Kevane Grant Thornton

Financial Statements and Report of Independent Certified Public Accountants

Puerto Rico Community Foundation, Inc.

(A Not-for-Profit Organization)

December 31, 2013 and 2012

Puerto Rico Community Foundation, Inc.
(A Not-for-Profit Organization)

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Report of Independent Certified Public Accountants

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To the Board of Directors of
Puerto Rico Community Foundation, Inc.:

Report on the Financial Statements

We have audited the accompanying financial statements of **Puerto Rico Community Foundation, Inc.** ("the Foundation") which comprise the statements of financial position as of December 31, 2013 and 2012, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related 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 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 audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Foundation'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 Foundation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Puerto Rico Community Foundation, Inc.** as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Kevane Grant Thornton LLP

San Juan, Puerto Rico,
May 14, 2014.

Puerto Rico Community Foundation, Inc.
(A Not-for-Profit Organization)

Statements of Financial Position
December 31, 2013 and 2012

Assets

		2013		2012
Cash and cash equivalents	$	1,537,833	$	1,340,013
Pledges receivable, net		1,702,183		448,305
Prepaid expenses		41,550		22,560
Investments, at fair value		23,738,847		22,159,608
Property and equipment, net		1,986,164		2,032,009
Total assets	$	29,006,577	$	26,002,495

Liabilities and Net Assets

		2013		2012
Liabilities:				
Accounts payable and accrued expenses	$	788,927	$	576,008
Grants payable		453,924		494,251
Obligations under capital leases		23,127		24,080
Total liabilities		1,265,978		1,094,339
Net assets:				
Unrestricted		7,425,294		4,425,192
Temporarily restricted		118,018		351,958
Permanently restricted		20,197,287		20,131,006
Total net assets		27,740,599		24,908,156
Total liabilities and net assets	$	29,006,577	$	26,002,495

The accompanying notes are an integral part of these statements.

Puerto Rico Community Foundation, Inc.
(A Not-for-Profit Organization)

Statements of Activities and Changes in Net Assets
Years Ended December 31, 2013 and 2012

	2013				2012			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support:								
Contributions	$ 2,098,273	$ 1,110,638	$ 66,281	$ 3,275,192	$ 446,716	$ 909,384	$ 92,876	$ 1,448,976
Interest and dividend income, net of custodian and investment advisory fees of $144,942 and $141,547 in 2013 and 2012, respectively	526,622	-	-	526,622	599,298	-	-	599,298
In-kind contributions	8,789	-	-	8,789	53,111	-	-	53,111
Other support	12,524	-	-	12,524	17,973	-	-	17,973
Total revenues, gains and other support	2,646,208	1,110,638	66,281	3,823,127	1,117,098	909,384	92,876	2,119,358
Net assets released from restrictions --								
Satisfaction of program restrictions	1,344,578	(1,344,578)	-	-	1,111,178	(1,111,178)	-	-
Expenses:								
Economic community development grants	62,300	-	-	62,300	56,500	-	-	56,500
Field of interest grants	1,140,367	-	-	1,140,367	1,022,639	-	-	1,022,639
Program related expenses	1,188,566	-	-	1,188,566	635,689	-	-	635,689
Philanthropy development programs	258,880	-	-	258,880	266,744	-	-	266,744
General and administrative	570,542	-	-	570,542	622,842	-	-	622,842
Fund raising	380,425	-	-	380,425	415,593	-	-	415,593
Total expenses	3,601,080	-	-	3,601,080	3,020,007	-	-	3,020,007
Realized and unrealized gains on investments, net	2,610,396	-	-	2,610,396	1,884,026	-	-	1,884,026
Change in net assets	3,000,102	(233,940)	66,281	2,832,443	1,092,295	(201,794)	92,876	983,377
Net assets, beginning of year	4,425,192	351,958	20,131,006	24,908,156	3,332,897	553,752	20,038,130	23,924,779
Net assets, end of year	$ 7,425,294	$ 118,018	$ 20,197,287	$ 27,740,599	$ 4,425,192	$ 351,958	$ 20,131,006	$ 24,908,156

The accompanying notes are an integral part of these statements.

