

**HARBOR COMMUNITY BENEFIT FOUNDATION,  
PORT COMMUNITY MITIGATION TRUST FUND  
AND AIR QUALITY MITIGATION FUND**

**COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combining financial statements of Harbor Community Benefit Foundation ("HCBF"), Port Community Mitigation Trust Fund ("PCMTF") and Air Quality Mitigation Fund ("AQMF") (collectively, the "Organization"), which comprise the combining statement of financial position as of December 31, 2017, 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.

### **Auditor's 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 auditor's 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 auditor considers 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, Port Community Mitigation Trust Fund and Air Quality Mitigation Fund as of December 31, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. GAAP.

A handwritten signature in black ink that reads "Armanino LLP". The signature is written in a cursive, flowing style.

Armanino<sup>LLP</sup>  
Los Angeles, California

March 23, 2018

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
QUALITY MITIGATION FUND**

**COMBINING STATEMENT OF FINANCIAL POSITION**

**DECEMBER 31, 2017**

ASSETS

	HCBF	PCMTF	AQMF	Eliminating Entries	Total
Cash	\$ 948,570	\$ -	\$ -	\$ -	\$ 948,570
Investments held in trust fund	-	2,799,155	5,001,055	-	7,800,210
Prepaid expenses and other assets	6,279	-	-	-	6,279
	<u>\$ 954,849</u>	<u>\$ 2,799,155</u>	<u>\$ 5,001,055</u>	<u>\$ -</u>	<u>\$ 8,755,059</u>

LIABILITIES AND NET ASSETS

Liabilities					
Accounts payable and accrued expenses	\$ 20,060	\$ -	\$ -	\$ -	\$ 20,060
Grants payable	330,019	-	-	-	330,019
Total liabilities	350,079	-	-	-	350,079
Commitments (Note 6)					
Net assets					
Unrestricted	239,420	-	-	-	239,420
Temporarily restricted	365,350	2,799,155	5,001,055	-	8,165,560
Total net assets	604,770	2,799,155	5,001,055	-	8,404,980
	<u>\$ 954,849</u>	<u>\$ 2,799,155</u>	<u>\$ 5,001,055</u>	<u>\$ -</u>	<u>\$ 8,755,059</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION,  
PORT COMMUNITY MITIGATION TRUST FUND AND  
AIR QUALITY MITIGATION FUND**

**COMBINING STATEMENT OF ACTIVITIES**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>HCBF</u>	<u>PCMTF</u>	<u>AQMF</u>	<u>Eliminating Entries</u>	<u>Total</u>
Unrestricted net assets					
Unrestricted revenues and gains					
Net assets released from restrictions					
General operations	\$ 308,274	\$ -	\$ -	\$ (308,274)	\$ -
AQMF administrative fees	754	-	-	(754)	-
Restricted purpose	<u>375,778</u>	<u>438,379</u>	<u>18,732</u>	<u>(126,261)</u>	<u>706,628</u>
Total net assets released from restrictions	<u>684,806</u>	<u>438,379</u>	<u>18,732</u>	<u>(435,289)</u>	<u>706,628</u>
Other unrestricted revenues and gains					
Contributions	205	-	-	-	205
Interest and dividends	<u>96</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>96</u>
Total other unrestricted revenues and gains	<u>301</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>301</u>
Total unrestricted revenues and gains (losses)	<u>685,107</u>	<u>438,379</u>	<u>18,732</u>	<u>(435,289)</u>	<u>706,929</u>
Expenses					
Program services	538,328	435,289	-	(435,289)	538,328
Management and general	<u>93,292</u>	<u>3,090</u>	<u>18,732</u>	<u>-</u>	<u>115,114</u>
Total expenses	<u>631,620</u>	<u>438,379</u>	<u>18,732</u>	<u>(435,289)</u>	<u>653,442</u>
Change in unrestricted net assets	<u>53,487</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,487</u>
Temporarily restricted net assets					
Temporarily restricted revenues and gains (losses)					
Contributions restricted for grant purposes	435,289	-	-	(435,289)	-
Interest and dividends	-	54,121	64,590	-	118,711
Realized losses on sales of investments	-	(30,706)	(23,869)	-	(54,575)
Unrealized gains on investments	-	44,380	2,122	-	46,502
Net assets released from restrictions	<u>(684,806)</u>	<u>(438,379)</u>	<u>(18,732)</u>	<u>435,289</u>	<u>(706,628)</u>
Total temporarily restricted revenues and gains (losses)	<u>(249,517)</u>	<u>(370,584)</u>	<u>24,111</u>	<u>-</u>	<u>(595,990)</u>
Change in temporarily restricted net assets	<u>(249,517)</u>	<u>(370,584)</u>	<u>24,111</u>	<u>-</u>	<u>(595,990)</u>
Total change in net assets	<u>(196,030)</u>	<u>(370,584)</u>	<u>24,111</u>	<u>-</u>	<u>(542,503)</u>
Net assets, beginning of year	<u>800,800</u>	<u>3,169,739</u>	<u>4,976,944</u>	<u>-</u>	<u>8,947,483</u>
Net assets, end of year	<u>\$ 604,770</u>	<u>\$ 2,799,155</u>	<u>\$ 5,001,055</u>	<u>\$ -</u>	<u>\$ 8,404,980</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION,  
PORT COMMUNITY MITIGATION TRUST FUND AND  
AIR QUALITY MITIGATION FUND**

