

New York City Neighborhood Capital Corporation

(a component unit of the City of New York)

Financial Statements

**Years Ended June 30, 2018 and 2017
With Report of Independent Auditors**



NYC Neighborhood Capital Corporation

FINANCIAL STATEMENTS

NYC Neighborhood Capital Corporation
(A Component Unit of the City of New York)
Years Ended June 30, 2018 and 2017
With Report of Independent Auditors

NYC Neighborhood Capital Corporation
(A Component Unit of the City of New York)

Financial Statements

June 30, 2018 and 2017

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**NOVOGRADAC
& COMPANY** LLP®

CERTIFIED PUBLIC ACCOUNTANTS

Report of Independent Auditors

To the Board of Directors of
NYC Neighborhood Capital Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of NYC Neighborhood Capital Corporation, a component unit of the City of New York, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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 net position of NYC Neighborhood Capital Corporation as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 24, 2018, on our consideration of NYC Neighborhood Capital Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NYC Neighborhood Capital Corporation's internal control over financial reporting and compliance.

Novogradac & Company LLP

San Francisco, California

September 24, 2018

NYC Neighborhood Capital Corporation
(A Component Unit of the City of New York)

Management's Discussion and Analysis

June 30, 2018

This section of the NYC Neighborhood Capital Corporation ("NYCNCC" or the "Corporation") annual financial report presents our discussion and analysis of financial performance during the years ended June 30, 2018 and 2017. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2018 Financial Highlights

- Cash, cash equivalents, due to related parties and investments increased by \$770,965
- Current liabilities increased by \$62,262
- Net position increased by \$708,703
- Operating revenues increased by \$175,916
- Operating expenses decreased by \$53,152
- Operating income increased by \$229,068

Background

This annual financial report consists of two parts: *Management's discussion and analysis* (this section) and the *basic financial statements*. NYCNCC, a component unit of the City of New York ("the City"), is a New York not-for-profit corporation that was formed for the purpose of serving as a qualified Community Development Entity ("CDE") under the Federal New Markets Tax Credit ("NMTC") Program. NYCNCC's mission is to provide investment capital to low-income persons and low-income communities, thereby assisting in advancing the community, economic development and job creation objectives of the City.

In November 2016, NYCNCC was awarded \$55 million in NMTC allocation authority from the Community Development Financial Institutions Fund of the U.S. Department of the Treasury ("CDFI Fund") as part of Round 13 of the NMTC Program (the "Allocation"). In compliance with NMTC Program requirements, the Corporation formed and manages subsidiary limited liability companies making qualified investments in low-income communities.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Management's Discussion and Analysis (continued)

Financial Analysis of the Corporation

NYCNCC experienced exponential growth stemming from the application of the Allocation through investments in NYCNCC Sub-CDE 1, LLC ("Sub-CDE 1"), NYCNCC Sub-CDE 2, LLC ("Sub-CDE 2"), NYCNCC Sub-CDE 3, LLC ("Sub-CDE 3") and NYCNCC Sub-CDE 4, LLC ("Sub-CDE 4") (collectively, the "NMTC Companies").

The NMTC Companies are certified CDEs and New York limited liability companies formed under section 203 of the Limited Liability Company Law for making Qualified Low-Income Community Investments ("QLICI") into Qualified Active Low-Income Community Businesses ("QALICB") consistent with the mission of NYCNCC and the NMTC Program requirements. NYCNCC serves as the Managing Member holding 0.01% equity interest in the NMTC Companies. Subject to the limitations set forth in the NMTC Companies' limited liability company operating agreements, and subject to compliance with NMTC Program requirements, the Managing Member has full, complete and exclusive discretion to manage and control the business of the NMTC Companies.

