



Financial Statements and Report of  
Independent Certified Public Accountants

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

December 31, 2015 and 2014

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

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## Report of Independent Certified Public Accountants

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

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### 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, 2015 and 2014, 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, 2015 and 2014, 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.

San Juan, Puerto Rico,  
June 10, 2016.

*Kevane Grant Thornton LLP*



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

**Statements of Financial Position**  
**December 31, 2015 and 2014**

<u>Assets</u>		
	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 2,666,184	\$ 1,846,966
Receivables from service contracts	4,848,055	2,397,322
Pledges receivable	23,019	51,186
Prepaid expenses	26,854	49,836
Loans receivable	255,000	180,000
Investments, at fair value	21,691,675	23,458,597
Property and equipment, net	<u>1,974,125</u>	<u>1,910,605</u>
Total assets	<u>\$ 31,484,912</u>	<u>\$ 29,894,512</u>
 <u>Liabilities and Net Assets</u>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 1,847,313	\$ 1,209,123
Margin account	1,686,136	-
Grants payable	477,626	451,413
Notes payable	600,000	-
Obligations under capital leases	<u>57,627</u>	<u>20,281</u>
Total liabilities	<u>4,668,702</u>	<u>1,680,817</u>
 <b>Net assets:</b>		
Unrestricted	6,025,602	7,767,469
Temporarily restricted	222,493	192,839
Permanently restricted	<u>20,568,115</u>	<u>20,253,387</u>
Total net assets	<u>26,816,210</u>	<u>28,213,695</u>
Total liabilities and net assets	<u>\$ 31,484,912</u>	<u>\$ 29,894,512</u>

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

**Statements of Activities and Changes in Net Assets**  
**Years Ended December 31, 2015 and 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>Revenues, gains and other support:</b>								
Contributions and services revenues	\$ 5,303,166	\$ 900,510	\$ 264,728	\$ 6,468,404	\$ 4,278,289	\$ 1,090,089	\$ 56,100	\$ 5,424,478
Interest and dividend income, net of custodian and investment advisory fees of \$181,940 and \$175,737 in 2015 and 2014, respectively	473,454	-	-	473,454	548,321	-	-	548,321
In-kind contributions	56,722	-	-	56,722	10,080	-	-	10,080
Property contribution	110,770	-	-	110,770	-	-	-	-
Other support	7,241	-	-	7,241	12,278	-	-	12,278
Total revenues, gains and other support	5,951,353	900,510	264,728	7,116,591	4,848,968	1,090,089	56,100	5,995,157
<b>Net assets permanently restricted under matching agreement</b>	(50,000)	-	50,000	-	-	-	-	-
<b>Net assets released from restrictions --</b>								
Satisfaction of program restrictions	870,856	(870,856)	-	-	1,015,268	(1,015,268)	-	-
<b>Expenses:</b>								
Field of interest grants	949,056	-	-	949,056	1,069,912	-	-	1,069,912
Economic community development grants	75,000	-	-	75,000	59,500	-	-	59,500
Program related expenses	5,165,565	-	-	5,165,565	3,360,352	-	-	3,360,352
Fund raising	698,980	-	-	698,980	487,338	-	-	487,338
General and administrative	522,998	-	-	522,998	538,326	-	-	538,326
Philanthropy development programs	320,728	-	-	320,728	273,882	-	-	273,882
Total expenses	7,732,327	-	-	7,732,327	5,789,310	-	-	5,789,310
<b>Realized and unrealized (losses)/gains on investments, net</b>	(781,749)	-	-	(781,749)	267,249	-	-	267,249
<b>Change in net assets</b>	(1,741,867)	29,654	314,728	(1,397,485)	342,175	74,821	56,100	473,096
<b>Net assets, beginning of year</b>	7,767,469	192,839	20,253,387	28,213,695	7,425,294	118,018	20,197,287	27,740,599
<b>Net assets, end of year</b>	\$ 6,025,602	\$ 222,493	\$ 20,568,115	\$ 26,816,210	\$ 7,767,469	\$ 192,839	\$ 20,253,387	\$ 28,213,695

