

AGENDA
SPECIAL MEETING OF THE BOARD OF DIRECTORS
HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.

DATE: **March 9, 2023**

TIME: **4:30 PM**

PLACE: Join Zoom Meeting
<https://us02web.zoom.us/j/6917934402>

Meeting ID: 691 793 4402
One tap mobile
(669) 900-9128, 6917934402# US

1. Call to Order Special Session and Roll Call

2. Public Comment

Note: This portion of the Agenda allows the public to speak to the Board on the various issues not itemized on this Agenda. A member of the public may also request that a matter appearing on the Consent Calendar be pulled and discussed separately. Pursuant to the Brown Act, the Board may not take action on any item that does not appear on the Agenda. Each speaker is limited to speak for a period of three (3) minutes regarding each item on the Agenda. Each speaker is limited to speak for a period of three (3) minutes during the PUBLIC COMMENT portion of the Agenda regarding items of special interest to the public not appearing on the Agenda that are within the subject matter jurisdiction of the Board of Directors. The three (3) minute time limit may not be transferred to other speakers. The three (3) minute time limit for each speaker may be extended by the President of the Board or the Presiding Member of the Board. The three (3) minute time limit for each speaker may be enforced by the President of the Board or the Presiding Member of the Board.

3. Consent Calendar

- a) Adopt Minutes for January 18, 2023 Regular Board Meeting

4. New Business

- a) Elect Officers for Calendar Year 2023, Clarifying that the Board Chair is the President of the Board of Directors for the Humboldt Bay Development Association
- b) Adopt Audit for FY 2021/2022
- c) Authorize the Executive Director to review and execute closing documents as a part of the Chase Community Capital New Market Tax Credit Loan related to the Harbor District and the Humboldt Bay Development Association

5. Adjournment

**DRAFT MINUTES
REGULAR MEETING OF THE BOARD OF DIRECTORS
HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.**

January 18, 2023

PRESENT:

Dale Unea
Richard Marks
Leroy Zerlang
Aaron Newman

ABSENT:

Patrick Higgins

The Meeting of the Board of Directors was called to order at 3:00 PM

PUBLIC COMMENT: None

APPOINT RICHARD MARKS TO THE BOARD OF DIRECTORS OF THE HUMBOLDT BAY DEVELOPMENT ASSOCIATION AS A MEMBER OF THE PUBLIC

DIRECTOR UNEA MOVED TO APPOINT RICHARD MARKS TO THE BOARD OF DIRECTORS OF THE HUMBOLDT BAY DEVELOPMENT ASSOCIATION AS A MEMBER OF THE PUBLIC.

DIRECTOR ZERLANG SECONDED.

VOICE VOTE WAS CALLED, MOTION CARRIED.

AYES: MARKS, UNEA, ZERLANG

NOES: NONE

ABSENT: HIGGINS

ABSTAIN: NONE

APPOINT AARON NEWMAN TO THE BOARD OF DIRECTORS OF THE HUMBOLDT BAY DEVELOPMENT ASSOCIATION AS A DISTRICT APPOINTEE

DIRECTOR MARKS MOVED TO APPOINT AARON NEWMAN TO THE BOARD OF DIRECTORS OF THE HUMBOLDT BAY DEVELOPMENT ASSOCIATION AS A HARBOR DISTRICT APPOINTEE.

DIRECTOR UNEA SECONDED.

VOICE VOTE WAS CALLED, MOTION CARRIED.

AYES: MARKS, UNEA, ZERLANG

NOES: NONE

ABSENT: HIGGINS

ABSTAIN: NONE

CONSENT CALENDAR

- a) **Adopt Minutes for December 21, 2022 Regular Board Meeting**
- b) **Approve Draft Audit for FY 2021/2022**

c) Receive Financial Statements for July through December 2022

DIRECTOR MARKS MOVED TO APPROVE ITEMS A-C OF THE CONSENT CALENDAR.

DIRECTOR NEWMAN SECONDED.

ROLL CALL VOTE WAS CALLED, MOTION CARRIED.

AYES: MARKS, NEWMAN, UNEA, ZERLANG

NOES: NONE

ABSENT: HIGGINS

ABSTAIN: NONE

NON-AGENDA: None

UNFINISHED BUSINESS

a) Restructure of Rental Agreement at RMT II

Presented by District Staff, no new updates at this time.

The Board discussed the item.

Item was opened to public comment; no one commented.

Discussion only, no formal action was taken.

b) Update on Samoa Peninsula Current and Long-Range Development Opportunities and the County's Enhanced Infrastructure Finance District

Presented by District Staff.

The Board discussed the item.