Net Position

The following table summarizes NYCNCC's financial position as of June 30, 2018, 2017 and 2016, and the percentage changes between June 30, 2018, 2017 and 2016:

	2018	2017	2016	% Change	
				2018-2017	2017-2016
Current assets	\$1,327,680	\$559,081	\$74,986	137%	646%
Non-current assets	4,763	2,397	-	99%	-
Total assets	1,332,443	561,478	74,986	137%	649%
Current liabilities	73,262	11,000	2,500	566%	340%
Total unrestricted net position	<u>\$1,259,181</u>	<u>\$550,478</u>	<u>\$72,486</u>	129%	659%

In fiscal year 2018, total assets increased by \$770,965 spurred by new investments in Sub-CDE 3 and Sub-CDE 4 thus aiding in the development of Greenpoint Manufacturing and Design Center and Village Shoprite, respectively.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Management's Discussion and Analysis (continued)

Net Position (continued)

In fiscal year 2017, current and non-current assets increased significantly as result of investments in Sub-CDE 1 and Sub-CDE 2. These investments abetted significant developments in Queens County and New York County securing QLICs whilst working with QALICBs to fund the Rockaway Beach Medical Arts Center and Madison Square Boys and Girls Club, respectively.

As a result of investments into these NMTC Companies, net position increased by \$708,703 in fiscal year 2018 and by \$477,992 in fiscal year 2017.

Operating Activities

NYCNCC's primary goal is to provide investment capital to low-income communities by forming and managing subsidiary companies. These companies aid in furnishing eligible entities with essential financing to construct and equip developments within the five boroughs.

As the Managing Member, NYCNCC charges various fees for services rendered which include placement and services fees, sponsor fees and asset management fees.

The following table summarizes NYCNCC's operating activities for the fiscal years ended June 30, 2018, 2017 and 2016, and the percentage changes between June 30, 2018, 2017 and 2016:

				% Change	
	2018	2017	2016	2018-2017	2017-2016
Operating revenues	\$ 1,398,583	\$ 1,222,667	\$ -	14%	-
Operating expenses	691,960	745,112	2,500	(7)%	29704%
Operating income (loss)	706,623	477,555	(2,500)	48%	19202%
Non-operating revenues	2,080	437	66	376%	562%
Change in net position	\$ 708,703	\$ 477,992	\$ (2,434)	48%	19738%

Fiscal Year 2018 Activities

In fiscal year 2018, operating revenues increased by \$175,916 through new investments in Sub-CDE 3 and Sub-CDE 4 along with existing investments in Sub-CDE 1 and Sub-CDE 2.

Total operating expenses decreased by \$53,152 as a direct result of one-time closing cost pertaining to investments in Sub-CDE 1 utilizing the Allocation.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Management's Discussion and Analysis (continued)

Fiscal Year 2017 Activities

In fiscal year 2017, operating revenues increased by \$1,222,667 through investments in Sub-CDE 1 and Sub-CDE 2 utilizing a portion of the Allocation.

Total operating expenses increased by \$742,612 as a direct result of contractual agreements pertaining to investments in Sub-CDE 1 and Sub-CDE 2 utilizing the Allocation.

Contacting the Corporation's Financial Management

This financial report is designed to provide our customers, clients and creditors with a general overview of the Corporation's finances and to demonstrate the Corporation's accountability for the resources at its disposal. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer, NYC Neighborhood Capital Corporation, 110 William Street, New York, NY 10038.

NYC NEIGHBORHOOD CAPITAL CORPORATION
(A Component Unit of The City of New York)
STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	\$ 1,283,580	\$ 559,081
Due from related party		
Due from NYCNCC Sub-CDE 1	11,025	-
Due from NYCNCC Sub-CDE 2	11,025	-
Due from NYCNCC Sub-CDE 3	11,025	-
Due from NYCNCC Sub-CDE 4	11,025	-
Total current assets	<u>1,327,680</u>	<u>559,081</u>
Non-current assets		
Investments in NMTC Companies (Note 4)	<u>4,763</u>	<u>2,397</u>
Total non-current assets	<u>4,763</u>	<u>2,397</u>
Total assets	<u><u>\$ 1,332,443</u></u>	<u><u>\$ 561,478</u></u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 57,500	\$ 11,000
Due to related party		
Due to New York City Economic Development Corporation	<u>15,762</u>	<u>-</u>
Total current liabilities	<u>73,262</u>	<u>11,000</u>
Net position - unrestricted	<u><u>\$ 1,259,181</u></u>	<u><u>\$ 550,478</u></u>

NYC NEIGHBORHOOD CAPITAL CORPORATION
(A Component Unit of The City of New York)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the years ended June 30, 2018 and 2017

