

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

DATE: December 6, 2019
TIME: 12:00 p.m.
PLACE: Woodley Island Marina Meeting Room

The Meeting Room is wheelchair accessible. Accommodations and access to Harbor District meetings for people with other handicaps must be requested of the Director of Administrative Services at 443-0801 at least 24 hours in advance of the meeting.

- 1. Call to Order Regular Session at 12:00 p.m. and Roll Call**
- 2. Pledge of Allegiance**
- 3. 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 of Commissioners or the Presiding Member of the Board of Commissioners at the regular meeting of the District. The three (3) minute time limit for each speaker may be enforced by the President of the Board of Commissioners or the Presiding Member of the Board of Commissioners at the regular meeting of the District.

- 4. Consent Calendar**
 - a) Approve Meeting Minutes February 8, 2019
- 5. Non-Agenda**
- 6. Unfinished Business**
- 7. New Business**
 - a) Financial Report from Audit FY 2018/2019
 - b) Accept the Audit and Submit to New Market Tax Credit
 - c) Update on New Market Tax Credit
 - d) Report on Status of occupancy at Redwood Marine Terminal II
- 8. Communications and Reports**
 - a) Executive Director's Report
 - b) Staff Reports
 - c) Board Reports
- 9. Adjournment**

DRAFT

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
FINANCIAL STATEMENTS
For the years ended June 30, 2019 and 2018
with
Report of Independent Auditors

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
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Report of Independent Auditors

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

Report on the Financial Statements

We have audited the accompanying financial statements of Humboldt Bay Development Association, Inc., which comprise the statements of financial position as of June 30, 2019 and 2018, 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.

Management's Responsibility 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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 financial statements referred to above present fairly, in all material respects, the financial position of Humboldt Bay Development Association, Inc. as of June 30, 2019 and 2018, and its changes in net assets and its cash flows for the years ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, Humboldt Bay Development Association, Inc. adopted a change in accounting principle for financial reporting, primarily related to the presentation of net assets and required disclosures related to liquidity and functional expenses. Our opinion is not modified with respect to that matter.

Long Beach, California
<Report Date>

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents	\$ 33,196	\$ 40,852
Total current assets	33,196	40,852
Noncurrent assets		
Restricted cash (Note 4)	251,462	304,924
Deferred rent asset (Note 7)	1,269,065	926,262
Fixed assets, net (Note 2)	7,833,704	7,990,914
Deferred charges, net (Note 2)	15,276	15,518
Total noncurrent assets	9,369,507	9,237,618
Total assets	\$ 9,402,703	\$ 9,278,470
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,500	\$ 7,500
Due to related parties (Note 5)	25,967	25,967
Total current liabilities	33,467	33,467
Noncurrent liabilities		
Notes payable, net (Note 6)	8,258,720	8,233,823
Total noncurrent liabilities	8,258,720	8,233,823
Total liabilities	8,292,187	8,267,290
Net assets		
Without donor restrictions	1,110,516	1,011,180
Total net assets	1,110,516	1,011,180
Total liabilities and net assets	\$ 9,402,703	\$ 9,278,470

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended June 30, 2019 and 2018

	Without Donor Restrictions	
	2019	2018
REVENUES		
Rental income	\$ 536,634	\$ 536,634
Interest income	1,538	709
Total revenues	538,172	537,343
EXPENSES		
Program services	399,558	390,932
Management and general	39,278	20,588
Fundraising	-	-
Total expenses	438,836	411,520
Change in net assets	99,336	125,823
Net assets at beginning of year	1,011,180	885,357
Net assets at end of year	\$ 1,110,516	\$ 1,011,180

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

EXPENSES	<u>Program Services</u>	<u>Support Services</u>		Total
	Program	Management and General	Fundraising	
Interest expense	\$ 242,106	\$ -	\$ -	\$ 242,106
Depreciation	157,210	-	-	157,210
Amortization	242	-	-	242
Management fee	-	29,657	-	29,657
Professional fees	-	9,327	-	9,327
General and administrative expense	-	294	-	294
Total expenses	<u>\$ 399,558</u>	<u>\$ 39,278</u>	<u>\$ -</u>	<u>\$ 438,836</u>

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2018

EXPENSES	<u>Program Services</u>	<u>Support Services</u>		Total
	Program	Management and General	Fundraising	
Interest expense	\$ 233,480	\$ -	\$ -	\$ 233,480
Depreciation	157,210	-	-	157,210
Amortization	242	-	-	242
Professional fees	-	20,225	-	20,225
General and administrative expense	-	363	-	363
Total expenses	<u>\$ 390,932</u>	<u>\$ 20,588</u>	<u>\$ -</u>	<u>\$ 411,520</u>

