

New York City Neighborhood Capital Corporation
(a component unit of the City of New York)

Financial Statements

**Years Ended June 30, 2019 and 2018
With Report of Independent Auditors**



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

Financial Statements

June 30, 2019 and 2018

TABLE OF CONTENTS

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	8
Statements of Revenues, Expenses, and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11
Supplementary Schedules	18
<u>Government Report</u>	
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 <i>Government Auditing Standards</i>	22



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, 2019 and 2018, and the related statements of revenues, expenses and changes in net position, 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 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, 2019 and 2018, 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 Matters

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 30, 2019, 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 30, 2019

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

Management's Discussion and Analysis

June 30, 2019

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, 2019 and 2018. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2019 Financial Highlights

- Current assets increased by \$336,190 or 25%
- Current liabilities decreased by \$28,137 or 38%
- Net position increased by \$364,979 or 29%
- Operating revenues decreased by \$766,752 or 55%
- Operating expenses decreased by \$412,285 or 60%
- Operating income decreased by \$ 354,467 or 50%

Background

This annual financial report consists of three parts: *Management's discussion and analysis* (this section), the *basic financial statements and Supplementary information*. NYCNCC, a component unit of the City of New York ("the City"), is recognized as 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.

NYCNCC was awarded a total of \$110 million in NMTC allocation authority from the Community Development Financial Institutions Fund of the U.S. Department of the Treasury ("CDFI Fund"). \$55 Million was awarded as part of Round 13 (the "Allocation") and an additional \$55 million was awarded as part of Round 15 of the NMTC Program. 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”) NYCNCC Sub-CDE 5, LLC (“Sub-CDE 5”) (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 the NMTC Program 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, 2019, 2018 and 2017, and the percentage changes between June 30, 2019, 2018 and 2017:

	2019	2018	2017	% Change	
				2019-2018	2018-2017
Current assets	\$1,663,870	\$1,327,680	\$559,081	25%	137%
Non-current assets	5,415	4,763	2,397	14%	99%
Total assets	1,669,285	1,332,443	561,478	25%	137%
Current liabilities	45,125	73,262	11,000	(38)%	566%
Total unrestricted net position	\$1,624,160	\$1,259,181	\$550,478	29%	129%

In fiscal year 2019, total assets increased by \$336,842 or 25% as a result of the investment in NYCNCC Sub-CDE 5, furthering the development of Brooklyn Navy Yard Building 127.

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 2018, total assets increased by \$770,965 or 137% spurred by new investments in Sub-CDE 3 and Sub-CDE 4 thus aiding in the development of Greenpoint Manufacturing and Design Center’s Ozone Park and the Village Shoprite, respectively.

As a result of investments into these NMTC Companies, net position increased by \$364,979 or 29% in fiscal year 2019 and \$708,703 or 129% in fiscal year 2018.

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, 2019, 2018 and 2017, and the percentage changes between June 30, 2019, 2018 and 2017:

	2019	2018	2017	% Change	
				2019-2018	2018-2017
Operating revenues	\$ 631,831	\$ 1,398,583	\$ 1,222,667	(55)%	14%
Operating expenses	279,675	691,960	745,112	(60)%	(7)%
Operating income	352,156	706,623	477,555	(50)%	48%
Non-operating revenues	12,823	2,080	437	516%	376%
Change in net position	\$ 364,979	\$ 708,703	\$ 477,992	(49)%	48%

Fiscal Year 2019 Activities

In fiscal year 2019, operating revenues decreased by \$766,752 or 55% as a result of making a Qualified Equity Investment (“QEI”) in Sub-CDE 5 as compared with two QEIs in Sub-CDE 3 and Sub-CDE 4, in the prior fiscal year.

Total operating expenses decreased by \$412,285 or 60% primarily due to deploying the remaining 13% of the Allocation in fiscal year 2019, likened to 44% in the prior period.

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

Management's Discussion and Analysis (continued)

Fiscal Year 2018 Activities

In fiscal year 2018, operating revenues increased by \$175,916 or 14% 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 or 7%, owing to the fact that in fiscal year 2017, the Corporation had incurred a one-time closing cost pertaining to investments in Sub-CDE 1.

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, One Liberty Plaza, New York, NY 10006.

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)
STATEMENTS OF NET POSITION
June 30, 2019 and 2018

	2019	2018
ASSETS		
Current assets		
Cash and cash equivalents (Note 3)	\$ 1,630,345	\$ 1,283,580
Due from related parties		
Due from NYCNCC Sub-CDE 1	4,625	11,025
Due from NYCNCC Sub-CDE 2	15,025	11,025
Due from NYCNCC Sub-CDE 3	4,625	11,025
Due from NYCNCC Sub-CDE 4	4,625	11,025
Due from NYCNCC Sub-CDE 5	4,625	-
Total current assets	1,663,870	1,327,680
Non-current assets		
Investments in NMTC Companies (Note 4)	5,415	4,763
Total non-current assets	5,415	4,763
Total assets	\$ 1,669,285	\$ 1,332,443
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 45,125	\$ 57,500
Due to related party		
Due to New York City Economic Development Corporation	-	15,762
Total current liabilities	45,125	73,262
Net position - unrestricted	\$ 1,624,160	\$ 1,259,181

