

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

DATE: **March 15, 2022**

TIME: **5:00 PM**

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

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

1. Call to Order Special Session at 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 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.

4. Resignation of Aaron Newman, Appoint New Secretary

5. Consent Calendar

- a) Adopt Minutes for May 17, 2021 Special Board Meeting

6. Non-Agenda

7. Unfinished Business

8. New Business

- a) Adopt the Audit for FY 2021/2022

Agenda for March 15, 2022 Special Board Meeting

- b)** Establish meeting schedule as the 3rd Tuesday of every month at 5:00 PM at the Harbor District Board Room
- c)** Update on Samoa Peninsula Current and Long-Range Development Opportunities and the County's Enhanced Infrastructure Finance District
- d)** Update on New Market Tax Credit Loan Termination Timeline, Process, Preliminary Cost
- e)** Tax Exempt Filing Status
- f)** Consider the Timeline and Options for Filling Board Vacancies

9. Communications and Reports

- a)** Executive Director's Report
- b)** Staff Reports
- c)** Board Reports

10. Adjournment

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

May 17, 2021

PRESENT:

Leroy Zerlang
Aaron Newman
Richard Marks

ABSENT:

Miles Slattery
Patrick Higgins

The Meeting of the Board of Directors was called to order at 12:09 p.m.

PLEDGE OF ALLEGIANCE

PUBLIC COMMENT: None

CONSENT CALENDAR

a) Adopt Minutes for February 18, 2021 Special Board Meeting

NEWMAN MOVED TO APPROVE THE CONSENT CALENDAR.

ZERLANG SECONDED.

ROLL CALL VOTE WAS CALLED, MOTION CARRIED.

AYES: MARKS, NEWMAN, ZERLANG

NOES: NONE

ABSENT: HIGGINS, SLATTERY

ABSTAIN: NONE

NON-AGENDA: None

UNFINISHED BUSINESS

a) New Market Tax Credit Options

Larry Oetker presented the item.

Report only, no formal action was taken.

b) Multipurpose Dock Update

Larry Oetker presented the item.

Commission discussed the item.

Report only, no formal action was taken.

NEW BUSINESS

a) Adopt the Budget for FY 2021/2022

ZERLANG MOVED TO ADOPT THE BUDGET FOR THE 2021/2022 FISCAL YEAR.

NEWMAN SECONDED THE MOTION.

ROLL CALL VOTE WAS CALLED, MOTION CARRIED.

AYES: MARKS, NEWMAN, ZERLANG

NOES: NONE
ABSENT: HIGGINS, SLATTERY
ABSTAIN: NONE

COMMUNICATIONS AND REPORTS

- a) Executive Director’s Report – None
- b) Staff Reports – None
- c) Board Reports – Board members reported on recent activities

The meeting was adjourned at 1:02 p.m.

APPROVED BY:

RECORDED BY:

Secretary

Mindy Hiley
Director of Administrative Services



Humboldt Bay Development Association, Inc.

**Financial Statements
with Report of Independent Auditors**

June 30, 2021 and 2020

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, 2021 and 2020, 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, 2021 and 2020, and its changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Novogradac & Company LLP

Long Beach, California
November 3, 2021

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and 2020

	2021	2020
ASSETS		
Current assets		
Cash and cash equivalents	\$ 22,281	\$ 61,195
Total current assets	22,281	61,195
Noncurrent assets		
Restricted cash (Note 4)	142,228	197,177
Deferred rent asset (Note 7)	1,937,058	1,604,055
Fixed assets, net (Note 2)	7,519,284	7,676,494
Deferred charges, net (Note 2)	15,034	15,034
Total noncurrent assets	9,613,604	9,492,760
Total assets	\$ 9,635,885	\$ 9,553,955
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 7,500	\$ 7,500
Due to related parties (Note 5)	-	36,000
Total current liabilities	7,500	43,500
Noncurrent liabilities		
Notes payable, net (Note 6)	8,302,327	8,280,209
Total noncurrent liabilities	8,302,327	8,280,209
Total liabilities	8,309,827	8,323,709
Net assets		
Without donor restrictions	1,326,058	1,230,246
Total net assets	1,326,058	1,230,246
Total liabilities and net assets	\$ 9,635,885	\$ 9,553,955

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the years ended June 30, 2021 and 2020

	Without Donor Restrictions	
	2021	2020
REVENUES		
Rental income	\$ 538,634	\$ 534,634
Interest income	52	715
Total revenues	538,686	535,349
EXPENSES		
Program services	396,537	396,150
Management and general	46,337	45,436
Total expenses	442,874	441,586
Change in net assets	95,812	93,763
Net assets at beginning of year	1,230,246	1,136,483
Net assets at end of year	\$ 1,326,058	\$ 1,230,246