Puerto Rico Community Foundation, Inc.
(A Not-for-Profit Organization)

Statements of Functional Expenses
Years Ended December 31, 2013 and 2012

	2013					2012				
	Program Services		Support Services			Program Services		Support Services		
Functional Expense Description	Program Related	Philanthropy Development	General and Administrative	Fund Raising	Total	Program Related	Philanthropy Development	General and Administrative	Fund Raising	Total
Salaries	$ 195,383	$ 90,931	$ 185,801	$ 211,455	$ 683,570	$ 161,408	$ 76,872	$ 219,889	$ 189,665	$ 647,834
Payroll taxes and fringe benefits	83,097	65,895	111,980	100,984	361,956	100,300	81,859	133,064	116,218	431,441
Total salaries and related expenses	278,480	156,826	297,781	312,439	1,045,526	261,708	158,731	352,953	305,883	1,079,275
Program activities and technical assistance	695,995	16,272	-	-	712,267	249,909	37,155	-	1,162	288,226
Professional fees and contractual services	134,219	5,529	108,083	24,454	272,285	76,576	10,288	91,336	41,100	219,300
Utilities	6,990	7,465	19,423	9,591	43,469	5,936	7,317	25,604	9,332	48,189
Repairs and maintenance	-	1,061	50,472	-	51,533	-	-	46,884	-	46,884
Advertising	10,357	17,701	-	2,158	30,216	-	165	-	28,398	28,563
Travel	6,784	21,783	1,039	320	29,926	2,228	14,899	5,418	254	22,799
Office supplies	8,957	1,287	9,547	2,007	21,798	3,847	3,135	9,780	2,135	18,897
Bad debts	-	-	-	767	767	-	-	-	-	-
Insurance	12,907	-	18,195	-	31,102	-	-	18,182	-	18,182
Security	440	-	7,730	-	8,170	-	-	13,551	-	13,551
Other	6,178	7,830	34,351	5,932	54,291	11,988	15,971	40,454	8,649	77,062
Total	1,161,307	235,754	546,621	357,668	2,301,350	612,192	247,661	604,162	396,913	1,860,928
Depreciation and amortization	27,259	23,126	23,921	22,757	97,063	23,497	19,083	18,680	18,680	79,940
Total expenses	$ 1,188,566	$ 258,880	$ 570,542	$ 380,425	$ 2,398,413	$ 635,689	$ 266,744	$ 622,842	$ 415,593	$ 1,940,868

The accompanying notes are an integral part of these statements.

Puerto Rico Community Foundation, Inc.
(A Not-for-Profit Organization)

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Change in net assets	$ 2,832,443	$ 983,377
Adjustments to reconcile change in net assets to net cash used in operating activities -		
Depreciation and amortization	97,063	79,940
Bad debts	767	-
Loss on disposition of equipment, net	4,105	-
Realized and unrealized gains on investments, net	(2,610,396)	(1,884,026)
Contributions restricted for long-term investments	(66,281)	(92,876)
Changes in assets and liabilities that increase (decrease) cash flows from operating activities -		
Pledges receivable, net	(1,254,645)	(197,212)
Prepaid expenses	(18,990)	(162)
Grants payable	(40,327)	1,299
Accounts payable and accrued expenses	212,919	252,001
Total adjustments	(3,675,785)	(1,841,036)
Net cash used in operating activities	(843,342)	(857,659)
Cash flows from investing activities:		
Payments for acquisition of property and equipment	(41,346)	(94,515)
Proceeds from sale of investments	8,837,257	5,223,838
Payments for acquisition of investments	(7,806,100)	(4,333,682)
Net cash provided by investing activities	989,811	795,641
Cash flows from financing activities:		
Payments to line of credit	-	(167,477)
Contributions restricted for long-term investments	66,281	92,876
Principal payments of capital lease obligations	(14,930)	(19,383)
Net cash provided by (used in) financing activities	51,351	(93,984)
Net increase (decrease) in cash and cash equivalents	197,820	(156,002)
Cash and cash equivalents, beginning of year	1,340,013	1,496,015
Cash and cash equivalents, end of year	$ 1,537,833	$ 1,340,013
Interest paid	$ 1,879	$ 8,205

The accompanying notes are integral part of these statements.

Statements of Cash Flows
Years Ended December 31, 2013 and 2012

Supplemental Schedule of Non-Cash Investing Transactions:

During the year ended December 31, 2013, the Foundation acquired new equipment with a cost of $24,687 in exchange of a capital lease obligation. As part of the transaction, the Foundation gave old equipment in trade-in with a net book value of $10,052 and the corresponding capital lease obligation was cancelled. This transaction resulted in a gain of $659.

During the year ended December 31, 2013, the Foundation retired from books equipment with a cost of $5,718 and accumulated depreciation of $954, resulting in a loss on disposition of $4,764.