	2018	2017
Operating revenues		
NMTC placement and services fees	\$ 720,000	\$ 720,000
NMTC sponsor fees	480,000	480,000
NMTC asset management fees	190,583	22,667
NMTC incentive management fees	8,000	-
Total operating revenues	<u>1,398,583</u>	<u>1,222,667</u>
Operating expenses		
Consulting fees	660,000	660,000
Closing costs	-	57,000
Other expenses	16,198	23,767
Legal fees	15,762	4,345
Total operating expenses	<u>691,960</u>	<u>745,112</u>
Operating income	706,623	477,555
Non-operating revenues		
Interest income	2,080	437
Total non-operating revenues	<u>2,080</u>	<u>437</u>
Change in unrestricted net position	708,703	477,992
Unrestricted net position, beginning of year	<u>550,478</u>	<u>72,486</u>
Unrestricted net position, end of year	<u><u>\$ 1,259,181</u></u>	<u><u>\$ 550,478</u></u>

NYC NEIGHBORHOOD CAPITAL CORPORATION
(A Component Unit of The City of New York)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2018 and 2017

	2018	2017
OPERATING ACTIVITIES		
NMTC placement and services fees received	\$ 720,000	\$ 720,000
NMTC sponsor fees received	480,000	480,000
NMTC asset management fees received	190,583	22,667
NMTC incentive management fees received	8,000	-
Consulting fees paid	(660,000)	(660,000)
Other expenses paid	(13,798)	(76,612)
Net cash provided by operating activities	<u>724,785</u>	<u>486,055</u>
INVESTING ACTIVITIES		
Interest income	2,080	437
Contributions to NMTC Companies	(2,400)	(2,400)
Distributions from NMTC Companies	34	3
Net cash used in investing activities	<u>(286)</u>	<u>(1,960)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	724,499	484,095
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>559,081</u>	<u>74,986</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 1,283,580</u></u>	<u><u>\$ 559,081</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 706,623	\$ 477,555
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating liabilities:		
Increase in due from NYCNCC Sub-CDE 1, LLC	(11,025)	-
Increase in due from NYCNCC Sub-CDE 2, LLC	(11,025)	-
Increase in due from NYCNCC Sub-CDE 3, LLC	(11,025)	-
Increase in due from NYCNCC Sub-CDE 4, LLC	(11,025)	-
Increase in accounts payable and accrued liabilities	46,500	8,500
Increase in due to New York City Economic Development Corporation	15,762	-
Net cash provided by operating activities	<u><u>\$ 724,785</u></u>	<u><u>\$ 486,055</u></u>

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)
June 30, 2018 and 2017

1. Organization and Purpose

NYC Neighborhood Capital Corporation (“NYCNCC” or the “Corporation”) is a not-for-profit corporation incorporated in July 2014 under Section 402 of the Not-for-Profit Corporation Law of the State of New York for the following purposes: a) to make Qualified Low-Income Community Investments (“QLICI”) in the service area of the City of New York (the “City”), b) to operate as a qualified Community Development Entity (“CDE”) under the Federal New Markets Tax Credit (“NMTC”) Program, c) to form and manage subsidiary limited liability companies which are certified as CDEs to receive equity contributions which will be utilized primarily as QLICIs and d) to engage in all activities consistent with the business of NYCNCC thus furthering the interests of the City.

2. Summary of Significant Accounting Policies and Nature of Operations

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the economic resource measurement focus and accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board (“GASB”), Financial Accounting Standards Board (“FASB”) Statements and Interpretations and Accounting Principles Board Opinions, unless those pronouncements conflict with or contradict GASB pronouncements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. NYCNCC has determined that it functions as an enterprise fund as defined by GASB.

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.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Economic Concentrations

As of June 30, 2018, the Corporation's major assets are investments in NYCNCC Sub-CDE 1, LLC ("Sub-CDE 1"), NYCNCC Sub-CDE 2, LLC ("Sub-CDE 2"), NYCNCC Sub-CDE 3, LLC ("Sub-CDE 3"), and NYCNCC Sub-CDE 4, LLC ("Sub-CDE 4"). In addition, NYCNCC formed NYCNCC Sub-CDE 5, LLC ("Sub-CDE 5" and together with the aforementioned entities, the "NMTC Companies"), which is considered a NMTC entity awaiting Qualified Equity Investment ("QEI"). The Corporation's primary source of revenue is derived from these assets. The NMTC Companies' activities consist of making loans to various Qualified Active Low-Income Community Businesses ("QALICB") whose operations are concentrated within the service area of the Five Boroughs reliant on the commercial and industrial real estate market developed by the QALICBs for various uses. Although no changes are anticipated in the near term, future operations could be affected by changes in the economic conditions of these entities or their parent company.