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2019 and 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 99,336	\$ 125,823
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Interest expense - debt issuance cost	24,897	16,272
Depreciation	157,210	157,210
Amortization	242	242
Changes in operating assets and liabilities:		
Increase in deferred rent asset	(342,803)	(348,450)
Decrease in accounts payable	-	(1,500)
Decrease in due to related parties	-	(11,026)
Net cash used in operating activities	(61,118)	(61,429)
 CASH FLOWS FROM INVESTING ACTIVITIES		
Withdrawals from restricted cash	53,462	54,291
Net cash provided by investing activities	53,462	54,291
 NET CHANGE IN CASH AND CASH EQUIVALENTS	(7,656)	(7,138)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	40,852	47,990
 CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 33,196	\$ 40,852
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	\$ 217,209	\$ 217,208

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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, 2019 and 2018

2. Summary of significant accounting policies (continued)

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. In regard to the building leased by the Organization under a capital lease, if ownership does not transfer to the Organization and there is no bargain purchase option, the 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, 2019 and 2018 was \$157,210 for both years. As of June 30, 2019 and 2018, fixed assets consist of:

	<u>2019</u>	<u>2018</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>(393,025)</u>	<u>(235,815)</u>
Fixed assets, net	<u>\$ 7,833,704</u>	<u>\$ 7,990,914</u>

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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. As of June 30, 2019 and 2018, deferred charges consist of:

	2019	2018
Lease costs	\$ 15,760	\$ 15,760
Less: accumulated amortization	(484)	(242)
Deferred charges, net	\$ 15,276	\$ 15,518

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, 2019 and 2018.

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

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

The costs of providing program services and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services, administrative and support, and fundraising services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

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

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

2. Summary of significant accounting policies (continued)

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.

Change in accounting principle

On August 18, 2016, FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – *Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about expenses and investment return. The Organization has adjusted the presentation of these financial statements accordingly. ASU 2016-14 has been applied retrospectively to all periods presented.

Subsequent events

Subsequent events have been evaluated through <Report Date>, which is the date the 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, 2019 and 2018

3. Liquidity and availability of financial assets

The following represents the Organization's financial assets as of June 30, 2019 and 2018:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	\$ 33,196	\$ 40,852
Restricted cash	251,462	304,924
Total financial assets	284,658	345,776
Less amounts not available to be used within one year:		
Restricted cash	196,462	252,171
Total assets not available	196,462	252,171
Financial assets available to meet general expenditures over the next twelve months	\$ 88,196	\$ 103,605

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$00,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificate of deposits. The Organization has a \$00,000 line of credit available to meet cash flow needs.

4. Restricted cash

Restricted cash includes reserve accounts established for debt service. The Organization's restricted cash balance as of June 30, 2019 and 2018 was \$251,462 and \$304,924, respectively.

5. Transactions with related parties

Management Fee

Pursuant to the Management Agreement dated September XX, 20XX, the Organization is required to pay HBHRCD an annual fee in the amount of \$29,657. For the years ended June 30, 2019 and 2018, the Organization incurred \$29,657 and \$0, respectively. As of June 30, 2019 and 2018, no amounts were owed to HBHRCD.

Due to HBHRCD

The Organization periodically obtains unsecured advances from HBHRCD for the purpose of paying certain expenses. The advances are non-interest bearing and due on demand. As of June 30, 2019 and 2018, HBHRCD was owed \$25,967 for both years.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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.

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, 2019 and 2018

6. Notes payable (continued)

As of June 30, 2019 and 2018, the notes payable were as follows:

	2019	2018
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	2,250,500	2,250,500
Total notes payable	8,680,000	8,680,000
Less: debt issuance cost	(421,280)	(446,177)
Notes payable, net	\$ 8,258,720	\$ 8,233,823

As of June 30, 2019 and 2018, there was no interest payable for both years.

For the years ended June 30, 2019 and 2018, the effective interest rate were as follows:

	2019	2018
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, 2019 and 2018, debt issuance costs amortized into interest expense were \$24,897 and 16,272, respectively.

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.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

7. Commitment and contingencies (continued)

Leases (continued)

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, 2019 and 2018, lease revenue was \$536,634 for both years. As of June 30, 2019 and 2018, there was no lease receivable for both years.

