and various of its instrumentalities and the adjustment measures required by the fiscal plans present significant economic risks. In addition, the measures taken to address the fiscal crisis and those that will have to be taken in the near future will likely affect many of our individual customers and customers' businesses, which could cause credit losses that adversely affect us and may negatively affect consumer confidence. This, in turn, could result in reductions in consumer spending that may also adversely impact our interest and non-interest revenues. If global or local economic conditions worsen or the Government of Puerto Rico and the Oversight Board are unable to adequately manage the Commonwealth's fiscal and economic challenges, including by consummating an orderly restructuring of its debt obligations while continuing to provide essential services, these adverse effects could continue or worsen in ways that we are not able to predict.

The accompanying financial statements do not include adjustments related to the effect of the uncertainty related to the Commonwealth's economic conditions and their effects on the Credit Union.

Litigation

Several former employees filed various complaints in Court alleging unjust dismissal of employment, retaliation and other claims. The Credit Union filed its answers to the complaints contending that plaintiffs were justly dismissed from their employment based on the results of an internal audit which revealed violations to policies and procedures established, and other disciplinary actions. Due to early stages of the proceedings the external counsels cannot provide an assessment regarding the possible outcome or potential exposure at the date of the issuance of the financial statements. The Credit Union intends to vigorously defend itself.

The Credit Union has other legal claims that normally are associated with the ordinary operations of a financial institution.

Off-Balance Sheet Risk

The Credit Union is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its members and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of financial condition. The contract or notional amounts of those instruments reflect the extent of involvement the Credit Union has in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a member as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses. Since many of the commitments may expire without being fully drawn upon, the total commitment amounts do not necessarily represent future cash requirements. As of December 31, 2020, and 2019, the total unfunded commitments under such credit cards and lines-of-credit was approximately $6,347,720 and $5,614,489, respectively. The Credit Union evaluates each member's creditworthiness on a case-by-case basis. The amount of collateral obtained, if any, is based on management's credit evaluation of the member.

18. FAIR VALUE MEASUREMENTS

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The three levels of the fair value hierarchy under this guidance are described below:

Basis of Fair value Measurement

Level 1 - Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Credit Union has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Valuation is based on inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. Level 3 assets and liabilities include financial instruments whose value is determined by using pricing models, discounted cash flow methodologies, or similar techniques.

The estimated fair values of the Credit Union's financial statements, none of which are held for trading purposes, are as follows:

	December 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and cash equivalents	$ 38,286,355	$ 38,286,355	$ 12,799,688	$ 12,799,688
Certificates of deposits	5,671,278	5,671,278	11,574,405	11,574,405
Investment securities	25,173,702	25,173,702	19,673,584	19,673,584
Loans receivable (net of unamortized deferred origination fees)	93,030,345	88,195,058	99,746,641	94,794,508
Less: allowance for loan losses	(1,416,328)	(1,416,328)	(1,278,092)	(1,278,092)
Accrued interest receivable	374,725	374,725	385,955	385,955
Assets acquired in liquidation of loans	40,000	40,000	91,000	91,000
	$ 161,160,077	$ 156,324,790	$ 142,902,181	$ 138,041,048
Financial Liabilities				
Members' shares accounts	$ 144,219,853	144,219,853	$ 123,723,846	123,723,846
Off- Balance Sheet Financial:				
Commitments to extend credit	$ 6,347,720	$ 6,347,720	$ 5,614,489	$ 5,614,489

Assets Measured at Fair Value on a Recurring and Non-Recurring Basis

The fair values of assets and liabilities measured on a recurring and nonrecurring basis at December 31, 2020 and 2019 are as follows:

		Fair Value Measurement At Reporting Date Using:		
Asset Class	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
December 31, 2020				
Available for sale securities	$ 25,173,702	$ 25,173,702	-	-
Assets acquired in liquidation of loans	$ 40,000	-	-	$ 40,000
December 31, 2019				
Available for sale securities	$ 19,673,584	$ 19,673,584	-	-
Assets acquired in liquidation of loans	$ 91,000	-	-	$ 91,000

19. REGULATORY CAPITAL

As of December 31, 2020, and 2019, the Credit Union's net worth to total assets ratio is categorized as "well capitalized" as per the most recent call report. To be categorized as "well capitalized", the Credit Union must maintain a minimum net worth ratio of 7% as defined under the regulatory framework provisions of Section 38 of the FDI Act. Credit

Unions whose net worth ratio falls below 7% will be subject to Prompt Corrective Actions requirements.

The Credit Union net worth ratio at December 31, 2020 and 2019 follows:

	PRFCU Actual		
Period	Net Worth Amount	Net Worth to Total Assets Ratio (1)	PRFCU Category (2)
2020	$ 24,181,856	14.28%	Well Capitalized
2019	$ 23,365,926	15.46%	Well Capitalized

(1) In performing its calculation of total assets, the credit union used the monthly average over the quarter option, as permitted by regulation.
(2) There are no conditions or events since the most recent Call Report that management believes have changed the Credit Union's category.

Under capital adequacy regulations and the regulatory framework for Prompt Corrective Action, the Credit Union must meet specific capital regulations that involve quantitative measures of the Credit Union's assets, liabilities, and certain off-balance sheet items as calculated under generally accepted accounting principles. The Credit Union's capital amounts and net worth classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Risk Based Net Worth (RBNW) Ratio

The RBNW requirement only applies to complex Credit Unions (CU) as defined by the National Credit Administration (NCUA). A complex CU is one with more than $50 million in assets and with a risk based net worth requirement of more than 6%. The RBNW is based on risk weighting formulas on specific assets, liabilities, and off-balance sheet items which qualify under the regulations. The Credit Union RBNW ratio for 2020 and 2019 was 6.06% and 4.99% respectively, based on most recent CALL Report.

20. SUBSEQUENT EVENTS

The financial statements and related disclosures include evaluation of events up through and including March 26, 2020, which is the date the financial statements were available to be issued.

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