**COMBINING STATEMENT OF FUNCTIONAL EXPENSES**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>HCBF</u>		<u>PCMTF</u>		<u>AOMF</u>		<u>Eliminating Entries</u>		<u>Total</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>Program Services</u>	<u>Management and General</u>	
Restricted purpose									
Community benefit grants	\$ 330,019	\$ -	\$ 330,019	\$ -	\$ -	\$ -	\$ (330,019)	\$ -	\$ 330,019
Land use study	22,456	-	-	-	-	-	-	-	22,456
Noise assessment	<u>23,303</u>	-	<u>105,270</u>	-	-	-	<u>(105,270)</u>	-	<u>23,303</u>
	<u>375,778</u>	-	<u>435,289</u>	-	-	-	<u>(435,289)</u>	-	<u>375,778</u>
Other expenses									
Building and occupancy	15,769	2,783	-	-	-	-	-	-	18,552
Insurance	-	4,009	-	-	-	-	-	-	4,009
Investment fees	-	-	-	3,090	-	18,732	-	-	21,822
Legal and professional fees	-	58,133	-	-	-	-	-	-	58,133
Marketing	38	-	-	-	-	-	-	-	38
Office expense	6,296	3,583	-	-	-	-	-	-	9,879
Salaries and payroll expenses	139,057	24,539	-	-	-	-	-	-	163,596
Travel, meetings and conferences	<u>1,390</u>	<u>245</u>	-	-	-	-	-	-	<u>1,635</u>
	<u>162,550</u>	<u>93,292</u>	-	<u>3,090</u>	-	<u>18,732</u>	-	-	<u>277,664</u>
	<u>\$ 538,328</u>	<u>\$ 93,292</u>	<u>\$ 435,289</u>	<u>\$ 3,090</u>	<u>\$ -</u>	<u>\$ 18,732</u>	<u>\$ (435,289)</u>	<u>\$ -</u>	<u>\$ 653,442</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
QUALITY MITIGATION FUND**

**COMBINING STATEMENT OF CASH FLOWS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

	<u>HCBF</u>	<u>PCMTF</u>	<u>AQMF</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash flows from operating activities					
Changes in net assets	\$ (196,030)	\$ (370,584)	\$ 24,111	\$ -	\$ (542,503)
Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities					
Net investment activity	-	(64,705)	(24,111)	-	(88,816)
Increase in operating assets					
Prepaid expenses and other assets	2,373	-	-	-	2,373
Pledge receivable	-	-	5,226,944	-	5,226,944
Due from Air Quality Mitigation Fund	250,000	-	-	(250,000)	-
Decrease in operating liabilities					
Accounts payable and accrued expenses	(30,046)	-	-	-	(30,046)
Grants payable	255,019	-	-	-	255,019
Due to Harbor Community Benefit Foundation	-	-	(250,000)	250,000	-
Net cash provided by (used in) operating activities	<u>281,316</u>	<u>(435,289)</u>	<u>4,976,944</u>	<u>-</u>	<u>4,822,971</u>
Cash flows from investing activities					
Proceeds from sales of investments	-	435,289	-	-	435,289
Purchases of investments	-	-	(4,976,944)	-	(4,976,944)
Net cash provided by (used in) investing activities	<u>-</u>	<u>435,289</u>	<u>(4,976,944)</u>	<u>-</u>	<u>(4,541,655)</u>
Net decrease in cash	281,316	-	-	-	281,316
Cash, beginning of year	<u>667,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>667,254</u>
Cash, end of year	<u>\$ 948,570</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 948,570</u>

See accompanying notes to combining financial statements.

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
QUALITY MITIGATION FUND**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 1 - NATURE OF OPERATIONS

Background

Harbor Community Benefit Foundation ("HCBF") is a California tax exempt nonprofit corporation that was formed in May 2011 to address the negative cumulative environmental and public health impacts of The Port of Los Angeles ("POLA") business operations on its neighbors – local port communities and residents.