Future annual base rent lease payments are as follows:

Year ending June 30,

2020	\$ 199,644
2021	205,632
2022	211,800
2023	339,246
2024	492,900
Thereafter	<u>14,130,078</u>
Total	<u>\$ 15,579,300</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, 2019 and 2018, included in lease revenue was an increase in deferred rent asset of \$342,803 and \$348,450, respectively. As of June 30, 2019 and 2018, deferred rent asset was \$1,269,065 and \$926,262, 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 New Markets Tax Credit (“NMTC”) program implemented by Congress in December 2000.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2019 and 2018

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 HBHRCDC (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, 2019 and 2018, 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, 2019

Audited Trial Balance

Account	PP-FINAL 6/30/18	UNADJ 6/30/19	AJE	FINAL 6/30/19
1000 BBVA Compass (HBDA operating)	40,852.00	33,196.00	0.00	33,196.00
4110 Cash & Equivalents	40,852.00	33,196.00	0.00	33,196.00
Total Current Assets	40,852.00	33,196.00	0.00	33,196.00
1001 Cash in Fee Reserve	304,924.00	251,462.00	0.00	251,462.00
4210 Restricted Cash	304,924.00	251,462.00	0.00	251,462.00
1600 Deferred Rent Asset	926,262.00	1,134,906.00	134,159.00	1,269,065.00
4315 FAS 13 - Operating Lease - SL Deferred Rent Asset	926,262.00	1,134,906.00	134,159.00	1,269,065.00
1700 Building	4,320,729.00	4,320,729.00	0.00	4,320,729.00
1701 Capital asset - building	3,197,457.00	3,197,457.00	0.00	3,197,457.00
4610.4611 Building	7,518,186.00	7,518,186.00	0.00	7,518,186.00
1702 Capital asset - land	708,543.00	708,543.00	0.00	708,543.00
4610.4613 Land	708,543.00	708,543.00	0.00	708,543.00
1410 HBHRCD Mgmt Fee	0.00	29,657.00	(29,657.00)	0.00
4610.4614 CIP	0.00	29,657.00	(29,657.00)	0.00
1710 Accumulated Depreciation	(235,815.00)	(353,722.00)	(39,303.00)	(393,025.00)
4610.4617 Accumulated Depreciation	(235,815.00)	(353,722.00)	(39,303.00)	(393,025.00)
1416 Accumulated Amortization	(242.00)	(242.00)	(242.00)	(484.00)
1450 Lease Costs	15,760.00	15,336.00	424.00	15,760.00
4710 Intangible Assets	15,518.00	15,094.00	182.00	15,276.00
Total Non-Current Assets	9,237,618.00	9,304,126.00	65,381.00	9,369,507.00
Total Assets	9,278,470.00	9,337,322.00	65,381.00	9,402,703.00
2000 Accounts Payable	(7,500.00)	0.00	(7,500.00)	(7,500.00)
5110 Accounts payable	(7,500.00)	0.00	(7,500.00)	(7,500.00)
2001 Due to HBHRCD	(25,967.00)	(25,967.00)	0.00	(25,967.00)
5510 Due to related parties	(25,967.00)	(25,967.00)	0.00	(25,967.00)
Total Current Liabilities	(33,467.00)	(25,967.00)	(7,500.00)	(33,467.00)

Humboldt Bay Development Association, Inc.

Year End: June 30, 2019

Audited Trial Balance

Account	PP-FINAL 6/30/18	UNADJ 6/30/19	AJE	FINAL 6/30/19
2100 CNMCSUB-CDE69,LLC - Note A2	(1,169,875.00)	(1,169,875.00)	0.00	(1,169,875.00)
2101 CNMCSUB-CDE69, LLC - Note B2	(580,125.00)	(580,125.00)	0.00	(580,125.00)
2102 New Markets Community Cap - Note A1	(4,679,500.00)	(4,679,500.00)	0.00	(4,679,500.00)
2103 New Markets Community Cap - Note B1	(2,250,500.00)	(2,250,500.00)	0.00	(2,250,500.00)
2200 Debt Issuance Cost	446,177.00	433,972.00	(12,692.00)	421,280.00
5650 Long Term Debt	(8,233,823.00)	(8,246,028.00)	(12,692.00)	(8,258,720.00)
Total Non-Current Liabilities	(8,233,823.00)	(8,246,028.00)	(12,692.00)	(8,258,720.00)
Total Liabilities	(8,267,290.00)	(8,271,995.00)	(20,192.00)	(8,292,187.00)
3000 Retained Earnings	(885,357.00)	(1,018,437.00)	7,257.00	(1,011,180.00)
6110 Net Assets	(885,357.00)	(1,018,437.00)	7,257.00	(1,011,180.00)
Net Assets	(885,357.00)	(1,018,437.00)	7,257.00	(1,011,180.00)
Change in Net Assets	(125,823.00)	(46,890.00)	(52,446.00)	(99,336.00)
Total Net Assets	(1,011,180.00)	(1,065,327.00)	(45,189.00)	(1,110,516.00)
Total Liabilities and Net Assets	(9,278,470.00)	(9,337,322.00)	(65,381.00)	(9,402,703.00)
4001 Interest Income	(709.00)	(1,538.00)	0.00	(1,538.00)
7110.7120 Interest Income	(709.00)	(1,538.00)	0.00	(1,538.00)
4000 Rental Income	(536,634.00)	(402,475.00)	(134,159.00)	(536,634.00)
7110.7140 Rental Revenue	(536,634.00)	(402,475.00)	(134,159.00)	(536,634.00)
Total Revenue	(537,343.00)	(404,013.00)	(134,159.00)	(538,172.00)
5500 HBHRCD Mgmt Fee Expense	0.00	0.00	29,657.00	29,657.00
7310 Operating Expenses	0.00	0.00	29,657.00	29,657.00
5200 Audit Fees	8,000.00	7,500.00	0.00	7,500.00
5201 Tax Preparation	751.00	1,459.00	0.00	1,459.00
5202 Accounting Fees	11,474.00	0.00	0.00	0.00
5300 Legal & other prof fees	0.00	368.00	0.00	368.00
7310.7355 Legal and other prof fees	20,225.00	9,327.00	0.00	9,327.00
5100 Bank Charges/Fees	238.00	294.00	0.00	294.00
5101 Licenses & Fees	125.00	0.00	0.00	0.00
7310.7360 General & Admin	363.00	294.00	0.00	294.00

