

**HARBOR COMMUNITY BENEFIT FOUNDATION,  
PORT COMMUNITY MITIGATION TRUST FUND  
AND AIR QUALITY MITIGATION FUND  
COMBINING FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2016**



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## INDEPENDENT AUDITORS' 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, 2016, 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, Port Community Mitigation Trust Fund and Air Quality Mitigation Fund as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with U.S. GAAP.



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

March 20, 2017

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

**COMBINING STATEMENT OF FINANCIAL POSITION**

**DECEMBER 31, 2016**

ASSETS

	<u>HCBF</u>	<u>PCMTF</u>	<u>AOMF</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash	\$ 667,254	\$ -	\$ -	\$ -	\$ 667,254
Investments Held in Trust Fund	-	3,169,739	-	-	3,169,739
Pledge receivable	-	-	5,226,944	-	5,226,944
Due from Air Quality Mitigation Fund	250,000	-	-	(250,000)	-
Prepaid Expenses and Other Assets	<u>8,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,652</u>
	<u>\$ 925,906</u>	<u>\$ 3,169,739</u>	<u>\$ 5,226,944</u>	<u>\$ (250,000)</u>	<u>\$ 9,072,589</u>

LIABILITIES AND NET ASSETS

Liabilities					
Accounts payable and accrued expenses	\$ 50,106	\$ -	\$ -	\$ -	\$ 50,106
Grants payable	75,000	-	-	-	75,000
Due to Harbor Community Benefit Foundation	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>(250,000)</u>	<u>-</u>
Total Liabilities	<u>125,106</u>	<u>-</u>	<u>250,000</u>	<u>(250,000)</u>	<u>125,106</u>
Commitments (Notes 6 and 7)					
Net Assets					
Unrestricted	185,933	-	-	-	185,933
Temporarily restricted	<u>614,867</u>	<u>3,169,739</u>	<u>4,976,944</u>	<u>-</u>	<u>8,761,550</u>
Total Net Assets	<u>800,800</u>	<u>3,169,739</u>	<u>4,976,944</u>	<u>-</u>	<u>8,947,483</u>
	<u>\$ 925,906</u>	<u>\$ 3,169,739</u>	<u>\$ 5,226,944</u>	<u>\$ (250,000)</u>	<u>\$ 9,072,589</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, 2016**

	HCBF	PCMTF	AQMF	Eliminating Entries	Total
Unrestricted Net Assets					
Unrestricted revenues and gains					
Net assets released from restrictions					
General operations	\$ 359,324	\$ -	\$ -	\$ (359,324)	\$ -
Restricted purpose	<u>1,239,498</u>	<u>1,416,958</u>	<u>250,000</u>	<u>(1,298,950)</u>	<u>1,607,506</u>
Total net assets released from restrictions	<u>1,598,822</u>	<u>1,416,958</u>	<u>250,000</u>	<u>(1,658,274)</u>	<u>1,607,506</u>
Other unrestricted revenues and gains					
Contributions	938	-	-	-	938
Interest and dividends	<u>152</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>152</u>
Total other unrestricted revenues and gains	<u>1,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,090</u>
Total Unrestricted Revenues and Gains	<u>1,599,912</u>	<u>1,416,958</u>	<u>250,000</u>	<u>(1,658,274)</u>	<u>1,608,596</u>
Expenses					
Program services	1,519,752	1,408,274	250,000	(1,658,274)	1,519,752
Management and general	<u>102,326</u>	<u>8,684</u>	<u>-</u>	<u>-</u>	<u>111,010</u>
Total Expenses	<u>1,622,078</u>	<u>1,416,958</u>	<u>250,000</u>	<u>(1,658,274)</u>	<u>1,630,762</u>
Change in Unrestricted Net Assets	<u>(22,166)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,166)</u>
Temporarily Restricted Net Assets					
Temporarily restricted revenues and gains					
PCMTF operating contributions for fiscal 2017	308,274	-	-	(308,274)	-
AQMF administration fee	250,000	-	-	(250,000)	-
Contributions restricted for grant purposes	1,100,000	-	5,226,944	(1,100,000)	5,226,944
Interest and dividends	-	100,041	-	-	100,041
Realized losses on sales of investments	-	(122,336)	-	-	(122,336)
Unrealized gains on investments	-	178,367	-	-	178,367
Net assets released from restrictions	<u>(1,598,822)</u>	<u>(1,416,958)</u>	<u>(250,000)</u>	<u>1,658,274</u>	<u>(1,607,506)</u>
Total Temporarily Restricted Revenues and Gains	<u>59,452</u>	<u>(1,260,886)</u>	<u>4,976,944</u>	<u>-</u>	<u>3,775,510</u>
Change in Temporarily Restricted Net Assets	<u>59,452</u>	<u>(1,260,886)</u>	<u>4,976,944</u>	<u>-</u>	<u>3,775,510</u>
Total Change in Net Assets	<u>37,286</u>	<u>(1,260,886)</u>	<u>4,976,944</u>	<u>-</u>	<u>3,753,344</u>
Net Assets, beginning of year	<u>763,514</u>	<u>4,430,625</u>	<u>-</u>	<u>-</u>	<u>5,194,139</u>
Net Assets, end of year	<u>\$ 800,800</u>	<u>\$ 3,169,739</u>	<u>\$ 4,976,944</u>	<u>\$ -</u>	<u>\$ 8,947,483</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, 2016**