During the year ended December 31, 2013, the Foundation retired fully depreciated equipment not longer in use, amounting to $228,564.

During the year ended December 31, 2012, the Foundation received donated property with a fair market value of $98,806, which was originally recorded in year 2011 as pledges receivable.

(1) Operations and summary of significant accounting policies:

(a) Incorporation/operations -

Puerto Rico Community Foundation, Inc. ("the Foundation") is a publicly supported not-for-profit organization, incorporated under the laws of the Commonwealth of Puerto Rico on December 18, 1984, governed by a Board of Directors representative of the private and public sectors of the community, for the purpose of administering funds granted by different donors. Each fund has been established with an instrument of gift describing either the general or specific purpose for which grants from the fund are to be made by the Foundation.

Following is a description of the programs and philanthropy initiatives that are supported by the Foundation:

Education Programs - The development of school communities is an essential part of the Foundation's mission. The Foundation believes that education is the cornerstone for personal and social development. The Foundation perceives education as a social action of interdependence and collective responsibility. The accomplishment of significant achievements and the increase of student academic performance will be the result of the continuous collaboration between the public, private and non-profit sectors. This is the climate of collaboration among different sectors promoted by the Foundation to facilitate long term and ongoing support of school improvement at the middle school level.

Economic Community Development Programs - Support the development of economic activity in communities through the enhancement of the leadership and administrative capabilities of various economic development centers throughout Puerto Rico through a consortium of various local banks.

Housing Community Development Programs - Support the development of moderate and low-income housing through the enhancement of the leadership and administrative capabilities of not-for-profit community-based organizations.

Philanthropy Development Programs - Stimulate the use of philanthropy as a tool to improve the quality of life in communities throughout Puerto Rico.

Scholarships and Grants Programs - Provide financial support to students in the fields of engineering, chemistry, industrial engineering, general studies, and community leadership.

(b) Significant accounting policies -

(i) Basis of presentation -
The Foundation's fiscal year ends on December 31st of each year. All references to years in these notes to the financial statements represent calendar years then ended, unless otherwise noted. The Foundation has evaluated subsequent events through May 14, 2014, the date the financial statements were available to be issued.

(ii) **Financial statements presentation** -
The Foundation reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. The Foundation has classified its financial statements to present the applicable classes of net assets.

(iii) **Contributions and grants** -
Contributions are recorded as restricted revenues only if they are received with donor stipulations that limit the use of the donated assets. When donor restrictions expire, that is, when time restrictions end or purpose restrictions are accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Restricted revenues increase temporarily or permanently restricted net assets. Contributions received without donor-imposed restrictions are recorded as unrestricted support that increases unrestricted net assets.

All grant funds awarded in excess of related expenses incurred are designated for use in future periods.

(iv) **Allowance for doubtful accounts** -
The Foundation estimates losses for uncollectible accounts based on the aging of the accounts receivable and the evaluation of the likelihood of success in collecting the receivable. An allowance for doubtful accounts is established based on this estimate.

(v) **In-kind contributions** -
The Foundation recognizes as revenue and expense certain contributions of supplies and specialized services which are recorded in the accompanying statements of activities and changes in net assets at the fair value of such items. During the years ended December 31, 2013 and 2012, the Foundation received in-kind contributions of approximately $9,000 and $53,000, respectively.

(vi) **Restricted and unrestricted revenues and support** -
Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted net assets -

Discretionary - Funds over which the Board of Directors has discretionary control and which are available for grants and other purposes.

Board designated - Funds designated by the Board of Directors for long-term purposes.

Temporarily restricted net assets -

Designated and other - Funds restricted by donors to support specific organizations. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Permanently restricted net assets -

Net assets that are required by donor stipulation to be maintained in perpetuity by the Foundation.

Investment income is classified as unrestricted or restricted, either temporarily or permanently, depending upon the donor's intent.

(vii) Cash and cash equivalents -
For purposes of the statements of cash flows, the Foundation considers all highly liquid instruments in which it has invested, that have a maturity of three months or less, to be cash equivalents.

(viii) Investments -
Investments in marketable securities with readily determinable fair value and all investments in debt securities are reported at their fair values in the statements of financial position. Realized and unrealized gains and losses are reported in the statements of activities and changes in net assets. Interest and dividend income restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income is recognized.

(ix) Fair value measurement -
Accounting guidance defines fair value as the price that would be received from the sale of an asset or paid to transfer a liability (i.e., the "exit price") in an orderly transaction between market participants at the measurement date.