Item was opened to public comment; no one commented.

Discussion only, no formal action was taken.

c) Update on New Market Tax Credit Loan Termination Timeline, Process, Preliminary Cost; Consider Appointing Weist Law Firm to Review the Dissolution Documents

Presented by District Staff.

The Board discussed the item.

Item was opened to public comment; no one commented.

Discussion only, no formal action was taken.

NEW BUSINESS

a) Review Letter from the Peninsula Community Services District and Discuss Opportunities to Support the Samoa Peninsula Fire Protection District

Item presented by Director Zerlang.

The Board Discussed the item.

The item was opened to public comment, no one commented.

Discussion only, no formal action was taken.

COMMUNICATIONS AND REPORTS

a) Executive Director's Report – None.

b) Staff Reports – None.

c) Board Reports – None.

The meeting was adjourned at 3:30 PM

APPROVED BY:

RECORDED BY:

Patrick Higgins
Secretary
Humboldt Bay Development Association

Mindy Hiley
Director of Administrative Services
Humboldt Bay Harbor District



February 13, 2023

To the board of directors of
Humboldt Bay Development Association, Inc.:

We have audited the financial statements of Humboldt Bay Development Association, Inc. (the "Organization") as of and for the year ended June 30, 2022, and have issued our report thereon dated February 13, 2023. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 30, 2022. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Organization are described in Note 2 to the financial statements. The Organization adopted one new accounting standard change during 2022 for ASU 2020-07 related to presentation and disclosure of contributed nonfinancial assets. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of depreciation of fixed assets costs is based on life expectancies of the assets. We evaluated the key factors and assumptions used to develop the depreciation of fixed assets in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of amortization of debt issuance costs is based on life expectancies of the liabilities. We evaluated the key factors and assumptions used to determine the amortization of debt issuance costs in determining that it is reasonable in relation to the financial statements as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of related party transactions in Note 5 to the financial statements is a sensitive disclosure since related party transactions are, by definition, other than arm's length. Consequently, financial statement issuers are sometimes sensitive to inferences that financial statement users may draw from such information.

The disclosure of new markets tax credits in Note 7 to the financial statements is a sensitive disclosure since it discloses compliance requirements to qualify for new markets tax credits and anticipated new markets tax credits to be claimed by the investor member.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management.

The following material misstatement(s) detected as a result of audit procedures was (were) corrected by management:

- ◆ Deferred rent asset and rental income were not recorded. This resulted in an understatement of assets and net assets.

Disagreements with Management

For purposes of this letter, a disagreement with management is a disagreement on a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated February 13, 2023.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiencies in the Organization's internal control to be material weaknesses:

- Inadequate design of internal control in recording the Organization's financial transactions, causing material misstatements in the Organization's assets and net assets.

To the board of directors of
Humboldt Bay Development Association, Inc.
February 13, 2023
Page 3 of 3

This information is intended solely for the use of the Management and management of the Organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in blue ink that reads "Novogradac & Company LLP". The signature is written in a cursive, flowing style.

NOVOGRADAC & COMPANY LLP

Humboldt Bay Development Association, Inc.

**Financial Statements
with Report of Independent Auditors**

June 30, 2022 and 2021

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITORS	3 - 4
FINANCIAL STATEMENTS	
STATEMENTS OF FINANCIAL POSITION	5
STATEMENTS OF ACTIVITIES AND CHANGE IN NET ASSETS	6
STATEMENTS OF FUNCTIONAL EXPENSES	7 - 8
STATEMENTS OF CASH FLOWS	9
NOTES TO FINANCIAL STATEMENTS	10 - 18

Report of Independent Auditors

To the Board of Directors of
Humboldt Bay Development Association, Inc.:

Opinion

We have audited the accompanying financial statements of Humboldt Bay Development Association, Inc., a California nonprofit public benefit corporation, which comprise the statements of financial position as of June 30, 2022 and 2021, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Humboldt Bay Development Association, Inc. as of June 30, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Humboldt Bay Development Association, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Humboldt Bay Development Association, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Humboldt Bay Development Association, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Humboldt Bay Development Association, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Change in Accounting Principles

As discussed in Note 2 to the financial statements, Humboldt Bay Development Association, Inc. adopted changes in ASU 2020-07 related to presentation and disclosure of contributed nonfinancial assets. Our opinion is not modified with respect to those matters.

A handwritten signature in blue ink that reads "Novogradac & Company LLP". The signature is written in a cursive, flowing style.

