

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

COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
COMBINING FINANCIAL STATEMENTS	
Combining Statement of Financial Position	2
Combining Statement of Activities	3
Combining Statement of Functional Expenses	4
Combining Statement of Cash Flows	5
NOTES TO COMBINING FINANCIAL STATEMENTS	6 - 12

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, 2014, 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 Organization'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 Organization'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 as of December 31, 2014, 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 15, 2015

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

COMBINING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2014

ASSETS

	HCBF	PCMTF	Eliminating Entries	Total
Cash	\$ 1,193,330	\$ -	\$ -	\$ 1,193,330
Investments Held in Trust Fund	-	5,220,948	-	5,220,948
Prepaid Expenses and Other Assets	4,622	-	-	4,622
	\$ 1,197,952	\$ 5,220,948	\$ -	\$ 6,418,900

LIABILITIES AND NET ASSETS

Liabilities				
Accounts payable and accrued expenses	\$ 23,753	\$ -	\$ -	\$ 23,753
Grants payable	335,000	-	-	335,000
Total Liabilities	<u>358,753</u>	<u>-</u>	<u>-</u>	<u>358,753</u>
Commitment (Note 6)				
Net Assets				
Unrestricted	143,879	-	-	143,879
Temporarily restricted	695,320	5,220,948	-	5,916,268
Total Net Assets	<u>839,199</u>	<u>5,220,948</u>	<u>-</u>	<u>6,060,147</u>
	\$ 1,197,952	\$ 5,220,948	\$ -	\$ 6,418,900

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, 2014

	HCBF	PCMTF	Eliminating Entries	Total
Unrestricted Net Assets				
Unrestricted revenues and gains				
Net assets released from restrictions				
General operations	\$ 475,000	\$ -	\$ (475,000)	\$ -
Restricted purpose	<u>1,140,999</u>	<u>1,607,515</u>	<u>(1,127,000)</u>	<u>1,621,514</u>
Total net assets released from restrictions	<u>1,615,999</u>	<u>1,607,515</u>	<u>(1,602,000)</u>	<u>1,621,514</u>
Other unrestricted revenues and gains				
Contributions	19,717	-	-	19,717
Interest and dividends	<u>274</u>	<u>-</u>	<u>-</u>	<u>274</u>
Total other unrestricted revenues and gains	<u>19,991</u>	<u>-</u>	<u>-</u>	<u>19,991</u>
Total Unrestricted Revenues and Gains	<u>1,635,990</u>	<u>1,607,515</u>	<u>(1,602,000)</u>	<u>1,641,505</u>
Expenses				
Program services	1,444,350	1,602,000	(1,602,000)	1,444,350
Management and general	138,061	5,515	-	143,576
Fundraising	<u>16,486</u>	<u>-</u>	<u>-</u>	<u>16,486</u>
Total Expenses	<u>1,598,897</u>	<u>1,607,515</u>	<u>(1,602,000)</u>	<u>1,604,412</u>
Change in Unrestricted Net Assets	<u>37,093</u>	<u>-</u>	<u>-</u>	<u>37,093</u>
Temporarily Restricted Net Assets				
Temporarily restricted revenues and gains				
PCMTF operating contributions for fiscal 2015	482,000	-	(482,000)	-
Contributions restricted for grant purposes	1,120,000	-	(1,120,000)	-
Interest and dividends	-	125,355	-	125,355
Realized gains on sales of investments	-	946	-	946
Unrealized losses on investments	-	(91,392)	-	(91,392)
Net assets released from restrictions	<u>(1,615,999)</u>	<u>(1,607,515)</u>	<u>1,602,000</u>	<u>(1,621,514)</u>
Total Temporarily Restricted Revenues and Gains	<u>(13,999)</u>	<u>(1,572,606)</u>	<u>-</u>	<u>(1,586,605)</u>
Change in Temporarily Restricted Net Assets	<u>(13,999)</u>	<u>(1,572,606)</u>	<u>-</u>	<u>(1,586,605)</u>
Total Change in Net Assets	<u>23,094</u>	<u>(1,572,606)</u>	<u>-</u>	<u>(1,549,512)</u>
Net Assets, beginning of year	<u>816,105</u>	<u>6,793,554</u>	<u>-</u>	<u>7,609,659</u>
Net Assets, end of year	<u>\$ 839,199</u>	<u>\$ 5,220,948</u>	<u>\$ -</u>	<u>\$ 6,060,147</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, 2014