There is an established hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs by requiring their use when available and minimizing the use of unobservable inputs. Observable inputs are used by market participants to price assets or liabilities based on market data obtained from sources independent of the Foundation. Unobservable inputs are those that reflect the Foundation's assumptions based on the best information available in the circumstances. The hierarchy is broken down into three levels as follows:

- Level 1 – Valuations based on quoted prices in active markets for identical assets or liabilities that the Foundation has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products does not entail a significant degree of judgment.

- Level 2 – Valuations based on one or more quoted prices in active markets for similar assets or quoted prices for identical or similar assets in markets that are not active which all significant inputs are observable, either directly or indirectly.

- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

A description of the valuation techniques applied to the Foundation's investments which are measured at fair value on a recurring basis follows:

Corporate equities, diversified funds and preferred/fixed rate cap securities –
Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

Corporate, municipal, foreign, government bonds and government asset backed securities –
Exchange-traded bonds are generally valued based on quoted prices from the exchange. To the extent these bonds are actively traded, valuation adjustments are not applied and they are categorized in Level 2 of the fair value hierarchy.

Private equity investments –
The transaction price is generally considered by the fund as the exit price and is the fund's best estimate of fair value, as provided by the securities trader from the latest bid price for the share. These non-public shares are included in Level 3 of the fair value hierarchy because they trade infrequently, and, therefore, their fair value is unobservable.

The following schedule summarizes the reconciliation of the changes in fair value for investments categorized as Level 3:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Fair value, December 31, 2011	$ 379,428
Purchases	146,681
Net unrealized gain	27,061
Fair value, December 31, 2012	553,170
Purchases	14,882
Net unrealized gain	57,755
Fair value, December 31, 2013	$ 625,807

(x) **Property and equipment** -
Purchased property and equipment are stated at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. For absent donor stipulations regarding how long those donated assets must be maintained, the Foundation reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Foundation reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Assets are depreciated using the straight-line method over their estimated useful lives, which range from three to forty years for software, equipment, furniture and fixtures, vehicles, building improvements, and building.

(xi) **Long-lived assets** -
Management reviews the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. Measurement of the impairment loss is based on the fair value of the asset. Generally, fair value will be determined using valuation techniques such as the present value of expected future cash inflows. The provisions of this statement did not affect the accompanying financial statements.

(xii) **Grants payable** -
Unconditional grants made by the Foundation are recognized as expense at the time of approval by the Board of Directors and notification to the grantees. Grants that are conditioned upon the performance of specified acts by the grantee are not recognized until the grantee meets the conditions.

(xiii) **Projects administered by the Foundation** -
Grants approved by the Board of Directors for projects administered by the Foundation are reclassified to Board Designated net assets until the Foundation notifies the grantees, at which time they are charged to expense.

Grants awarded during 2013 and 2012 under projects administered by the Foundation amounted to approximately $1,203,000 and $1,079,000, respectively.

(xiv) **Functional expense classification** -
The Foundation classifies its expenses as program and support services. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

(xv) **Advertising costs** -
The Foundation expenses the costs of all advertising campaigns and promotions as they are incurred. Total advertising expense for the years ended December 31, 2013 and 2012 amounted to approximately $30,200 and $28,600, respectively, which are presented as such in the accompanying statements of functional expenses.

(xvi) Income taxes -
The Foundation is exempt from Puerto Rico income taxes under section 1101.01(d)(2) of the Internal Revenue Code of a New Puerto Rico (Puerto Rico Internal Revenue Code of 2011). It is also exempt from U.S. income taxes under section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no provision for income taxes has been recorded in the accompanying financial statements. However, if applicable, income from unrelated business activities would be taxable. No such income was earned by the Foundation during the years ended December 31, 2013 and 2012.

The Foundation follows the accounting standard on accounting for uncertainty in income taxes which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Foundation may recognize the tax benefit from an uncertain tax position only if it is more-likely- than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The guidance on accounting for uncertainty in income taxes also addressed de-recognition, classification, interest and penalties on income taxes, and accounting in interim periods.

(xvii) Use of estimates -
In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements, and the reported revenues and expenses during the reporting period. Actual results could differ from those estimates.

(2) Concentration of credit risk and major contribution providers:

Financial instruments that potentially expose the Foundation to concentration of credit risk include cash, investments and pledges receivable. The Foundation maintains its deposits and investment accounts with high-quality financial institutions and investment brokers that are responsible for custody and investment management. While management attempts to limit any financial exposure, the deposit balances may, at times, exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

The Board of Directors is responsible for establishing investment policies to be followed by investment managers and for reviewing investment managers' performance. The Foundation's pledges receivable result primarily from contributions from donors, including unconditional promises to give, which may be received from United States and/or Puerto Rico local government agencies, individuals, corporations or other not-for-profit organizations. The Foundation routinely assesses the financial strength of its major donors.