Long Beach, California
February 13, 2023

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 and 2021

	2022	2021
ASSETS		
Current assets		
Cash and cash equivalents	\$ 12,130	\$ 22,281
Total current assets	12,130	22,281
Noncurrent assets		
Restricted cash (Note 4)	87,244	142,228
Deposits	50,000	-
Deferred rent asset (Note 7)	2,261,891	1,937,058
Fixed assets, net (Note 2)	7,362,074	7,519,284
Deferred charges, net (Note 2)	14,792	15,034
Total noncurrent assets	9,776,001	9,613,604
Total assets	\$ 9,788,131	\$ 9,635,885
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,500	\$ 7,500
Due to related parties (Note 5)	36,000	-
Notes payable, current	104,612	-
Total current liabilities	148,112	7,500
Noncurrent liabilities		
Notes payable, net (Note 6)	8,220,479	8,302,327
Total noncurrent liabilities	8,220,479	8,302,327
Total liabilities	8,368,591	8,309,827
Net assets		
Without donor restrictions	1,419,540	1,326,058
Total net assets	1,419,540	1,326,058
Total liabilities and net assets	\$ 9,788,131	\$ 9,635,885

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended June 30, 2022 and 2021

	Without Donor Restrictions	
	2022	2021
REVENUES		
Rental income	\$ 536,633	\$ 538,634
Interest income	16	52
Total revenues	536,649	538,686
EXPENSES		
Program services	397,425	396,537
Management and general	45,742	46,337
Total expenses	443,167	442,874
Change in net assets	93,482	95,812
Net assets at beginning of year	1,326,058	1,230,246
Net assets at end of year	\$ 1,419,540	\$ 1,326,058

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2022

EXPENSES	<u>Program Services</u>	<u>Support Services</u>		<u>Total</u>
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	
Interest expense	\$ 239,973	\$ -	\$ -	\$ 239,973
Depreciation	157,210	-	-	157,210
Amortization	242	-	-	242
General and administrative expense	-	36,692	-	36,692
Professional fees	-	9,050	-	9,050
Total expenses	<u>\$ 397,425</u>	<u>\$ 45,742</u>	<u>\$ -</u>	<u>\$ 443,167</u>

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2021

EXPENSES	<u>Program Services</u>	<u>Support Services</u>		<u>Total</u>
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	
Interest expense	\$ 239,327	\$ -	\$ -	\$ 239,327
Depreciation	157,210	-	-	157,210
General and administrative expense	-	37,047	-	37,047
Professional fees	-	9,290	-	9,290
Total expenses	<u>\$ 396,537</u>	<u>\$ 46,337</u>	<u>\$ -</u>	<u>\$ 442,874</u>

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 93,482	\$ 95,812
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Interest expense - debt issuance cost	22,764	22,118
Depreciation	157,210	157,210
Amortization	242	-
Changes in operating assets and liabilities:		
Increase in deposits	(50,000)	-
Increase in deferred rent asset	(324,833)	(333,003)
Increase (decrease) in due to related parties	36,000	(36,000)
Net cash used in operating activities	(65,135)	(93,863)
Net change in cash, cash equivalents and restricted cash	(65,135)	(93,863)
Cash, cash equivalents and restricted cash at beginning of year	164,509	258,372
Cash, cash equivalents and restricted cash at end of year	\$ 99,374	\$ 164,509
Cash and cash equivalents	\$ 12,130	\$ 22,281
Restricted cash	87,244	142,228
Total cash, cash equivalents and restricted cash	\$ 99,374	\$ 164,509
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 217,209	\$ 217,209

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

1. Organization and purpose

Humboldt Bay Development Association, Inc. (the “Organization”), a California nonprofit public benefit corporation, was incorporated on January 5, 2016, and was classified by the Internal Revenue Service as tax-exempt under Section 501(c)(3) of the Internal Revenue Code (“IRC”) of 1986. The purpose of the Organization is to support and implement improvements in Samoa, California, and, in conjunction with other public agencies and nonprofit organizations, as appropriate, to promote the health and well-being of residents of Humboldt County through the environmental improvement and development of the Humboldt Bay Eco-Industrial Park facilities.

2. Summary of significant accounting policies

Basis of accounting

The Organization prepares its financial statements on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America.

Basis of presentation

The Organization is required to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature, which will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Economic concentrations

The Organization leases out commercial space located in Samoa, California to Humboldt Bay Harbor, Recreation and Conservation District (“HBHRCD”), a California public entity. Future operations could be affected by changes in economic or other conditions in that geographical area.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. Summary of significant accounting policies (continued)

Vulnerability – Impact of COVID-19

The severity of the impact of COVID-19 on the Organization’s operations will depend on a number of factors, including, but not limited to, the duration and severity of the pandemic and the extent and severity of the impact on the Organization’s tenants, all of which are uncertain and cannot be predicted. The Organization’s future results could be adversely impacted by delays in rent collections. Management is unable to predict with absolutely certainty the impact of COVID-19 on its financial condition, results of operations or cash flows.

