

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee of
**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**
San Pedro, California

We have audited the accompanying combining financial statements of Harbor Community Benefit Foundation ("HCBF") and Port Community Mitigation Trust Fund ("PCMTF") (collectively, the "Organization"), which comprise the combining statement of financial position as of December 31, 2013, and the related combining statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to combining financial statements.

Management's Responsibility for the Combining Financial Statements

Management is responsible for the preparation and fair presentation of these combining financial statements in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combining financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combining financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S. ("U.S. GAAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combining financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combining financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combining financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the combining 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 reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combining 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 combining financial statements referred to above present fairly, in all material respects, the combining financial position of Harbor Community Benefit Foundation and Port Community Mitigation Trust Fund and Port Community Mitigation Trust Fund as of December 31, 2013, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. GAAP.

RBZ, LLP

April 16, 2014

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2013

ASSETS

	HCBF	PCMTF	Eliminating Entries	Total
Cash	\$ 1,572,268	\$ -	\$ -	\$ 1,572,268
Investments Held in Trust Fund	-	6,793,554	-	6,793,554
Prepaid Expenses and Other Assets	3,853	-	-	3,853
	<u>\$ 1,576,121</u>	<u>\$ 6,793,554</u>	<u>\$ -</u>	<u>\$ 8,369,675</u>

LIABILITIES AND NET ASSETS

Liabilities				
Accounts payable and accrued expenses	\$ 22,516	\$ -	\$ -	\$ 22,516
Grants payable	737,500	-	-	737,500
Total Liabilities	<u>760,016</u>	<u>-</u>	<u>-</u>	<u>760,016</u>
Commitment (Note 5)				
Net Assets				
Unrestricted	106,786	-	-	106,786
Temporarily restricted	709,319	6,793,554	-	7,502,873
Total Net Assets	<u>816,105</u>	<u>6,793,554</u>	<u>-</u>	<u>7,609,659</u>
	<u>\$ 1,576,121</u>	<u>\$ 6,793,554</u>	<u>\$ -</u>	<u>\$ 8,369,675</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

COMBINING STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>HCBF</u>	<u>PCMTF</u>	<u>Eliminating Entries</u>	<u>Total</u>
Unrestricted Net Assets				
Unrestricted revenues and gains				
PCMTF operating contributions	\$ 354,200	\$ -	\$ (354,200)	\$ -
Unrestricted contributions	12,376	-	-	12,376
Interest and dividends	317	-	-	317
Net assets released from restrictions	<u>1,065,351</u>	<u>1,831,730</u>	<u>(1,431,000)</u>	<u>1,466,081</u>
Total Unrestricted Revenues and Gains	<u>1,432,244</u>	<u>1,831,730</u>	<u>(1,785,200)</u>	<u>1,478,774</u>
Expenses				
Program services	1,318,695	1,785,200	(1,785,200)	1,318,695
Management and general	<u>211,726</u>	<u>46,530</u>	<u>-</u>	<u>258,256</u>
Total Expenses	<u>1,530,421</u>	<u>1,831,730</u>	<u>(1,785,200)</u>	<u>1,576,951</u>
Change in Unrestricted Net Assets	<u>(98,177)</u>	<u>-</u>	<u>-</u>	<u>(98,177)</u>
Temporarily Restricted Net Assets				
Temporarily restricted revenues and gains				
PCMTF operating contributions for fiscal 2014	475,000	-	(475,000)	-
Contributions restricted for grant purposes	956,000	-	(956,000)	-
Interest and dividends	-	39,515	-	39,515
Realized losses on investments	-	(22,868)	-	(22,868)
Net assets released from restrictions	<u>(1,065,351)</u>	<u>(1,831,730)</u>	<u>1,431,000</u>	<u>(1,466,081)</u>
Total Temporarily Restricted Revenues and Gains	<u>365,649</u>	<u>(1,815,083)</u>	<u>-</u>	<u>(1,449,434)</u>
Change in Temporarily Restricted Net Assets	<u>365,649</u>	<u>(1,815,083)</u>	<u>-</u>	<u>(1,449,434)</u>
Total Change in Net Assets	<u>267,472</u>	<u>(1,815,083)</u>	<u>-</u>	<u>(1,547,611)</u>
Net Assets, beginning of year	<u>548,633</u>	<u>8,608,637</u>	<u>-</u>	<u>9,157,270</u>
Net Assets, end of year	<u>\$ 816,105</u>	<u>\$ 6,793,554</u>	<u>\$ -</u>	<u>\$ 7,609,659</u>