During the year ended December 31, 2013, 64% of the Foundation's program service support was provided by contributions from a state governmental agency. During the year ended December 31, 2012, 54% of the Foundation's direct grant and program service support was provided by contributions from a state governmental agency and two private entities.

(3) Pledges receivable:

Pledges receivable at December 31, 2013 and 2012 consist of:

	2013	2012
Pledges receivable	$ 1,702,183	$ 462,361
Less -- allowance for doubtful pledges	-	(14,056)
Pledges receivable, net	$ 1,702,183	$ 448,305

(4) Investments:

Investments as of December 31, 2013 and 2012 are summarized as follows:

2013

Description	Cost	Unrealized holding gains (losses)	Estimated fair value
Equity securities	$ 13,029,526	$ 3,047,599	$ 16,077,125
Fixed income:			
Corporate bonds	957,560	(1,622)	955,938
Municipal bonds	179,110	(1,909)	177,201
Foreign bonds	94,263	54	94,317
Government bonds	135,266	(2,162)	133,104
Government assets	733,440	(2,740)	730,700
Preferred/Fixed rate cap securities	1,467,678	(66,940)	1,400,738
Diversified funds	3,714,394	(170,477)	3,543,917
Private equity	568,052	57,755	625,807
Total	$ 20,879,289	$ 2,859,558	$ 23,738,847

2012			
Description	**Cost**	**Unrealized holding gains (losses)**	**Estimated fair value**
Equity securities	$ 12,905,503	$ 1,006,278	$ 13,911,781
Fixed income:			
Corporate bonds	482,024	25,909	507,933
Municipal bonds	357,237	44,274	401,511
Government assets	222,912	26,005	248,917
Preferred/Fixed rate cap securities	1,693,666	101,791	1,795,457
Diversified funds	4,777,864	(37,025)	4,740,839
Private equity	549,850	3,320	553,170
Total	$ 20,989,056	$ 1,170,552	$ 22,159,608

The following schedule summarizes the investments return and classification in the statements of activities and changes in net assets for the years ended December 31, 2013 and 2012:

	2013	**2012**
Interest and dividend income, net	$ 526,622	$ 599,298
Net realized and unrealized gains	2,610,396	1,884,026
Return on investments	$ 3,137,018	$ 2,483,324

(5) Property and equipment:

The following schedule summarizes the cost and accumulated depreciation of property and equipment as of December 31, 2013 and 2012:

Description	Estimated Useful Life (Years)	2013	2012
Land		$ 867,078	$ 867,078
Building	40	1,017,052	1,017,052
Building improvements	10	127,738	121,519
Furniture and fixtures	5	152,287	147,453
Office equipment	3 -5	241,166	352,559
Computer equipment and software	3 -5	152,171	248,799
Vehicle	5	41,311	41,311
		2,598,803	2,795,771
Less -- accumulated depreciation		(612,639)	(763,762)
Property and equipment, net		$ 1,986,164	$ 2,032,009

(6) Grants payable:

The following summarizes the changes in grants payable during the years ended December 31, 2013 and 2012:

	2013	2012
Grants payable, beginning of year	$ 494,251	$ 492,952
Additions - unconditional grants awarded	1,202,667	1,079,139
Deductions - payments made	(1,242,994)	(1,077,840)
Grants payable, end of year	$ 453,924	$ 494,251

(7) Obligations under capital leases:

As of December 31, 2012, the Foundation leased equipment and a vehicle in exchange of capital lease obligations bearing interest at rates ranging between 4.00% to 10.25%, which were due at various dates through year 2015. During the year ended December 31, 2013, the Foundation acquired new equipment in exchange of a capital lease obligation bearing interest at 11.50% and due on the year 2018. As part of the new lease, the Foundation gave the old leased equipment in trade-in and the corresponding capital lease obligation was cancelled. The vehicle lease obligation was paid off during the year 2013.