Cash and cash equivalents

Cash and cash equivalents include all cash balances on deposit with financial institutions and highly liquid investments with a maturity of three months or less at the date of acquisition.

Restricted cash is not considered cash and cash equivalents, and includes cash held with financial institutions for debt service. Restricted cash does not fall under the criteria for net assets with donor restrictions as these funds are held for operational purposes rather than donor imposed restrictions.

Concentration of credit risk

The Organization maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

Fixed assets and depreciation

Purchases of property, equipment or improvements are recorded at cost. Major improvements are charged to the fixed asset account, while maintenance and repairs, which do not extend the life of the respective assets, are expensed. The fair value of donated fixed assets is capitalized. When fixed assets are retired or otherwise disposed, the cost of the fixed asset and the related accumulated depreciation are removed from the accounts and any resulting gains or losses are reflected in income.

Depreciation for building is computed on the straight-line method over 40 years. Depreciation for the capital lease building is amortized on the straight-line method over the term of the lease of 65 years and is included in depreciation expense. Depreciation expense for the years ended June 30, 2022 and 2021 was \$157,210 for both years. As of June 30, 2022 and 2021, fixed assets consist of:

	<u>2022</u>	<u>2021</u>
Building	\$ 4,320,729	\$ 4,320,729
Building – capital lease	3,197,457	3,197,457
Land – capital lease	<u>708,543</u>	<u>708,543</u>
Total fixed assets	8,226,729	8,226,729
Less: accumulated depreciation	<u>(864,655)</u>	<u>(707,445)</u>
Fixed assets, net	<u>\$ 7,362,074</u>	<u>\$ 7,519,284</u>

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. Summary of significant accounting policies (continued)

Deferred charges and amortization

Deferred charges are recorded at cost and amortized over the life of the Ground Lease, as defined in Note 7, of 780 months using the straight-line method. Amortization expense for the years ended June 30, 2022 and 2021 was \$242 and \$0, respectively. As of June 30, 2022 and 2021, deferred charges consist of:

	2022	2021
Lease costs	\$ 15,760	\$ 15,760
Less: accumulated amortization	(968)	(726)
Deferred charges, net	\$ 14,792	\$ 15,034

Impairment of long-lived assets

The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the asset to the future net undiscounted cash flows expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived assets are considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the asset exceeds the fair value as determined from an appraisal, discounted cash flow analysis, or other valuation technique. There was no impairment losses recognized as of June 30, 2022 and 2021.

Debt issuance costs

The Organization presents debt issuance costs as an offset against debt on its financial statements. Debt issuance costs are amortized to interest expense using the effective interest method over the life of the associated loan.

Revenue recognition for tenant leases and tenant charges

Pursuant to Statement of Financial Accounting Standards Board Accounting Standards Codification ("FASB-ASC") 840-20, *Operating Leases*, lease revenue is recognized on a straight-line basis over the lease term. Rental payments are due quarterly, partially in advance and partially in arrears.

Functional expenses

Generally Accepted Accounting Principles require that costs of providing program services and other activities are summarized on a functional basis in the statements of activities. Accordingly, certain costs are allocated among program services, administrative and support, and fundraising services benefited. Such allocations are determined by management on an equitable basis.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

2. Summary of significant accounting policies (continued)

Functional expenses (continued)

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Interest expense	Purpose
Depreciation	Purpose
Amortization	Purpose
Professional fees	Time and effort
General and administrative expense	Purpose

Income taxes

The Organization is exempt from federal income taxes under IRC Section 501(c)(3) and from California income and franchise taxes under Revenue and Taxation Code Section 23701(d).

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and have measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Federal tax authorities generally have the right to examine and audit the previous three years of tax returns filed. California tax authorities generally have the right to examine and audit the previous four years of tax returns filed. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from federal or state tax authorities were recorded in the accompanying financial statements.

Changes in accounting principles

On July 1, 2021, the Organization adopted a new accounting standard for ASU 2020-07, Not-for-Profit Entities (Topic 958), that affects the presentation and disclosures for contributed nonfinancial assets. Adopting this standard did not have a significant impact on the financial statements.

Recent and pending accounting pronouncements

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes FASB ASC Topic 840, Leases, and makes other conforming amendments to U.S. GAAP. ASU 2016-02 requires, among other changes to the lease accounting guidance, lessees qualitative and quantitative disclosures. The standard will be effective for the Organization for annual periods beginning after December 15, 2021, permits early adoption, and mandates a modified retrospective transition method. The Organization is currently evaluating the effect of the standard on the financial statements. It is not expected to have a material effect.