	HCBF			PCMTF			Eliminating Entries			Total
	Program Services	Management and General	Fundraising	Program Services	Management and General	Fundraising	Program Services	Management and General	Fundraising	
Restricted Purpose										
Health care grants	\$ 550,000	\$ -	\$ -	\$ 550,000	\$ -	\$ -	\$ (550,000)	\$ -	\$ -	\$ 550,000
Community benefit grants	570,000	-	-	570,000	-	-	(570,000)	-	-	570,000
Land use study	20,999	-	-	-	-	-	-	-	-	20,999
	<u>1,140,999</u>	<u>-</u>	<u>-</u>	<u>1,120,000</u>	<u>-</u>	<u>-</u>	<u>(1,120,000)</u>	<u>-</u>	<u>-</u>	<u>1,140,999</u>
General Operations	<u>-</u>	<u>-</u>	<u>-</u>	<u>482,000</u>	<u>-</u>	<u>-</u>	<u>(482,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>1,140,999</u>	<u>-</u>	<u>-</u>	<u>1,602,000</u>	<u>-</u>	<u>-</u>	<u>(1,602,000)</u>	<u>-</u>	<u>-</u>	<u>1,140,999</u>
Other Expenses										
Building and occupancy	12,655	4,175	-	-	-	-	-	-	-	16,830
Insurance	-	3,465	-	-	-	-	-	-	-	3,465
Investment fees	-	-	-	-	5,515	-	-	-	-	5,515
Legal and professional fees	1,252	53,068	6,986	-	-	-	-	-	-	61,306
Marketing	15,962	2,500	7,500	-	-	-	-	-	-	25,962
Office expense	33,086	3,089	2,000	-	-	-	-	-	-	38,175
Salaries and payroll expenses	235,696	70,403	-	-	-	-	-	-	-	306,099
Travel, meetings and conferences	4,700	1,361	-	-	-	-	-	-	-	6,061
	<u>303,351</u>	<u>138,061</u>	<u>16,486</u>	<u>-</u>	<u>5,515</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>463,413</u>
	<u>\$ 1,444,350</u>	<u>\$ 138,061</u>	<u>\$ 16,486</u>	<u>\$ 1,602,000</u>	<u>\$ 5,515</u>	<u>\$ -</u>	<u>\$ (1,602,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,604,412</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, 2014

	HCBF	PCMTF	Eliminating Entries	Total
Cash Flows from Operating Activities				
Changes in net assets	\$ 23,094	\$ (1,572,606)	\$ -	\$ (1,549,512)
Adjustments to reconcile changes in net assets to net cash used in operating activities				
Realized gains on sales of investments	-	(946)	-	(946)
Unrealized losses on investments	-	91,392	-	91,392
Reinvested dividends and interest	-	(125,355)	-	(125,355)
(Increase) decrease in operating assets				
Prepaid expenses and other assets	(769)	-	-	(769)
Increase (decrease) in operating liabilities				
Accounts payable and accrued expenses	1,237	-	-	1,237
Grants payable	(402,500)	-	-	(402,500)
Net Cash Used in Operating Activities	(378,938)	(1,607,515)	-	(1,986,453)
Cash Flows from Investing Activities				
Proceeds from sales of investments	-	1,329,430	-	1,329,430
Purchases of investments	-	(6,279,430)	-	(6,279,430)
Liquidation of money market funds held in investment accounts	-	6,552,000	-	6,552,000
Investment fees	-	5,515	-	5,515
Net Cash Provided by Investing Activities	-	1,607,515	-	1,607,515
Net Decrease in Cash	(378,938)	-	-	(378,938)
Cash, beginning of year	1,572,268	-	-	1,572,268
Cash, end of year	\$ 1,193,330	\$ -	\$ -	\$ 1,193,330

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, 2014

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," a 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 a new account held for use upon certain approvals for specific purposes. At that point, HCBF became the administrator of the remaining Trust Funds. The activity of the Trust Fund has been presented in these combining financial statements from the point at which the investment account and the HCBF-Trust Fund relationship were established.

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.

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, nor 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 combining 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, 2014

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, 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Tax Status (Continued)

HCBF's federal informational 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, 2014.