The cost, accumulated depreciation and depreciation expense of the equipment and vehicle under capital lease obligations as of and for the years ended December 31, 2013 and 2012, are as follows:

	2013	2012
Equipment	$ 24,687	$ 55,202
Vehicle	-	41,311
	24,687	96,513
Less - accumulated depreciation	(2,057)	(77,815)
	$ 22,630	$ 18,698
Depreciation expense	$ 2,057	$ 15,172

The following is a schedule of the future minimum annual payments required under the capital lease obligation at December 31, 2013, and its present value:

Year Ending December 31,	Amount
2014	$ 6,515
2015	6,515
2016	6,515
2017	6,515
2018	3,801
Total minimum lease payments	29,861
Less - Amount representing interest	(6,734)
Present value of minimum lease payments	$ 23,127

(8) Unrestricted net assets:

The following summarizes the changes in unrestricted net assets during the years ended December 31, 2013 and 2012:

	2013	2012
Discretionary -		
Net assets, beginning of year	$ 2,714,019	$ 2,753,307
Changes in net assets	1,647,080	(39,288)
Net assets, end of year	4,361,099	2,714,019
Board designated -		
Net assets, beginning of year	1,711,173	579,590
Investment interest income	526,622	599,298
Realized net gain (loss) on investments	921,390	(95,759)
Unrealized net gains on investments	1,689,006	1,979,785
Spending	(1,783,996)	(1,351,741)
Net assets, end of year	3,064,195	1,711,173
Total unrestricted net assets	$ 7,425,294	$ 4,425,192

Board designated net assets are affected by the realized and unrealized gains and losses on investments.

(9) Temporarily restricted net assets:

Temporarily restricted net assets as of December 31, 2013 and 2012 are available for established funds amounting to $118,018 and $351,958, respectively.

(10) Permanently restricted net assets:

Permanently restricted net assets as of December 31, 2013 and 2012 represent funds from contributions received for the endowment fund. Interest and dividend income generated by the endowment fund investments, may be used for operational purposes. Permanently restricted net assets as of December 31, 2013 and 2012 amounted to $20,197,287 and $20,131,006, respectively.

(11) Program expenses:

Program related expenses for the years ended December 31, 2013 and 2012 were incurred in connection to the following programs:

		2013		2012
Education Programs	$	814,833	$	375,699
Housing Community Development		-		14,972
Economic Community Development		303,501		118,134
Others		70,232		126,884
	$	1,188,566	$	635,689

(12) Employee qualified retirement plan:

The Foundation sponsors a qualified defined contribution retirement plan (the "Plan"), which covers all eligible employees who are at least 18 years of age and that have completed 480 hours of service during a three month period of continuous active employment. The Plan provides for a matching contribution feature to be made by the Foundation of 100% up to a maximum of 10% of before-tax contributions made by the participant employees.

Retirement plan contributions for the years ended December 31, 2013 and 2012, amounted to approximately $54,000 and $49,000, respectively.

(13) Deferred compensation agreement:

Effective on January 1, 2008, the Foundation established a non-qualified deferred compensation plan (the "Plan"), for the purpose of providing deferred compensation for a selected group of management or highly compensated employees and their beneficiaries (the "Participants"). At the beginning of each plan year, the Foundation may make discretionary contributions to the Plan. For the years ended December 31, 2013 and 2012, the Foundation made a contribution of $55,000 and $205,000, respectively, applicable to its sole participant.

The contributions are invested as part of the Foundation's investment portfolio. The account balance is valued quarterly and adjusted by the earnings or losses of the investment and changes in its value during the valuation period. The Participant's account balance at December 31, 2013 and 2012 and the corresponding compensation liability for the Foundation amounted to $611,917 and $484,258, respectively. Total expense for the years ended December 31, 2013 and 2012 amounted to approximately $128,000 and $240,000, respectively.

(14) Income taxes:

The Foundation follows the accounting standards on accounting for uncertainty in income taxes. Management assessed whether there were any uncertain tax positions which may give rise to income tax liabilities and determined that there were no such matters requiring recognition in the accompanying financial statements. The Foundation files income tax returns in the Commonwealth of Puerto Rico and federal income tax return in the United States of America. With few exceptions, the Foundation is no longer subject to income tax examinations by tax authorities for years before 2009.

(15) Contingencies:

Regulatory agency requirements -

The Foundation may be subject to financial and compliance audits by some state and federal agencies. Management understands the Foundation is in compliance with the major requirements set forth by the agencies; however, such audits may result in a disallowance of, or adjustment to, expenses incurred.

Litigation -

The Foundation, at times, may be involved in litigations related to matters arising in the ordinary course of business. Management and legal counsel believe that any liability that may ultimately result from the resolution of these matters will not have a material adverse effect on the financial condition or results of operations of the Foundation.