Subsequent events

Subsequent events have been evaluated through February 13, 2023, which is the date the consolidated financial statements were available to be issued, and there are no subsequent events requiring disclosure.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

3. Liquidity and availability of financial assets

The following represents the Organization’s financial assets as of June 30, 2022 and 2021:

	2022	2021
Financial assets at year end:		
Cash and cash equivalents	\$ 12,130	\$ 22,281
Restricted cash	87,244	142,228
Total financial assets	99,374	164,509
Less amounts not available to be used within one year:		
Restricted cash	66,311	87,228
Total assets not available	66,311	87,228
Financial assets available to meet general expenditures over the next twelve months	\$ 33,063	\$ 77,281

The Organization generally maintains operating cash reserves to meet at least 30 days of operating expenses.

4. Restricted cash

Restricted cash includes reserve accounts established for debt service. The Organization’s restricted cash balance as of June 30, 2022 and 2021 was \$87,244 and \$142,228, respectively.

5. Transactions with related parties

Accounting and administrative fee

On July 1, 2019 the Organization entered into an agreement with HBHRCD for a term of three years ending on June 30, 2022 for HBHRCD to provide general accounting duties, preparation of interim financial statements, attendance at Board Meetings, participation in annual audit, and compliance reporting for New Market Tax Credits (“NMTC”) as well as other administrative and clerical duties. The Organization shall pay HBHRCD \$36,000 per year for this service. For the years ended June 30, 2022 and 2021, the accounting and administrative fee was \$36,000 for both years. As of June 30, 2022 and 2021, the Organization owed \$36,000 and \$0, respectively.

6. Notes payable

Pursuant to the Credit Agreement dated March 9, 2016 (the “Credit Agreement”), the Organization entered into a loan agreement with CNMC Sub-CDE 69, LLC (“CNMC”) and New Markets Community Capital XVII, LLC (“NMCC”) as evidenced by four promissory notes in the amounts of \$1,169,875 (“CNMC Note A2”), \$580,125 (“CNMC Note B2”), \$4,679,500 (“NMCC Note A1”), and \$2,250,500 (“NMCC Note B1”). The Credit Agreement is secured by the Collateral and Collateral Documents, as defined in the Credit Agreement.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. Notes payable (continued)

CNMC Sub-CDE 69, LLC

CNMC Note A2

Interest on CNMC Note A2 accrues at a rate of 2.7565% per annum. Commencing on June 5, 2016, and continuing on the fifth day of each March, June, September and December (the "Payment Dates") thereafter through March 5, 2023, accrued and unpaid interest is due and payable quarterly, partially in arrears, partially in advance through the last day of the month in which payment is made. Commencing on June 5, 2023, and continuing on the Payment Dates thereafter through and including March 9, 2046 (the "Maturity Date"), payments of principal and interest in the amount of \$17,184 will be due and payable such that the loan fully amortizes upon the Maturity Date.

CNMC Note B2

Interest on CNMC Note B2 accrues at a rate of 1.9900% per annum. Commencing on June 5, 2016, and continuing on the Payment Dates thereafter through March 5, 2023, accrued and unpaid interest is due and payable quarterly, partially in arrears, partially in advance through the last day of the month in which payment is made. Commencing on June 5, 2023, and continuing on the Payment Dates thereafter through and including the Maturity Date, payments of principal and interest in the amount of \$7,864 will be due and payable such that the loan fully amortizes upon the Maturity Date.

New Markets Community Capital XVII, LLC

NMCC Note A1

Interest on NMCC Note A1 accrues at a rate of 2.5024% per annum. Commencing on June 5, 2016, and continuing on the Payment Dates thereafter through March 5, 2023, accrued and unpaid interest is due and payable quarterly, partially in arrears, partially in advance through the last day of the month in which payment is made. Commencing on June 5, 2023, and continuing on the Payment Dates thereafter through and including the Maturity Date, payments of principal and interest in the amount of \$66,950 will be due and payable such that the loan fully amortizes upon the Maturity Date.