Updated Pronouncements

In April 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this statement are effective for fiscal years beginning after June 15, 2018. The Corporation does not anticipate any related impact on its financial statements.

In June 2018, GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. Provisions of this Statement are effective for fiscal years beginning after December 15, 2019. The Corporation does not anticipate any related impact on its financial statements.

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.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Concentration of Custodial Credit Risk

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

Investments in NMTC Limited Liability Companies

NYCNCC accounts for its investment in the NMTC Companies under the equity method of accounting, which requires the investment to be recorded at cost and adjusted for NYCNCC's share of income or loss of the NMTC Companies, additional investments, and cash distributions from the NMTC Companies. To the extent that NYCNCC has no obligation to fund liabilities of the NMTC Companies beyond its investment, including loans and advances, investments in the NMTC Companies should not be reduced below zero.

NYCNCC evaluates its investments in the NMTC Companies for impairment in value and records a write-down if it is determined that any impairment in value is other than temporary. No such write-downs have been recorded in the accompanying financial statements as management believes that NYCNCC's proportionate share of the sum of estimated cash flows from the underlying investments is not less than NYCNCC's recorded investment in each of the NMTC Companies.

NYCNCC holds managing member interests of 0.01% in each of Sub-CDE 1, Sub-CDE 2, Sub-CDE 3, Sub-CDE 4. NYCNCC holds managing member interests of 99.00% in Sub-CDE 5, which interests will be reduced to .01% upon a receipt of a QEI by the applicable entity. NYCNCC's maximum exposure to loss is its current investments. NYCNCC does not consolidate the NMTC Companies since, in the case of Sub-CDE 1, Sub-CDE 2, Sub-CDE 3 and Sub-CDE 4 the investing members maintain substantive participating rights in each entity respectively, and in the case of Sub-CDE 5, upon receipt of a QEI, the investing member will maintain substantive participating rights in the entity, thereby overcoming, in all cases, the presumption of control applicable to NYCNCC.

Revenue Recognition

NYCNCC recognizes revenue from fees earned for services rendered. Placement and services fees, sponsor fees, asset management fees, and incentive management fees are earned and recognized as services are performed.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)
June 30, 2018 and 2017

2. Summary of Significant Accounting Policies and Nature of Operations (continued)

Subsequent Events

Subsequent events have been evaluated through September 24, 2018, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

3. Cash and Cash Equivalents

As of June 30, 2018 and 2017, NYCNCC's cash balance was \$1,283,580 and \$559,081, respectively. Of this amount, \$250,000 was insured by the Federal Depository Insurance Corporation, and the remaining balance was uncollateralized.

4. Investments in NMTC Companies

NYCNCC's investments consist of interests in limited liability companies. As of June 30, 2018 and 2017, NYCNCC has an ownership member interest in the following companies:

	<u>Ownership Percentage</u>	
<u>Limited liability company</u>	<u>2018</u>	<u>2017</u>
NYCNCC Sub-CDE 1, LLC	0.01%	0.01%
NYCNCC Sub-CDE 2, LLC	0.01%	0.01%
NYCNCC Sub-CDE 3, LLC	0.01%	0.01%
NYCNCC Sub-CDE 4, LLC	0.01%	0.01%
NYCNCC Sub-CDE 5, LLC	99.00%	99.00%

Such investments at June 30, 2018 and 2017 are summarized as follows:

	<u>2018</u>	<u>2017</u>
Cumulative equity contributions	\$ 4,800	\$ 2,400
Cumulative equity distributions	(37)	(3)
Total	<u>\$ 4,763</u>	<u>\$ 2,397</u>

The results of operations of the NMTC Companies consist primarily of interest income earned from loans on QLICIs made to QALICBs in accordance with Internal Revenue Code ("IRC") Section 45D and the Treasury Regulations thereunder. Furthermore, the NMTC Companies are CDEs in accordance with IRC Section 45D and the Treasury Regulations thereunder.