See accompanying notes to combining financial statements.

HARBOR COMMUNITY BENEFIT FOUNDATION AND PORT COMMUNITY MITIGATION TRUST FUND

COMBINING STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>HCBF</u>		<u>PCMTF</u>		<u>Eliminating Entries</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Program Services</u>	<u>Management and General</u>	<u>Total</u>
Restricted Purpose							
Health care grants	\$ 450,000	\$ -	\$ 450,000	\$ -	\$ (450,000)	\$ -	\$ 450,000
Community benefit grants	506,000	-	506,000	-	(506,000)	-	506,000
Land use study	12,673	-	-	-	-	-	12,673
Noise assessment	<u>96,678</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96,678</u>
	1,065,351	-	956,000	-	(956,000)	-	1,065,351
General Operations	<u>-</u>	<u>-</u>	<u>829,200</u>	<u>-</u>	<u>(829,200)</u>	<u>-</u>	<u>-</u>
	<u>1,065,351</u>	<u>-</u>	<u>1,785,200</u>	<u>-</u>	<u>(1,785,200)</u>	<u>-</u>	<u>1,065,351</u>
Other Expenses							
Building and occupancy	8,388	13,762	-	-	-	-	22,150
Insurance	-	3,069	-	-	-	-	3,069
Investment fees	-	-	-	46,530	-	-	46,530
Legal and professional fees	-	62,321	-	-	-	-	62,321
Marketing	5,164	7,745	-	-	-	-	12,909
Office expense	21,256	6,144	-	-	-	-	27,400
Salaries and payroll expenses	213,348	114,879	-	-	-	-	328,227
Travel, meetings and conferences	<u>5,188</u>	<u>3,806</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,994</u>
Total Other Expenses	<u>253,344</u>	<u>211,726</u>	<u>-</u>	<u>46,530</u>	<u>-</u>	<u>-</u>	<u>511,600</u>
	<u>\$ 1,318,695</u>	<u>\$ 211,726</u>	<u>\$ 1,785,200</u>	<u>\$ 46,530</u>	<u>\$ (1,785,200)</u>	<u>\$ -</u>	<u>\$ 1,576,951</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

COMBINING STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>HCBF</u>	<u>PCMTF</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash Flows from Operating Activities				
Changes in net assets	\$ 267,472	\$ (1,815,083)	\$ -	\$ (1,547,611)
Adjustments to reconcile changes in net assets to net cash provided by operating activities				
Realized losses on investments	-	22,868	-	22,868
Reinvested dividends and interest	-	(39,515)	-	(39,515)
(Increase) decrease in operating assets				
Prepaid expenses and other assets	(839)	-	-	(839)
Increase (decrease) in operating liabilities				
Accounts payable and accrued expenses	18,100	-	-	18,100
Grants payable	<u>522,375</u>	<u>-</u>	<u>-</u>	<u>522,375</u>
Net Cash Provided by Operating Activities	<u>807,108</u>	<u>(1,831,730)</u>	<u>-</u>	<u>(1,024,622)</u>
Cash Flows from Investing Activities				
Proceeds from sales of investments	-	9,084,754	-	9,084,754
Purchases of investments	-	(7,299,554)	-	(7,299,554)
Investment fees	<u>-</u>	<u>46,530</u>	<u>-</u>	<u>46,530</u>
Net Cash Used in Investing Activities	<u>-</u>	<u>1,831,730</u>	<u>-</u>	<u>1,831,730</u>
Net Increase in Cash	807,108	-	-	807,108
Cash, beginning of year	<u>765,160</u>	<u>-</u>	<u>-</u>	<u>765,160</u>
Cash, end of year	<u>\$ 1,572,268</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,572,268</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 - NATURE OF OPERATIONS