NMCC Note B1

Interest on NMCC Note B1 accrues at a rate of 2.5024% per annum. Commencing on June 5, 2016, and continuing on the Payment Dates thereafter through March 5, 2023, accrued and unpaid interest is due and payable quarterly, partially in arrears, partially in advance through the last day of the month in which payment is made. On the seventh anniversary of NMCC Note B1, principal payment in the amount of \$35,000 will be due and payable. Commencing on June 5, 2023, and continuing on the Payment Dates thereafter through and including the Maturity Date, payments of principal and interest in the amount of \$31,697 will be due and payable such that the loan fully amortizes upon the Maturity Date.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

6. Notes payable (continued)

As of June 30, 2022 and 2021, the notes payable were as follows:

	<u>2022</u>	<u>2021</u>
CNMC Note A2	\$ 1,169,875	\$ 1,169,875
CNMC Note B2	580,125	580,125
NMCC Note A1	4,679,500	4,679,500
NMCC Note B1	<u>2,250,500</u>	<u>2,250,500</u>
Total notes payable	8,680,000	8,680,000
Less: debt issuance cost	<u>(354,909)</u>	<u>(377,673)</u>
Notes payable, net	<u>\$ 8,325,091</u>	<u>\$ 8,302,327</u>

As of June 30, 2022 and 2021, there was no interest payable for both years.

For the years ended June 30, 2022 and 2021, the effective interest rate were as follows:

	<u>2022</u>	<u>2021</u>
CNMC Note A2	3.1480%	3.1480%
CNMC Note B2	2.3579%	2.3579%
NMCC Note A1	2.8859%	2.8859%
NMCC Note B1	2.8895%	2.8895%

For the years ended June 30, 2022 and 2021, debt issuance costs amortized into interest expense were \$22,764 and \$22,118, respectively.

Annual principal payments are as follows:

Year ending June 30,	
2023	\$ 104,612
2024	282,821
2025	289,959
2026	297,275
2027	304,774
Thereafter	<u>7,400,559</u>
Total	<u>\$ 8,680,000</u>

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

7. Commitment and contingencies

Leases

Ground Lease

Pursuant to the Ground Lease between the Organization and HBHRCD dated March 9, 2016 (the "Ground Lease Commencement Date") (the "Ground Lease"), the Organization agreed to pay a total fixed rent amount of \$3,906,000 on the Ground Lease Commencement Date for the interest in two parcels of land located in Samoa, California and the improvements located thereon (the "Premises"). The term of the lease is for sixty-five years. The Organization recognizes the Ground Lease as a capital lease and reports the leased building and land as fixed assets (see Note 2). On March 9, 2016, the Organization paid the fixed rent amount in full.

Operating Lease

Pursuant to the Operating Lease between the Organization and HBHRCD dated March 9, 2016, the Organization and HBHRCD entered into a thirty year lease agreement for the Premises, all tenant improvements, and any appurtenant easements. HBHRCD agreed to pay the Organization monthly installments of rent based on the amounts set forth in Exhibit B of the Operating Lease. The total rent over the term is \$16,099,014. For the years ended June 30, 2022 and 2021, lease revenue were \$536,633 and \$538,634, respectively. As of June 30, 2022 and 2021, there was no lease receivable for both years.

Future annual base rent lease payments are as follows:

Year ending June 30,	
2023	\$ 339,246
2024	492,900
2025	527,460
2026	538,008
2027	548,772
Thereafter	<u>12,515,838</u>
Total	<u>\$ 14,962,224</u>

Pursuant to FASB-ASC 840-20, lease revenue for the non-cancellable lease term is required to be recognized on a straight-line basis. For the years ended June 30, 2022 and 2021, included in lease revenue was an increase in deferred rent asset of \$324,833 and \$333,003, respectively. As of June 30, 2022 and 2021, deferred rent asset was \$2,261,891 and \$1,937,058, respectively.

New markets tax credits

On March 9, 2016, the Organization secured loans from CNMC and NMCC (collectively, the "NMTC Lenders"). As a result of making the loans, the NMTC Lenders are eligible for federal income tax credits under the NMTC program implemented by Congress in December 2000.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2022 and 2021

7. Commitment and contingencies (continued)

New markets tax credits (continued)

Pursuant to the Indemnification Agreement (QALICB) dated March 9, 2016 (the “Indemnification Agreement”), in the occurrence of an event or condition that results in a recapture of all or any portion of NMTCs (“Recapture Event”), the Organization and HBHRCD (collectively, the “Indemnitors”), shall pay the NMTC Recapture Amount, as defined in the Indemnification Agreement, to JPMorgan Chase Bank, N.A., a national banking association, but only if and to the extent that such Recapture Event is the result of:

- i. The Organization failing to satisfy the requirement for being and continuing to be a qualified active low-income community business;
- ii. Any tenant of the Organization failing to be a “qualified business”;
- iii. The loans failing to constitute a QLICI (in whole or in part);
- iv. A default by the Organization under the loan documents pursuant to which the loans were made; or
- v. Any fraud, gross negligence, or willful misconduct of any Indemnitor

As of June 30, 2022 and 2021, no claims or payments had been made relative to the indemnity and the Organization is not aware of the occurrence of any recapture event. The Organization has determined the likelihood of a recapture event to be remote after considering the historical rate of recapture and related factors. Accordingly, no liability has been recorded relative to the indemnity.