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, 2015 and 2014**

Functional Expense Description	2015				2014			
	Program Services		Support Services		Program Services		Support Services	
	Program Related	Philanthropy Development	General and Administrative	Fund Raising	Total	Program Related	Philanthropy Development	General and Administrative
Salaries	\$ 658,590	\$ 80,513	\$ 156,333	\$ 323,770	\$ 1,219,206	\$ 425,091	\$ 92,110	\$ 163,550
Payroll taxes and fringe benefits	131,759	48,852	93,446	140,595	414,652	107,487	54,129	108,179
Total salaries and related expenses	790,349	129,365	249,779	464,365	1,633,858	532,578	146,239	271,729
Program activities and technical assistance	1,622,067	80,586	5,179	37,632	1,745,464	1,067,981	48,956	7,286
Professional fees and contractual services	1,923,105	15,618	104,490	15,640	2,060,853	704,845	16,987	108,939
Utilities	26,711	6,582	22,263	11,735	67,291	16,084	9,367	23,697
Repairs and maintenance	10,704	299	42,649	235	53,887	11,251	1,340	47,078
Advertising	5,459	9,222	-	132,838	147,519	14,348	4,888	-
Travel	9,972	34,047	689	2,799	47,507	7,024	17,977	1,136
Office supplies & equipment	641,573	3,208	10,694	5,758	661,233	910,951	1,794	16,880
Insurance	21,115	2,488	21,316	-	44,919	34,022	2,439	19,109
Security	28,351	-	2,776	-	31,127	18,579	-	6,070
Other	54,009	12,962	22,961	6,237	96,169	16,094	2,539	15,046
Total	5,135,415	294,377	482,796	677,239	6,589,827	3,333,757	252,526	516,970
Depreciation and amortization	30,150	26,351	40,202	21,741	118,444	26,595	21,356	21,356
Total expenses	\$ 5,165,565	\$ 320,728	\$ 522,998	\$ 698,980	\$ 6,708,271	\$ 3,360,352	\$ 273,882	\$ 538,326
								\$ 487,338
								\$ 4,659,898

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, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (1,397,485)	\$ 473,096
Adjustments to reconcile change in net assets to net cash used in operating activities -		
Depreciation and amortization	118,444	90,663
Realized and unrealized losses (gains) on investments, net	781,749	(267,249)
Contributions restricted for long-term investments	(264,728)	(56,100)
Property contribution revenue	(110,770)	-
Changes in assets and liabilities from operating activities-		
(Increase) decrease in operating assets:		
Receivables from service contract	(2,450,733)	(695,139)
Pledges receivable, net	28,167	(51,186)
Loans receivables	(75,000)	(180,000)
Prepaid expenses	22,982	(8,286)
Increase (decrease) in operating liabilities:		
Grants payable	26,213	(2,511)
Accounts payable and accrued expenses	638,190	420,196
Total adjustments	<u>(1,285,486)</u>	<u>(749,612)</u>
Net cash used in operating activities	<u>(2,682,971)</u>	<u>(276,516)</u>
<b>Cash flows from investing activities:</b>		
Payments for acquisition of property and equipment	(23,781)	(11,254)
Proceeds from sale of investments	8,832,806	8,574,647
Payments for acquisition of investments	<u>(7,847,632)</u>	<u>(8,027,638)</u>
Net cash provided by investing activities	<u>961,393</u>	<u>535,755</u>



**Puerto Rico Community Foundation, Inc.**  
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**Statements of Cash Flows**  
**Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
<b>Cash flows from financing activities:</b>		
Advances from margin account	\$ 1,686,136	\$ -
Proceeds from notes payable	600,000	-
Contributions restricted for long-term investments	264,728	56,100
Principal payments of capital lease obligations	<u>(10,068)</u>	<u>(6,206)</u>
Net cash provided by financing activities	<u>2,540,796</u>	<u>49,894</u>
Net increase in cash and cash equivalents	819,218	309,133
Cash and cash equivalents, beginning of year	<u>1,846,966</u>	<u>1,537,833</u>
Cash and cash equivalents, end of year	<u>\$ 2,666,184</u>	<u>\$ 1,846,966</u>
Interest paid	<u>\$ 1,879</u>	<u>\$ 7,136</u>

**Supplemental Schedule of Non-Cash Investing Transactions:**

During the year ended December 31, 2015, the Foundation received donated property with a fair market value of \$110,770.

During the years ended December 31, 2015 and 2014, the Foundation acquired a vehicle and equipment with a cost of \$47,413 and \$3,662, respectively, in exchange of capital lease obligations.

# Puerto Rico Community Foundation, Inc.

## (A Not-for-Profit Organization)

### Notes to Financial Statements December 31, 2015 and 2014

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(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 elementary, middle and high 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.

**Community Investment Fund (CIF)** - Social impact investment fund that provide social and economic returns to the investors. The fund provides financing support to not-for-profit organizations. The eligible uses are: community financing programs, acquisition and housing rehabilitation, operational capital and social entrepreneurship initiatives.