NYC Neighborhood Capital Corporation
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Notes to Financial Statements (continued)
June 30, 2018 and 2017

5. Transactions with NMTC Related Parties

Sponsor Fees

Pursuant to the operating agreements of the NMTC Companies, as compensation for services rendered and costs incurred in connection with NYCNC's decision to make a sub-allocation of NMTC to each of the NMTC Companies, the NMTC Companies shall pay sponsor fees to NYCNC in an amount equal to 2% of the respective sub-allocation received by each of the NMTC Companies. For both the years ended June 30, 2018 and 2017, NYCNC earned and was paid sponsor fees from the NMTC Companies in the amount of \$480,000, respectively.

Asset Management Fees

Pursuant to the operating agreements of the NMTC Companies, as compensation for services rendered and costs incurred in connection with NYCNC's decision to make a sub-allocation of NMTCs to each of the NMTC Companies, the NMTC Companies each are obligated to pay NYCNC asset management fees in an aggregate amount equal to 3.5% of the respective sub-allocation received by each of the NMTC Companies. Such fees are due and payable partially in arrears and partially in advance in quarterly installments prior to the fifth day of the third month of each quarter for the calendar quarter in which such payments are being made. For the years ended June 30, 2018 and 2017, NYCNC earned and was paid asset management fees from the NMTC Companies in the amount of \$190,583 and \$22,667, respectively.

Incentive Management Fees

Pursuant to the operating agreements of the NMTC Companies, the NMTC Companies are required to pay certain expenses from reimbursements received from each NMTC Companies' respective borrowers. If the expenses are less the amount of reimbursement received, the NMTC Companies are required to pay the difference to the NYCNC as an incentive management fee. For the years ended June 30, 2018 and 2017, NYCNC earned and was paid incentive management fees from the NMTC Companies in the amount of \$8,000 and \$0, respectively.

New York City Economic Development Corporation

Related party transactions between New York City Economic Development Corporation ("NYCEDC") and NYCNC consisting of reimbursable expenses for the years ended June 30, 2018 and 2017 were \$15,762 and \$0, respectively. NYCNC received administrative, financial, legal, and other services from NYCEDC with no in-kind value recognized in the financial statements. NYCNC occupies office space located at 110 William Street, New York, NY 10038, which is leased by NYCEDC.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)
June 30, 2018 and 2017

6. Unrestricted Net Position

Pursuant to NYCNCC's accounting policies and procedures manual, all net position resulting from operations will remain unrestricted. As of June 30, 2018 and 2017, unrestricted net position is \$1,259,181 and \$550,478, respectively.

7. New Markets Tax Credits

Pursuant to the NMTC Program Allocation Agreement between Sub-CDE 1; Sub-CDE 2; Sub-CDE 3; Sub-CDE 4; Sub-CDE 5; NYCNCC; and the Community Development Financial Institutions Fund (the "CDFI Fund") dated February 28, 2018, NYCNCC was allocated the authority to issue \$55,000,000 of QEIs to the NMTC Companies.

The following summarizes the amount sub-allocated to the NMTC Companies, received as a QEI and made as QLICIs as of June 30, 2018:

<u>NMTC Companies</u>	<u>QEI Sub-allocated</u>	<u>QLICI</u>
NYCNCC Sub-CDE 1, LLC	\$ 9,000,000	\$ 8,820,000
NYCNCC Sub-CDE 2, LLC	15,000,000	14,700,000
NYCNCC Sub-CDE 3, LLC	17,000,000	16,660,000
NYCNCC Sub-CDE 4, LLC	7,000,000	6,860,000
Total	<u>\$48,000,000</u>	<u>\$ 47,040,000</u>

Equity investments received by the NMTC Companies are designated as QEIs if they meet the requirements of IRC Section 45D and Treasury Regulation Section 1.45D-1. NMTCs are allowed to be claimed by investors over seven periods spanning six years and a day for any equity investment that is designated a QEI by the NMTC Companies.