Humboldt Bay Development Association, Inc.

Year End: June 30, 2022

Audited Trial Balance

Account	PP-FINAL 6/30/2021	UNADJ 6/30/2022	AJE	RJE	FINAL 6/30/2022
1000 PNC Bank (HBDA operating)	22,281.00	12,130.00	-	-	12,130.00
4110 Cash & Equivalents	22,281.00	12,130.00	-	-	12,130.00
Total Current Assets	22,281.00	12,130.00	-	-	12,130.00
1001 Cash in Fee Reserve	142,228.00	87,244.00	-	-	87,244.00
4210 Restricted Cash	142,228.00	87,244.00	-	-	87,244.00
1420 Deposits	-	-	50,000.00	-	50,000.00
4250 Deposits	-	-	50,000.00	-	50,000.00
1600 Deferred Rent Asset	1,937,058.00	1,725,258.00	536,633.00	-	2,261,891.00
4315 FAS 13 - Operating Lease - SL Deferred Rent Asset	1,937,058.00	1,725,258.00	536,633.00	-	2,261,891.00
1700 Building	4,320,729.00	4,320,729.00	-	-	4,320,729.00
1701 Capital asset - building	3,197,457.00	3,197,457.00	-	-	3,197,457.00
4610.4611 Building	7,518,186.00	7,518,186.00	-	-	7,518,186.00
1702 Capital asset - land	708,543.00	708,543.00	-	-	708,543.00
4610.4613 Land	708,543.00	708,543.00	-	-	708,543.00
1710 Accumulated Depreciation	(707,445.00)	(707,445.00)	(157,210.00)	-	(864,655.00)
4610.4617 Accumulated Depreciation	(707,445.00)	(707,445.00)	(157,210.00)	-	(864,655.00)
1416 Accumulated Amortization	(726.00)	(726.00)	(242.00)	-	(968.00)
4710 Intangible Assets	(726.00)	(726.00)	(242.00)	-	(968.00)
1451 Other Leasehold Improvements	182.00	182.00	-	-	182.00
1500 Deferred Charges, net	15,578.00	15,578.00	-	-	15,578.00
4750 Lease costs	15,760.00	15,760.00	-	-	15,760.00
Total Non-Current Assets	9,613,604.00	9,346,820.00	429,181.00	-	9,776,001.00
Total Assets	9,635,885.00	9,358,950.00	429,181.00	-	9,788,131.00
2000 Accounts Payable	(7,500.00)	(36,000.00)	(7,500.00)	36,000.00	(7,500.00)
5110 Accounts payable	(7,500.00)	(36,000.00)	(7,500.00)	36,000.00	(7,500.00)
2001 Due to HBHRCD	-	-	-	(36,000.00)	(36,000.00)
5510 Due to related parties	-	-	-	(36,000.00)	(36,000.00)
2050 Loan Payable - Current Portion	-	-	-	(104,612.00)	(104,612.00)
5645 Loans Payable - Current	-	-	-	(104,612.00)	(104,612.00)
Total Current Liabilities	(7,500.00)	(36,000.00)	(7,500.00)	(104,612.00)	(148,112.00)

Humboldt Bay Development Association, Inc.