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

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

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.

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.

Subsequent Events

The Organization has evaluated events subsequent to December 31, 2014, to assess the need for potential recognition or disclosure in the combining financial statements. Such events were evaluated through April 15, 2015, the date the combining financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred, other than as disclosed in Note 6, that require recognition or additional disclosure in the combining financial statements.

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

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 3 - INVESTMENTS HELD IN TRUST FUND

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).

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of December 31, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and accrued interest	\$ 401,832	\$ -	\$ -	\$ 401,832
Mutual funds	399,063	-	-	399,063
Short-term corporate debentures	25,527	-	-	25,527
U.S. fixed income	<u>4,394,526</u>	<u>-</u>	<u>-</u>	<u>4,394,526</u>
	<u>\$ 5,220,948</u>	<u>\$ -</u>	<u>\$ -</u>	<u>5,220,948</u>

Activity in investments during the year was as follows:

Balance, beginning of year	\$ 6,793,554
Proceeds from sales of investments	(1,329,430)
Purchases of investments	6,279,430
Liquidation of money market funds held in investment accounts	(6,552,000)
Reinvested dividends and interest	125,355
Realized gains on sales of investments	946
Unrealized losses on investments	(91,392)
Investment fees	(5,515)
Balance, end of year	<u>\$ 5,220,948</u>

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

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2014 are as follows:

	Balance, December 31, 2014
Funds held in trust (see Note 3)	\$ 5,220,948
Land use study	189,917
Noise assessment	23,403
PCMTF operating contributions for 2015	<u>482,000</u>
	<u>\$ 5,916,268</u>

HCBF is obligated to pay out \$335,000 for its health care and community benefit grants programs, which is included within grants payable in the combining financial statements. 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, 2014.

NOTE 5 - UNRESTRICTED CONTRIBUTIONS

Unrestricted contributions include cash donations from corporations, individuals and the HCBF Board of Directors. In 2014, all of the directors donated cash to be used at the Board's discretion. Unrestricted funds are not subject to Tidelands Trust restrictions.

NOTE 6 - COMMITMENTS

Operating Lease

HCBF leases office space under a noncancelable operating lease with a monthly payment of \$1,317 that expires in May 2015. HCBF plans to continue to lease this space on a month-to-month basis upon expiration.

Rent expense for the year ended December 31, 2014 was \$14,978.

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

NOTES TO COMBINING FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2014

NOTE 6 - COMMITMENTS (Continued)

Trust Fund Allocations

As discussed in Note 1, the process to withdraw funds from the Trust Fund requires a multi-step public process including an announcement of available funds, an approval by the Organization's Board of the grants, and an approval by the BOHC to transfer the trust funds.

During the year, the Organization's Board approved the allocation of PCMTF grant funds, currently held in trust, for Community Benefit Grants - Round 2; the new Harbor Schools S.T.E.A.M. Grants, and Healthy Harbor Grants - Round 4.

In April 2014 the Organization's Board approved an announcement of \$550,000 for the Community Benefit Grant Program - Round 2. At the Organization's Board meeting on August 15, 2014, the Board approved 23 recipients and increased the allocation to \$620,000. As of December 31, 2014, the BOHC had approved 20 recipients and approved a transfer of \$570,000. In March 2015, the BOHC approved the three remaining grants and approved the transfer of \$50,000 from the Trust Fund.

In July 2014 the Organization's Board approved the launch of the Harbor Schools S.T.E.A.M. grant program, with an announcement of available grant funds in the amount of \$300,000. At the Organization's Board meeting on December 12, 2014, the Board approved 17 recipients of the S.T.E.A.M. grant funds in the amount of \$300,000. As of December 31, 2014, the BOHC had not conducted the public review. In March 2015, the BOHC approved the 17 grants and transferred \$300,000 from the Trust Fund to the Grant Program Account.

In October 2014 the Organization's Board approved an announcement of \$500,000 for the Healthy Harbor Grant Program, Round 4. As of December 31, 2014, the Organization's Board had not yet approved the recipients of the Healthy Harbor Grant funds - Round 4, nor had the BOHC reviewed or approved the withdrawal of funds. In February 2015, the Organization's Board approved seven grants and increased the approved allocation to \$518,000. As of April 15, 2015, the BOHC public review was imminent.