	<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									
Health care grants	\$ 300,000	\$ -	\$ 300,000	\$ -	\$ -	\$ -	\$ (300,000)	\$ -	\$ 300,000
Community benefit grants	800,000	-	800,000	-	-	-	(800,000)	-	800,000
Land use study	119,498	-	-	-	-	-	-	-	119,498
Water Quality Program	<u>19,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,000</u>
	1,238,498	-	1,100,000	-	-	-	(1,100,000)	-	1,238,498
General Operations	<u>-</u>	<u>-</u>	<u>308,274</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>(558,274)</u>	<u>-</u>	<u>-</u>
	<u>1,238,498</u>	<u>-</u>	<u>1,408,274</u>	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>(1,658,274)</u>	<u>-</u>	<u>1,238,498</u>
Other Expenses									
Building and occupancy	16,283	2,873	-	-	-	-	-	-	19,156
Insurance	-	3,932	-	-	-	-	-	-	3,932
Investment fees	-	-	-	8,684	-	-	-	-	8,684
Legal and professional fees	-	45,590	-	-	-	-	-	-	45,590
Marketing	129	-	-	-	-	-	-	-	129
Office expense	8,313	4,661	-	-	-	-	-	-	12,974
Salaries and payroll expenses	254,114	44,844	-	-	-	-	-	-	298,958
Travel, meetings and conferences	<u>2,415</u>	<u>426</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,841</u>
	<u>281,254</u>	<u>102,326</u>	<u>-</u>	<u>8,684</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>392,264</u>
	<u>\$ 1,519,752</u>	<u>\$ 102,326</u>	<u>\$ 1,408,274</u>	<u>\$ 8,684</u>	<u>\$ 250,000</u>	<u>\$ -</u>	<u>\$ (1,658,274)</u>	<u>\$ -</u>	<u>\$ 1,630,762</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, 2016**

	<u>HCBF</u>	<u>PCMTF</u>	<u>AOMF</u>	<u>Eliminating Entries</u>	<u>Total</u>
Cash Flows from Operating Activities					
Changes in net assets	\$ 37,286	\$ (1,260,886)	\$ 4,976,944	\$ -	\$ 3,753,344
Adjustments to reconcile changes in net assets to net cash used in operating activities					
Realized losses on sales of investments	-	122,336	-	-	122,336
Unrealized gains on investments	-	(178,367)	-	-	(178,367)
Reinvested dividends and interest	-	(100,041)	-	-	(100,041)
Increase in operating assets					
Prepaid expenses and other assets	(69)	-	-	-	(69)
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	37,434	-	-	-	37,434
Grants payable	(108,000)	-	-	-	(108,000)
Due to Harbor Community Benefit Foundation	<u>-</u>	<u>-</u>	<u>250,000</u>	<u>(250,000)</u>	<u>-</u>
Net Cash Used in Operating Activities	<u>(283,349)</u>	<u>(1,416,958)</u>	<u>-</u>	<u>-</u>	<u>(1,700,307)</u>
Cash Flows from Investing Activities					
Proceeds from sales of investments	-	1,408,274	-	-	1,408,274
Investment fees	<u>-</u>	<u>8,684</u>	<u>-</u>	<u>-</u>	<u>8,684</u>
Net Cash Provided by Investing Activities	<u>-</u>	<u>1,416,958</u>	<u>-</u>	<u>-</u>	<u>1,416,958</u>
Net Decrease in Cash	(283,349)	-	-	-	(283,349)
Cash, beginning of year	<u>950,603</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>950,603</u>
Cash, end of year	<u>\$ 667,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 667,254</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, 2016**

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, 2013 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, 2012 and subsequent.

**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, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2016.

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.

**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, 2016**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Pledge receivable

The Organization has recorded a pledge receivable for the amount of AQMF funding that was authorized during 2016 and received in 2017.

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.

Subsequent Events

The Organization has evaluated events subsequent to December 31, 2016, to assess the need for potential recognition or disclosure in the combining financial statements. Such events were evaluated through March 20, 2017, the date the combining financial statements were available to be issued. Based upon this evaluation, it was determined no subsequent events occurred that require recognition or additional disclosure in the 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, 2016**

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, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and accrued interest	\$ 300,797	\$ -	\$ -	\$ 300,797
Mutual funds	1,846,997	-	-	1,846,997
Short-term corporate debentures	-	293,070	-	293,070
U.S. fixed income	<u>728,876</u>	<u>-</u>	<u>-</u>	<u>728,876</u>
	<u>\$ 2,876,670</u>	<u>\$ 293,070</u>	<u>\$ -</u>	<u>3,169,740</u>

Activity in investments during the year was as follows:

Balance, beginning of year	\$ 4,430,626
Proceeds from sales of investments	(1,408,274)
Reinvested dividends and interest	100,041
Realized losses on sales of investments	(122,336)
Unrealized gains on investments	178,367
Investment fees	<u>(8,684)</u>
Balance, end of year	<u>\$ 3,169,740</u>

**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, 2016**

NOTE 4 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 are as follows:

	Balance, December 31, <u>2016</u>
Funds held in trust (see Note 3)	\$ 3,169,739
Land use study	33,190
Noise assessment	23,403
PCMTF operating contributions for 2017	308,274
AQMF pledge receivable	<u>5,226,944</u>
	<u>\$ 8,761,550</u>

HCBF is obligated to pay out \$75,000 for its health care 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 health care programs remains as of December 31, 2016.

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 relocated its offices and entered into a noncancelable operating lease with a monthly payment of \$1,237 that expires in July 2018.

Rent expense for the year ended December 31, 2016 was \$18,186.

**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, 2016**

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 \$9,599.