**Puerto Rico Community Foundation, Inc.**  
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**Notes to Financial Statements**  
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**Access Fund to Not-for-Profit Organizations (Fondo de Acceso a Organizaciones Sin Fines de Lucro “OSFL”)** - A program related investment fund created by the Foundation in conjunction with the “Red de Fundaciones” to strengthen and enhance the financial administrative capacity of not-for-profit organizations that are facing the challenge of keeping the level of services to low-and-moderate-income communities. These organizations may be at risk of reducing its services, personnel, and even closing its operations due to the reduction of the governmental funding to the non-profit sectors.

**(b) Significant accounting policies -**

**(i) Basis of presentation -**

The Foundation’s fiscal year ends on December 31<sup>st</sup> of each year. All references to years in these notes to the financial statements represent the calendar years then ended, unless otherwise noted. The Foundation has evaluated subsequent events through June 10, 2016, 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, 2015 and 2014, the Foundation received in-kind contributions of approximately \$56,700 and \$10,000, respectively.

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

**Notes to Financial Statements**  
**December 31, 2015 and 2014**

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**(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) Loans receivable -**

Loans receivable represent loans to not for profit organizations. Anticipated actual losses, if any (i.e., loan principal which is not repaid by borrower), are recorded as contribution expense after an analysis made each quarter.

**(ix) 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.

# Puerto Rico Community Foundation, Inc.

## (A Not-for-Profit Organization)

### Notes to Financial Statements

#### December 31, 2015 and 2014

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(x) **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.

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**Notes to Financial Statements**  
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The following schedule summarizes the reconciliation of the changes in fair value for investments categorized as Level 3:

	<b>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</b>
Fair value, December 31, 2013	\$ 625,807
Purchases	158,905
Distributions	(135,608)
Net unrealized/realized gain	96,373
Fair value, December 31, 2014	745,477
Purchases	307,326
Distributions	(236,055)
Net unrealized/realized gain	84,867
Fair value, December 31, 2015	\$ 901,615

**(xi) Property and equipment -**

Purchased property and equipment are stated at cost. Donations of property and equipment are recorded as contributions at their estimated fair values. 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.

**(xii) 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.

**Puerto Rico Community Foundation, Inc.**  
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**Notes to Financial Statements**  
**December 31, 2015 and 2014**

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**(xiii) 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.

**(xiv) 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 2015 and 2014 under projects administered by the Foundation amounted to approximately \$1,024,000 and \$1,129,000, respectively.

**(xv) 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.

**(xvi) 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, 2015 and 2014 amounted to approximately \$148,000 and \$32,000, respectively, which are presented as such in the accompanying statements of functional expenses.

**(xvii) 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, 2015 and 2014.

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.

# Puerto Rico Community Foundation, Inc.

## (A Not-for-Profit Organization)

### Notes to Financial Statements December 31, 2015 and 2014

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(xviii) 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 years ended December 31, 2015 and 2014, 80% and 77%, respectively, of the Foundation's program service support was provided by contributions from a state governmental agency. In addition, 100% of the accounts receivables from service contracts, as of December 31, 2015 and 2014, were related to this same state governmental agency.

During the years 2015 and 2014, the Foundation performed services under professional services contracts with a state governmental agency. As of December 31, 2015 and 2014, services in the amount of approximately \$3,650,000 and \$1,551,107, respectively, remained unbilled. These amounts were presented within the receivables from service contracts in the accompanying statements of financial position as of December 31, 2015 and 2014 and as services revenues in the accompanying statements of activities and changes in net assets for the years ended December 31, 2015 and 2014, respectively.



**Puerto Rico Community Foundation, Inc.**  
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**Notes to Financial Statements**  
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**(3) Loans receivable:**

Access Fund to Not-for-Profit Organizations -

On November 20, 2014, the Foundation entered into an unsecured loan receivable agreement with a not-for-profit organization in the amount of \$180,000. The loan will be collected in ninety-six (96) monthly installments during eight (8) years starting on October 20, 2018 and ending on November 20, 2026. Interest was imputed at a rate of 2.50%. See Note 1 (a).

Community Investment Fund -

On December 21, 2015, the Foundation entered into an unsecured loan receivable agreement with a not-for-profit organization in the amount of \$75,000. The loan will be collected in full on June 21, 2016. Interest was imputed at a rate of 5.5%. See Note 1 (a).