Currently, HCBF administers two funds established by the POLA: the Port Community Mitigation Trust Fund ("PCMTF"), established in 2011, and the Air Quality Mitigation Fund ("AQMF"), established in 2016.

Combined entities

These financial statements are presented as combining because the funds are not separate legal entities and neither HCBF, the Board of Harbor Commissioners ("BOHC"), nor the investment custodian has unilateral variance power over the funds. However, HCBF is entrusted with using funds to execute its exempt purposes. Therefore, these combining financial statements include both HCBF-controlled funds and the PCMTF and the AQMF fund (collectively referred to as the "Organization").

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.

HCBF's federal informational tax returns for tax years ended December 31, 2014 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 ended December 31, 2013 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.



**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
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**NOTES TO COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial statement presentation (Continued)

*Unrestricted Net Assets* - Include contributions received from PCMTF and AQMF for general operating expenditures of HCBF.

*Temporarily Restricted Net Assets* - Includes the balance of PCMTF funds held in trust as well as contributions received by HCBF from PCMTF and AQMF for approved public benefit projects.

*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, 2017.

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 funds

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.

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
QUALITY MITIGATION FUND**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 PCMTF and AQMF 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.

NOTE 3 - INVESTMENTS HELD IN TRUST FUNDS

The investments held in trusts by PCMTF and AQMF are to be transferred to HCBF upon approval by the BOHC. The funds are then to be used to execute HCBF's exempt purposes.

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).

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
QUALITY MITIGATION FUND**

**NOTES TO COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 3 - INVESTMENTS HELD IN TRUST FUNDS (Continued)

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value:

	Level 1	Level 2	Level 3	Total
Cash and accrued interest	\$ 5,382,638	\$ -	\$ -	\$ 5,382,638
Mutual funds	2,149,515	-	-	2,149,515
U.S. fixed income	-	268,057	-	268,057
	<u>\$ 7,532,153</u>	<u>\$ 268,057</u>	<u>\$ -</u>	<u>\$ 7,800,210</u>

Activity in investments during the year was as follows:

Balance, beginning of year	\$ 3,169,739
Proceeds from sales of investments	(435,289)
Purchases of investments	4,976,944
Reinvested dividends and interest	118,711
Realized losses on sales of investments	(54,575)
Unrealized gains on investments	46,502
Investment fees	(21,822)
Balance, end of year	<u>\$ 7,800,210</u>

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are as follows:

Funds held in trust (see Note 3)	\$ 7,800,210
Land use study	10,734
Noise assessment	105,370
AQMF administrative funds	249,246
	<u>\$ 8,165,560</u>

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
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**NOTES TO COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS (Continued)

HCBF is obligated to pay out \$330,019 for its community benefit 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 related to community benefit programs remains as of December 31, 2017.

NOTE 5 - UNRESTRICTED CONTRIBUTIONS

Unrestricted contributions include cash donations from corporations, individuals and the HCBF Board of Directors. Unrestricted funds are not subject to Tidelands Trust restrictions.

NOTE 6 - COMMITMENTS

Operating lease

During 2015, HCBF entered in an operating lease with a monthly payment of \$1,237. On November 1, 2017 HCBF amended the lease agreement. Under the amended lease, HCBF reduced its office space and extended the term by twenty-nine months through December 14, 2020. HCBF's monthly rental is \$819 effective December 15, 2017 with scheduled escalations.

Rent expense for the year ended December 31, 2017 was \$14,844.

NOTE 7 - RETIREMENT PLAN

The Organization has established a safe harbor 401(k) plan (the "Plan"), which allows eligible employees (as defined) to contribute, on a deferred tax basis, up to the statutory maximum. The Organization makes matching contributions of 100% of an employee's contribution, up to 4% of compensation. During the year, the Organization contributed \$5,510 to the Plan.

NOTE 8 - SUBSEQUENT EVENTS

The Organization has evaluated events subsequent to December 31, 2017, to assess the need for potential recognition or disclosure in the combining financial statements. Such events were evaluated through March 23, 2018, the date the combining financial statements were available to be issued.

**HARBOR COMMUNITY BENEFIT FOUNDATION, PORT  
COMMUNITY MITIGATION TRUST FUND AND AIR  
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**NOTES TO COMBINING FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2017**

NOTE 8 - SUBSEQUENT EVENTS (Continued)

In January 2018, the BOHC approved Community Benefit Round 6 grant funding in the amount of \$644,794.

In February 2018, one of the approved Community Benefit Round 5 grants was cancelled at the grantee's request. This grant totals \$38,087 and is included in grants payable in the accompanying combining statement of financial position.