In order to qualify for these NMTCs, NYCNCC and the NMTC Companies must comply with the requirements of IRC Section 45D and Treasury Regulation Section 1.45D-1 during the seven-year credit period. Failure to comply with the requirements could result in the recapture of NMTCs that have been previously claimed as well as the loss of any future NMTCs. The three events that can cause recapture are: [1] NYCNCC or the NMTC Companies cease to be CDEs; [2] failing to ensure that for each annual period in the seven-year credit period, at least 85 percent of the QEIs received by NYCNCC or the NMTC Companies are continuously invested in QLICIs (which may include 5% of the QEIs received to be held as reserves); or [3] the QEIs are redeemed or otherwise cashed out by NYCNCC or the NMTC Companies. Since the NMTCs are subject to complying with certain requirements, there can be no assurance that the

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)
June 30, 2018 and 2017

7. New Markets Tax Credits (continued)

aggregate amount of NMTC will be realized and failure to meet all such requirements may result in generating a lesser amount of NMTC than the expected amount.

SUPPLEMENTAL SCHEDULES

NYC NEIGHBORHOOD CAPITAL CORPORATION

(A Component Unit of The City of New York)

SUPPLEMENTARY SCHEDULE 1

STATEMENT OF ACTIVITIES BY PROJECT

For the year ended June 30, 2018

	Sub-CDE 1	Sub-CDE 2	Sub-CDE 3	Sub-CDE 4	Management & General	Total
Operating revenues						
NMTC placement and services fees	\$ -	\$ -	\$ 510,000	\$ 210,000	\$ -	\$ 720,000
NMTC sponsor fees			340,000	140,000	-	480,000
NMTC asset management fees	45,000	75,000	52,889	17,694	-	190,583
NMTC incentive management fees	1,000	4,000	3,000	-	-	8,000
Total operating revenues	46,000	79,000	905,889	367,694	-	1,398,583
Operating expenses						
Consulting fees	-	-	467,500	192,500	-	660,000
Other expenses	-	-	-	-	16,198	16,198
Legal fees	-	-	-	-	15,762	15,762
Total operating expenses	-	-	467,500	192,500	31,960	691,960
Operating income	46,000	79,000	438,389	175,194	(31,960)	706,623
Non-operating revenues						
Interest income	-	-	-	-	2,080	2,080
Total non-operating revenues	-	-	-	-	2,080	2,080
Change in unrestricted net position	46,000	79,000	438,389	175,194	(29,880)	708,703
Unrestricted net position, beginning of year	213,500	292,167	-	-	44,811	550,478
Unrestricted net position, end of year	\$ 259,500	\$ 371,167	\$ 438,389	\$ 175,194	\$ 14,931	\$ 1,259,181

NYC NEIGHBORHOOD CAPITAL CORPORATION
(A Component Unit of The City of New York)
SUPPLEMENTARY SCHEDULE 2
STATEMENT OF ACTIVITIES BY PROJECT
For the year ended June 30, 2017

	Sub-CDE 1	Sub-CDE 2	Management & General	Total
Operating revenues				
NMTC placement and services fees	\$ 270,000	\$ 450,000	\$ -	\$ 720,000
NMTC sponsor fees	180,000	300,000	-	480,000
NMTC asset management fees	11,000	11,667	-	22,667
Total operating revenues	461,000	761,667	-	1,222,667
Operating expenses				
Consulting fees	247,500	412,500	-	660,000
Closing costs	-	57,000	-	57,000
Other expenses	-	-	23,767	23,767
Legal fees	-	-	4,345	4,345
Total operating expenses	247,500	469,500	28,112	745,112
Operating income	213,500	292,167	(28,112)	477,555
Non-operating revenues				
Interest income	-	-	437	437
Total non-operating revenues	-	-	437	437
Change in unrestricted net position	213,500	292,167	(27,675)	477,992
Unrestricted net position, beginning of year	-	-	72,486	72,486
Unrestricted net position, end of year	\$ 213,500	\$ 292,167	\$ 44,811	\$ 550,478



**NOVOGRADAC
& COMPANY** LLP®

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
NYC Neighborhood Capital Corporation:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of NYC Neighborhood Capital Corporation, which comprise the statements of net position as of June 30, 2018 and 2017, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated September 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered NYC Neighborhood Capital Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NYC Neighborhood Capital Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether NYC Neighborhood Capital Corporation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novogradac & Company LLP

San Francisco, California
September 24, 2018