Year End: June 30, 2022

Audited Trial Balance

Account	PP-FINAL 6/30/2021	UNADJ 6/30/2022	AJE	RJE	FINAL 6/30/2022
2100 CNMCSUB-CDE69,LLC - Note A2	(1,169,875.00)	(1,169,875.00)	-	9,123.00	(1,160,752.00)
2101 CNMCSUB-CDE69,LLC - Note B2	(580,125.00)	(580,125.00)	-	4,977.00	(575,148.00)
2102 New Markets Community Cap - Note A1	(4,679,500.00)	(4,679,500.00)	-	37,676.00	(4,641,824.00)
2103 New Markets Community Cap - Note B1	(2,250,500.00)	(2,250,500.00)	-	52,836.00	(2,197,664.00)
2200 Debt Issuance Cost	377,673.00	377,673.00	(22,764.00)	-	354,909.00
5650 Long Term Debt	(8,302,327.00)	(8,302,327.00)	(22,764.00)	104,612.00	(8,220,479.00)
Total Non-Current Liabilities	(8,302,327.00)	(8,302,327.00)	(22,764.00)	104,612.00	(8,220,479.00)
Total Liabilities	(8,309,827.00)	(8,338,327.00)	(30,264.00)	-	(8,368,591.00)
3000 Retained Earnings	(1,230,246.00)	(1,333,558.00)	7,500.00	-	(1,326,058.00)
6110 Net Assets	(1,230,246.00)	(1,333,558.00)	7,500.00	-	(1,326,058.00)
Net Assets	(1,230,246.00)	(1,333,558.00)	7,500.00	-	(1,326,058.00)
Change in Net Assets	(95,812.00)	312,935.00	(406,417.00)	-	(93,482.00)
Total Net Assets	(1,326,058.00)	(1,020,623.00)	(398,917.00)	-	(1,419,540.00)
Total Liabilities and Net Assets	(9,635,885.00)	(9,358,950.00)	(429,181.00)	-	(9,788,131.00)
4001 Interest Income	(52.00)	(16.00)	-	-	(16.00)
7110.7120 Interest Income	(52.00)	(16.00)	-	-	(16.00)
4000 Rental Income	(538,634.00)	-	(536,633.00)	-	(536,633.00)
7110.7140 Rental Revenue	(538,634.00)	-	(536,633.00)	-	(536,633.00)
Total Revenue	(538,686.00)	(16.00)	(536,633.00)	-	(536,649.00)
5200 Audit fees	8,000.00	8,000.00	-	-	8,000.00
5201 Tax Preparation	1,290.00	1,050.00	-	-	1,050.00
7310.7355 Legal and other prof fees	9,290.00	9,050.00	-	-	9,050.00
5100 Bank Charges/Fees	897.00	508.00	-	(1.00)	507.00
5101 Licenses & Fees	150.00	75.00	-	-	75.00
5102 Other General & Admin Fees	36,000.00	36,110.00	-	-	36,110.00
5103 Operating Expenses	-	50,000.00	(50,000.00)	-	-
7310.7360 General & Admin	37,047.00	86,693.00	(50,000.00)	(1.00)	36,692.00
6000 Interest Expense:Cnmc Sub-Cde 69	43,792.00	43,792.00	-	-	43,792.00
6001 Interest Expense:New Markets Comm Cap Xvii	173,417.00	118,416.00	-	55,001.00	173,417.00
6002 Interest Expense:NMCC fee reserve	-	55,000.00	-	(55,000.00)	-
6003 Interest Expense:Loan Amortization	22,118.00	-	22,764.00	-	22,764.00
7510.7512 Interest Expense	239,327.00	217,208.00	22,764.00	1.00	239,973.00

Humboldt Bay Development Association, Inc.

Year End: June 30, 2022

Audited Trial Balance

Account	PP-FINAL 6/30/2021	UNADJ 6/30/2022	AJE	RJE	FINAL 6/30/2022
5015 Depreciation Expense	157,210.00	-	157,210.00	-	157,210.00
5016 Amortization Expense	-	-	242.00	-	242.00
7510.7513 Depr & Amort	157,210.00	-	157,452.00	-	157,452.00
Total Expenses	442,874.00	312,951.00	130,216.00	-	443,167.00
Change in Net Assets	(95,812.00)	312,935.00	(406,417.00)	-	(93,482.00)

Humboldt Bay Development Association
(707)443-0801
P.O. Box 1030
Eureka, California 95502-1030

STAFF REPORT
HUMBOLDT BAY DEVELOPMENT ASSOCIATION MEETING
March 9, 2023

TO: Honorable Board President and Board Members

FROM: Larry Oetker, Executive Director

DATE: March 3, 2023

TITLE: Authorize the Executive Director to review and execute closing documents as a part of the Chase Community Capital New Market Tax Credit Loan related to the Harbor District and the Humboldt Bay Development Association

STAFF RECOMMENDATION: Staff recommends the Board: Authorize the Executive Director to review and execute certain documents related to the closing of the New Market Tax Credits Loan.

SUMMARY: In March of 2016, the Humboldt Bay Development Association in partnership with the Harbor District, invested in and entered into a New Market Tax Credit (NMTC) fund for ongoing site clean-up and capital improvements of the vacant former Evergreen Pulp Mill, all which were necessary due to the condition of the aging assets and infrastructure. Seven years have now passed, and the result is an occupied and revenue-generating asset with an exhausted debt that has reached maturity.

DISCUSSION: As a necessary action of the closing procedure for the NMTC investment fund, the parties are required to review, understand, and execute certain closing documents to finalize and close the investment fund. Through the support of the District's Bond Counsel Service, such actions are occurring; this authorization will allow the Executive Director to execute required documents to complete the closing activities.