Future installments of principal to be received during the next five years and in total thereafter are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 75,000
2017	-
2018	4,663
2019	20,283
2020	20,796
Thereafter	<u>134,258</u>
Total	<u>\$ 255,000</u>

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

**Notes to Financial Statements**  
**December 31, 2015 and 2014**

**(4) Investments:**

Investments as of December 31, 2015 and 2014 are summarized as follows:

<b>2015</b>			
<b>Description</b>	<b>Cost</b>	<b>Unrealized holding gains (losses)</b>	<b>Estimated fair value</b>
Equity securities	\$ 12,681,136	\$ 926,081	\$ 13,607,217
Fixed income:			
Corporate bonds	947,854	(8,723)	939,131
Municipal bonds	122,665	3,916	126,581
Foreign bonds	48,248	(862)	47,386
Government bonds	379,777	(3,738)	376,039
Government assets	760,175	(31,125)	729,050
Preferred/Fixed rate cap securities	1,182,633	42,683	1,225,316
Diversified funds	3,759,559	(397,856)	3,361,703
Private equity	1,298,538	(19,286)	1,279,252
Total	<u>\$ 21,180,585</u>	<u>\$ 511,090</u>	<u>\$ 21,691,675</u>
<b>2014</b>			
<b>Description</b>	<b>Cost</b>	<b>Unrealized holding gains (losses)</b>	<b>Estimated fair value</b>
Equity securities	\$ 12,952,818	\$ 2,234,217	\$ 15,187,035
Fixed income:			
Corporate bonds	984,932	30,509	1,015,441
Municipal bonds	153,721	8,924	162,645
Foreign bonds	71,975	(3,485)	68,490
Government bonds	213,467	(3,500)	209,967
Government assets	720,903	(8,015)	712,888
Preferred/Fixed rate cap securities	1,425,227	46,394	1,471,621
Diversified funds	3,694,204	(184,371)	3,509,833
Private equity	1,159,712	(39,035)	1,120,677
Total	<u>\$ 21,376,959</u>	<u>\$ 2,081,638</u>	<u>\$ 23,458,597</u>

The investments serve as collateral for the margin account. See Note (6).

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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, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Interest and dividend income, net	\$ 473,454	\$ 548,321
Net realized and unrealized gains (losses):		
Realized gain on investments	820,085	1,049,703
Unrealized loss on investments	<u>(1,601,834)</u>	<u>(782,454)</u>
Total net realized and unrealized (losses) gains	<u>(781,749)</u>	<u>267,249</u>
(Loss) return on investments	<u><u>\$ (308,295)</u></u>	<u><u>\$ 815,570</u></u>

**(5) Property and equipment:**

The following schedule summarizes the cost and accumulated depreciation of property and equipment as of December 31, 2015 and 2014:

<u>Description</u>	<u>Estimated Useful Life (Years)</u>	<u>2015</u>	<u>2014</u>
Land		\$ 867,078	\$ 867,078
Building	40	1,017,052	1,017,052
Building improvements	10	131,422	130,397
Furniture and fixtures	5	153,570	152,287
Office equipment	3 -5	275,083	253,610
Computer equipment and software	3 -5	262,941	152,171
Vehicles	5	<u>88,724</u>	<u>41,311</u>
		2,795,870	2,613,906
Less -- accumulated depreciation		<u>(821,745)</u>	<u>(703,301)</u>
Property and equipment, net		<u><u>\$ 1,974,125</u></u>	<u><u>\$ 1,910,605</u></u>

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**(6) Margin account:**

The Foundation has an available margin account secured by its investment portfolio as of December 31, 2015. The total amount available for borrowing depends on the portfolio's characteristics and balance. The margin account bears interest at a rate determined at the settlement date based on market conditions (2.75% as of December 31, 2015). As of December 31, 2015 the outstanding balance of the margin account amounted to \$1,686,136.

**(7) Grants payable:**

The following summarizes the changes in grants payable during the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Grants payable, beginning of year	\$ 451,413	\$ 453,924
Additions - unconditional grants awarded	1,024,056	1,129,412
Deductions - payments made	<u>(997,843)</u>	<u>(1,131,923)</u>
Grants payable, end of year	<u>\$ 477,626</u>	<u>\$ 451,413</u>

**(8) Notes payable:**

In March 2015, the Foundation entered into three promissory notes with three different accredited investors. The proceeds from these promissory notes will provide support to the CIF, see Note 1(a) and (3). These notes bear interest at 1.5% per annum and the principal will be paid in full in one lump sum payment at maturity, in March 2018. The total amount for the three notes principal is \$600,000.

**(9) Obligations under capital leases:**

The Foundation leased equipment under non-cancelable capital lease obligations, bearing interest at rates ranging from 10.25% to 11.50%, which were due at various dates through year 2019.

On April 22, 2015 the Foundation acquire a corporate automobile under an auto loan financing bearing interest at 2.49%. The loan is payable on seventy two (72) monthly payments starting on June 5, 2015.