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

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

EXPENSES	<u>Program Services</u>	<u>Support Services</u>		Total
	<u>Program</u>	<u>Management and General</u>	<u>Fundraising</u>	
Interest expense	\$ 238,698	\$ -	\$ -	\$ 238,698
Depreciation	157,210	-	-	157,210
Amortization	242	-	-	242
Professional fees	-	8,870	-	8,870
General and administrative expense	-	36,566	-	36,566
Total expenses	<u>\$ 396,150</u>	<u>\$ 45,436</u>	<u>\$ -</u>	<u>\$ 441,586</u>

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 95,812	\$ 93,763
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Interest expense - debt issuance cost	22,118	21,489
Depreciation	157,210	157,210
Amortization	-	242
Changes in operating assets and liabilities:		
Increase in deferred rent asset	(333,003)	(334,990)
(Decrease) increase in due to related parties	(36,000)	36,000
Net cash used in operating activities	<u>(93,863)</u>	<u>(26,286)</u>
 Net change in cash, cash equivalents and restricted cash	 (93,863)	 (26,286)
 Cash, cash equivalents and restricted cash at beginning of year	 <u>258,372</u>	 <u>284,658</u>
 Cash, cash equivalents and restricted cash at end of year	 <u>\$ 164,509</u>	 <u>\$ 258,372</u>
 Cash and cash equivalents	 \$ 22,281	 \$ 61,195
Restricted cash	142,228	197,177
Total cash, cash equivalents and restricted cash	<u>\$ 164,509</u>	<u>\$ 258,372</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest	<u>\$ 217,209</u>	<u>\$ 217,209</u>

see accompanying notes

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020

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, 2021 and 2020 was \$157,210 for both years. As of June 30, 2021 and 2020, fixed assets consist of:

	<u>2021</u>	<u>2020</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>(707,445)</u>	<u>(550,235)</u>
Fixed assets, net	<u>\$ 7,519,284</u>	<u>\$ 7,676,494</u>

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020 was \$0 and \$242, respectively. As of June 30, 2021 and 2020, deferred charges consist of:

	2021	2020
Lease costs	\$ 15,760	\$ 15,760
Less: accumulated amortization	(726)	(726)
Deferred charges, net	\$ 15,034	\$ 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, 2021 and 2020.

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.

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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
Management fee	Time and effort
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.

Subsequent events

Subsequent events have been evaluated through November 3, 2021, 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, 2021 and 2020

3. Liquidity and availability of financial assets

The following represents the Organization’s financial assets as of June 30, 2021 and 2020:

	2021	2020
Financial assets at year end:		
Cash and cash equivalents	\$ 22,281	\$ 61,195
Restricted cash	142,228	197,177
Total financial assets	164,509	258,372
Less amounts not available to be used within one year:		
Restricted cash	87,228	142,177
Total assets not available	87,228	142,177
Financial assets available to meet general expenditures over the next twelve months	\$ 77,281	\$ 116,195

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, 2021 and 2020 was \$142,228 and \$197,177, 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, 2021 and 2020, the accounting and administrative fee was \$36,000 for both years. As of June 30, 2021 and 2020, the Organization owed \$0 and \$36,000, 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, 2021 and 2020

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, 2021 and 2020

6. Notes payable (continued)

As of June 30, 2021 and 2020, the notes payable were as follows:

	<u>2021</u>	<u>2020</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>(377,673)</u>	<u>(399,791)</u>
Notes payable, net	<u>\$ 8,302,327</u>	<u>\$ 8,280,209</u>

As of June 30, 2021 and 2020, there was no interest payable for both years.

For the years ended June 30, 2021 and 2020, the effective interest rate were as follows:

	<u>2021</u>	<u>2020</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, 2021 and 2020, debt issuance costs amortized into interest expense were \$22,118 and \$21,489, respectively.

Annual principal payments are as follows:

Year ending June 30,	
2022	\$ -
2023	245,141
2024	286,368
2025	293,595
2026	301,000
Thereafter	<u>7,553,896</u>
Total	<u>\$ 8,680,000</u>

HUMBOLDT BAY DEVELOPMENT ASSOCIATION, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2021 and 2020

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, 2021 and 2020, lease revenue were \$538,634 and \$534,634, respectively. As of June 30, 2021 and 2020, there was no lease receivable for both years.

Future annual base rent lease payments are as follows:

Year ending June 30,		
	2022	\$ 211,800
	2023	339,246
	2024	492,900
	2025	527,460
	2026	538,008
	Thereafter	<u>13,064,610</u>
	Total	<u>\$ 15,174,024</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, 2021 and 2020, included in lease revenue was an increase in deferred rent asset of \$333,003 and \$334,990, respectively. As of June 30, 2021 and 2020, deferred rent asset was \$1,937,058 and \$1,604,055, 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, 2021 and 2020

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, 2021 and 2020, 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.