Humboldt Bay Development Association, Inc.

Year End: June 30, 2019

Audited Trial Balance

Account	PP-FINAL 6/30/18	UNADJ 6/30/19	AJE	FINAL 6/30/19
6000 Interest Expense:Cnmc Sub-Cde 69	43,792.00	43,792.00	0.00	43,792.00
6001 Interest Expense:New Markets Comm Cap Xvii	173,416.00	118,416.00	55,001.00	173,417.00
6002 Interest Expense:NMCC fee reserve	0.00	55,000.00	(55,000.00)	0.00
6003 Interest Expense:Loan Amortization	16,272.00	12,205.00	12,692.00	24,897.00
7510.7512 Interest Expense	233,480.00	229,413.00	12,693.00	242,106.00
5015 Depreciation Expense	157,210.00	117,907.00	39,303.00	157,210.00
5016 Amortization Expense	242.00	182.00	60.00	242.00
7510.7513 Depr & Amort	157,452.00	118,089.00	39,363.00	157,452.00
Total Expenses	411,520.00	357,123.00	81,713.00	438,836.00
Change in Net Assets	(125,823.00)	(46,890.00)	(52,446.00)	(99,336.00)

Humboldt Bay Development Association, Inc.

Year End: June 30, 2019

Adjusting journal entries

Date: 7/1/2018 To 6/30/2019

JE #	Account No	Name	Reference	Debit	Credit
1	3000	Retained Earnings	DD5	7,257.00	
1	1450	Lease Costs	DD5	242.00	
1	6001	Interest Expense:New Markets Comm Cap Xvii	DD5	1.00	
1	2000	Accounts Payable	DD5		-7,500.00
		To roll retained earnings			
2	5015	Depreciation Expense	F3	39,303.00	
2	1710	Accumulated Depreciation	F3		-39,303.00
		To propose adjustment to depreciation expense			
3	6001	Interest Expense:New Markets Comm Cap Xvii	BB4	55,000.00	
3	6002	Interest Expense:NMCC fee reserve	BB4		-55,000.00
		To reclass interest expense			
4	5016	Amortization Expense	G3	60.00	
4	1450	Lease Costs	G3	182.00	
4	1416	Accumulated Amortization	G3		-242.00
		[PBC AJE] To reclass lease costs			
5	5500	HBHRCD Mgmt Fee Expense	4-1	29,657.00	
5	1410	HBHRCD Mgmt Fee	4-1		-29,657.00
		To reclass from CIP to expense			
6	1600	Deferred Rent Asset	20-1	134,159.00	
6	4000	Rental Income	20-1		-134,159.00
		To propose adjustment to lease income and deferred rent			

Humboldt Bay Development Association, Inc.

Year End: June 30, 2019

Adjusting journal entries

Date: 7/1/2018 To 6/30/2019

JE #	Account No	Name	Reference	Debit	Credit
7	6003	Interest Expense:Loan Amortization	BB4-1	12,692.00	
7	2200	Debt Issuance Cost	BB4-1		-12,692.00
		To propose adjustment to debt issuance cost amortization			
				278,553.00	-278,553.00