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The cost, accumulated depreciation and depreciation expense of the vehicle and equipment under capital lease obligations as of and for the years ended December 31, 2015 and 2014, are as follows:

	<u>2015</u>	<u>2014</u>
Equipment	\$ 28,349	\$ 28,349
Vehicle	47,413	28,349
	<u>75,762</u>	<u>56,698</u>
Less - accumulated depreciation	<u>(17,761)</u>	<u>(7,443)</u>
	<u>\$ 58,001</u>	<u>\$ 49,255</u>
Depreciation expense	<u>\$ 10,317</u>	<u>\$ 5,387</u>

The following is a schedule of the future minimum annual payments required under the capital lease obligations at December 31, 2015, and its present value:

<u>Year Ending December 31,</u>	<u>Amount</u>
2016	\$ 15,030
2017	15,030
2018	12,316
2019	8,515
2020	8,515
Thereafter	<u>3,567</u>
Total minimum loan payments	62,973
Less - Amount representing interest	<u>(5,346)</u>
Present value of minimum loan payments	<u>\$ 57,627</u>

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**(10) Unrestricted net assets:**

The following summarizes the changes in unrestricted net assets during the years ended December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
<u>Discretionary -</u>		
Net assets, beginning of year	\$ 4,528,149	\$ 4,361,099
Transfer to Board designated for CIF	-	(500,000)
Changes in net assets	178,695	667,050
Net assets, end of year	<u>4,706,844</u>	<u>4,528,149</u>
<u>Board designated -</u>		
Net assets, beginning of year	3,239,320	3,064,195
Investment interest income	473,454	548,321
Realized net gains on investments	820,085	1,049,703
Unrealized net losses on investments	(1,601,834)	(782,454)
Transfer from discretionary for CIF	-	500,000
Spending	<u>(1,612,267)</u>	<u>(1,140,445)</u>
Net assets, end of year	<u>1,318,758</u>	<u>3,239,320</u>
Total unrestricted net assets	<u><u>\$ 6,025,602</u></u>	<u><u>\$ 7,767,469</u></u>

Board designated net assets are affected by the realized and unrealized gains and losses on investments. During 2014 the Foundation launched the Community Investment Fund ("CIF") and segregated \$500,000 from the Foundation funds as initial contribution of the fund. See Note (1)(a).

**(11) Temporarily restricted net assets:**

Temporarily restricted net assets as of December 31, 2015 and 2014 are available for established funds amounting to \$222,493 and \$192,839, respectively.

**(12) Permanently restricted net assets:**

Permanently restricted net assets as of December 31, 2015 and 2014 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, 2015 and 2014 amounted to \$20,568,115 and \$20,253,387, respectively.

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**(13) Property contribution:**

During the year ended December 31, 2015, the Foundation received donated property from a private corporation with a fair value of \$110,770 which was recorded as property and equipment in the accompanying statements of financial position as of December 31, 2015 and as property contribution revenue in the accompanying statements of activities and changes in net assets for the year ended December 31, 2015.

**(14) Program expenses:**

Program related expenses for the years ended December 31, 2015 and 2014 were incurred in connection with the following programs:

	<u>2015</u>	<u>2014</u>
Education Programs	\$ 4,784,177	\$ 3,063,736
Economic Community Development	47,632	93,206
Community Investment Fund	42,269	12,450
Housing Community Development Programs	39,753	-
Others	251,734	190,960
	<u>\$ 5,165,565</u>	<u>\$ 3,360,352</u>

**(15) 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, 2015 and 2014, amounted to approximately \$68,000 and \$64,000, respectively.

**(16) 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, 2015 and 2014, the Foundation made contributions of \$55,000, for both years, applicable to its sole participant.

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### **Notes to Financial Statements**

#### **December 31, 2015 and 2014**

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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, 2015 and 2014 and the corresponding compensation liability for the Foundation amounted to \$732,155 and \$690,592, respectively. Total expense for the years ended December 31, 2015 and 2014 amounted to approximately \$41,000 and \$79,000, respectively.

#### **(17) 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 2011.

#### **(18) 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.

#### **(19) Subsequent events:**

##### **Creative Economy Investment Fund -**

In February 2016, the Foundation entered into a public-private partnership to establish a permanent fund as a supporting organization, as defined by the Internal Revenue Service regulation. The Foundation is in the process of designing and determining the operational structure, as well as the required documents to incorporate the organization. The fund will start focusing in Santurce area but it is expected to expand the scope to other communities.

##### **Receivables from service contract -**

During the first semester of year 2016, the Foundation collected a total of \$1,003,861 as payment for the receivables from service contracts with a state governmental agency. Total collected represents 84% from the billed receivable balance as of December 31, 2015.