Background

Harbor Community Benefit Foundation ("HCBF") is a California tax exempt nonprofit corporation that was formed in May 2011 as a result of the settlement known as the "TraPac MOU," an historic agreement whereby the Port of Los Angeles and the City of Los Angeles agreed to address the negative cumulative environmental and public health impacts of its business operations on its neighbors – local port communities and residents.

Under an agreement with the City of Los Angeles through its Board of Harbor Commissioners ("BOHC"), the Port Community Mitigation Trust Fund ("PCMTF" or "Trust Fund") was created. The Port of Los Angeles provided \$16.06 million toward certain identified projects. Some of these projects were undertaken prior to the formation of HCBF. In January 2012, the Trust Fund transferred the remaining balance of \$9.8 million into the new account held for use upon certain approvals for specific purposes. During 2013, the Trust Fund was managed by the California Community Foundation ("CCF"). On December 30, 2013, \$7.3 million was transferred from CCF to a new account with JP Morgan Chase Bank. All funds from the Port Community Mitigation Trust Fund are subject to the Tidelands Trust Doctrine, a body of law and agreements governing the use and regulation of certain tide and submerged lands defined under California law.

At that point, HCBF became the administrator of the remaining Trust Funds. The activity of the Trust Fund has been presented in these financial statements from the point at which the investment account and the HCBF-Trust Fund relationship were established.

In addition to receiving funds from the Trust Fund, HCBF may solicit and receive funding from both private and government sources. Such funding will not be subject to the Tidelands Trust restrictions.

Combined Entities

These financial statements are presented as combining because the Trust Fund is not a separate legal entity and neither HCBF, the BOHC, or the investment custodian have unilateral variance power over the Trust Fund. However, HCBF is entrusted with using the Trust Fund to execute its exempt purposes. Therefore, these financial statements include both HCBF-controlled funds and the Trust Fund (collectively referred to as the "Organization").

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 1 - NATURE OF OPERATIONS (Continued)

Purpose

HCBF was formed, initially, to address off-port impacts created by existing and future port operations in the communities of Wilmington and San Pedro, including but not limited to off-port impacts from the TraPac Terminal Expansion Project in Wilmington and San Pedro, California.

Specifically, HCBF's mission shall be to allocate money for projects that will protect, improve and assess public health by offsetting past, present, and future off-port impacts from Port operations, including but not limited to the CEQA categories of noise, land use, blight/aesthetics, recreation, natural resources, light/glare, safety, air quality, community resources, cultural resources, geology and soils, population and housing, public services, water quality, and future categories of impacts identified under CEQA. Such projects shall be geared towards addressing the cumulative off-port impacts created by Port operations.

HCBF and the BOHC have joint access to the Trust Fund. In order for HCBF to withdraw funds from the Trust Fund, HCBF's board must determine and approve the purpose of the withdrawal. An HCBF representative must make a formal request to the BOHC for its final review and determination that funds be withdrawn from the Trust Fund for use for the general operating or purpose restricted uses. Upon approval by the BOHC, the port staff must then prepare a letter to the Trust Fund custodian requesting withdrawal of Trust Funds for specified purposes. This letter must be jointly signed by HCBF and the BOHC, with approval from the City of Los Angeles attorney's office (as to form and legality). Only projects that are consistent with the TraPac MOU, conform to the Tidelands Trust Doctrine, and are approved by the BOHC may be funded by the PCMTF.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Income Tax Status

HCBF is a nonprofit public benefit corporation organized under the laws of California and, as such, is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC") and corresponding state provisions.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

HCBF's federal income tax returns for tax years ending December 31, 2011 and subsequent remain open for examination by the Internal Revenue Service. The returns for California, the Organization's only state tax jurisdiction, remain open for examination by the California Franchise Tax Board for tax years ending December 31, 2011 and subsequent.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted.

Unrestricted Net Assets - Include contributions received from the Trust Fund for general operating expenditures of HCBF.

Temporarily Restricted Net Assets - Include contributions received from the Trust Fund for public benefit projects approved by the HCBF Board and BOHC.

Permanently Restricted Net Assets - Include assets that have been restricted by the donor in perpetuity and cannot be expended by the Organization. The Organization has no permanently restricted net assets.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from these estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid financial instruments purchased with an original maturity of three months or less to be cash equivalents. There were no cash equivalents at December 31, 2013.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentration of Risk

Occasionally, the Organization's cash balances exceed FDIC-insured limits. The Organization has not experienced and does not anticipate any losses related to these balances.

Investments Held in Trust Fund

The investments held in trust fund are monitored by the Board of Directors' officers and are stated at fair value. Unrealized gains and losses are recognized aggregately. Realized gains and losses are recognized at the time of sale and are computed using the specific identification method.

The Organization must report its investments at fair value among three categories of price inputs available. These categories of inputs are quoted prices in active markets for identical assets (Level 1); significant other observable inputs (Level 2); and significant unobservable inputs (Level 3). At year-end and during a transition between investment advisors, all investment funds were held in a cash account pending reallocation of the funds to new investments classes.

Grants Payable

The Organization records appropriations for grants as a liability and expense after approval by the HCBF Board and BOHC.

Contributions

Contributions consist primarily of transfer of funds from the Trust Fund for general operations and public benefit projects. Contributions are recognized upon approval by the HCBF Board and BOHC.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses that can be identified with a specific program or support service are allocated directly according to their natural expense classification. Other expenses that are common to several functions are allocated using bases determined by management to be reasonable.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The Organization has evaluated events subsequent to December 31, 2013, to assess the need for potential recognition or disclosure in the combining financial statements. Such events were evaluated through April 16, 2014, the date the combining financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred, except as described in Note 5, that require recognition or additional disclosure in the combining financial statements.

NOTE 3 - INVESTMENTS HELD IN TRUST FUND

Activity in investments during the year was as follows:

Balance, beginning of year	\$ 8,608,637
Reinvested dividends and interest	39,515
Proceeds from sales of investments	(9,084,754)
Purchases of investments	7,299,554
Investment fees	(46,530)
Realized losses on investments	<u>(22,868)</u>
Balance, end of year	<u>\$ 6,793,554</u>

Proceeds from sales of investments in the amount of \$7.3 million were transferred from CCF to JP Morgan Chase Bank on December 30, 2013. All investment fees paid during the year were paid to CCF.

**HARBOR COMMUNITY BENEFIT FOUNDATION AND
PORT COMMUNITY MITIGATION TRUST FUND**

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets during the year are as follows:

	Balance, December 31, <u>2013</u>
Funds held in trust (see Note 3)	\$ 6,793,554
Land use study	189,917
Noise assessment	44,402
PCMTF operating contributions for fiscal 2014	<u>475,000</u>
	<u>\$ 7,502,873</u>

HCBF is obligated to pay out \$737,500 for its health care and community benefit grants programs. This amount was released from restriction upon accruing the payable to the grant recipients; accordingly, no purpose-restricted balance that related to health care or community benefit grants remains as of December 31, 2013.

NOTE 5 - COMMITMENT

HCBF leases office space under a noncancelable operating lease with a monthly payment of \$1,102 that expired in March 2014 and continues to lease this space on a month-to-month basis.

Rent expense for the year ended December 31, 2013 was \$12,904.

NOTE 6 - UNRESTRICTED GRANTS AND DONATIONS

Unrestricted grants and donations included cash donations from corporations, individuals and the HCBF Board of Directors. In 2013, all of the directors donated cash to be used at the Board's discretion. Unrestricted funds are not subject to Tidelands Trust restrictions.