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, 2019 and 2018

	2019	2018
Operating revenues		
NMTC asset management fees	\$ 266,931	\$ 190,583
NMTC placement and services fees	210,000	720,000
NMTC sponsor fees	140,000	480,000
NMTC incentive management fees	14,900	8,000
Total operating revenues	631,831	1,398,583
Operating expenses		
Consulting fees	192,500	660,000
Legal fees	77,760	15,762
Other expenses	9,415	16,198
Total operating expenses	279,675	691,960
Operating income	352,156	706,623
Non-operating revenues		
Interest income	12,823	2,080
Total non-operating revenues	12,823	2,080
Change in unrestricted net position	364,979	708,703
Unrestricted net position, beginning of year	1,259,181	550,478
Unrestricted net position, end of year	\$ 1,624,160	\$ 1,259,181

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2019 and 2018

	2019	2018
OPERATING ACTIVITIES		
NMTC asset management fees received	\$ 266,931	\$ 190,583
NMTC placement and services fees received	210,000	720,000
NMTC sponsor fees received	140,000	480,000
NMTC incentive management fees received	14,900	8,000
Consulting fees paid	(192,500)	(660,000)
Other expenses paid	(104,737)	(13,798)
Net cash provided by operating activities	334,594	724,785
INVESTING ACTIVITIES		
Interest income	12,823	2,080
Contributions to NMTC Companies	(700)	(2,400)
Distributions from NMTC Companies	48	34
Net cash provided by (used in) investing activities	12,171	(286)
NET INCREASE IN CASH AND CASH EQUIVALENTS	346,765	724,499
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,283,580	559,081
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,630,345	\$ 1,283,580
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 352,156	\$ 706,623
Adjustments to reconcile operating income to net cash provided by operating activities:		
Changes in operating liabilities:		
Decrease (increase) in due from NYCNCC Sub-CDE 1, LLC	6,400	(11,025)
Increase in due from NYCNCC Sub-CDE 2, LLC	(4,000)	(11,025)
Decrease (increase) in due from NYCNCC Sub-CDE 3, LLC	6,400	(11,025)
Decrease (increase) in due from NYCNCC Sub-CDE 4, LLC	6,400	(11,025)
Increase in due from NYCNCC Sub-CDE 5, LLC	(4,625)	-
(Decrease) increase in accounts payable and accrued liabilities	(12,375)	46,500
(Decrease) increase in due to New York City Economic Development Corporation	(15,762)	15,762
Net cash provided by operating activities	\$ 334,594	\$ 724,785

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

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. On April 2, 2019, NYCNCC received its IRS 501(c)(3) tax determination, retroactive to August 10, 2018.

2. Summary of Significant Accounting Policies and Nature of Operations

Basis of Accounting and Presentation

NYCNCC has been classified as an “enterprise fund” as defined by the Governmental Accounting Standards Board (“GASB”) and, as such, the financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States. In its accounting and financial reporting, NYCNCC follows the pronouncements of the 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.

Economic Concentrations

As of June 30, 2019, the Corporation has 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”), NYCNCC Sub-CDE 4, LLC (“Sub-CDE 4”), NYCNCC Sub-CDE 5, LLC (“Sub-CDE 5”) collectively, the (“NMTC Companies”). 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.

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

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

Economic Concentrations (continued)

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.

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.

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.

Income Taxes

The Corporation is a publicly supported organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

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.

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

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

Investments in NMTC Limited Liability Companies (continued)

NYCNCC holds managing member interests of 0.01% in each of Sub-CDE 1, Sub-CDE 2, Sub-CDE 3, Sub-CDE 4 and Sub-CDE 5. 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, Sub-CDE 4 and Sub-CDE 5 the investing members maintain substantive participating rights in each entity respectively.

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.

3. Cash and Cash Equivalents

As of June 30, 2019 and 2018, NYCNCC's cash balance was \$1,630,345 and \$1,283,580, 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, 2019 and 2018, NYCNCC has an ownership member interest in the following companies:

<u>Limited liability company</u>	<u>Ownership Percentage</u>	
	<u>2019</u>	<u>2018</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	0.01%	0.01%

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

4. Investments in NMTC Companies

Such investments at June 30, 2019 and 2018 are summarized as follows:

	2019	2018
Cumulative equity contributions	\$ 5,500	\$ 4,800
Cumulative equity distributions	(85)	(37)
Total	\$ 5,415	\$ 4,763

The results of operations of the NMTC Companies consist primarily of interest income earned from loans on QLICs 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.

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 NYCNCC’s decision to make a sub-allocation of NMTC to each of the NMTC Companies, the NMTC Companies shall pay sponsor fees to NYCNCC 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, 2019 and 2018, NYCNCC earned and was paid sponsor fees from the NMTC Companies in the amount of \$140,000 and \$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 NYCNCC’s decision to make a sub-allocation of NMTCs to each of the NMTC Companies, the NMTC Companies each are obligated to pay NYCNCC 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, 2019 and 2018, NYCNCC earned and was paid asset management fees from the NMTC Companies in the amount of \$266,931 and \$190,583, respectively.

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

5. Transactions with NMTC Related Parties (continued)

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 than the amount of reimbursement received, the NMTC Companies are required to pay the difference to the NYCNCC as an incentive management fee. For the years ended June 30, 2019 and 2018, NYCNCC earned incentive management fees from the NMTC Companies in the amount of \$14,900 and \$8,000, respectively. As of June 30, 2019 and 2018, NYCNCC was owed incentive management fees of \$3,975 and \$0, respectively, which is included in due from related parties on the accompanying Statements of Net Position.

New York City Economic Development Corporation

Related party transactions between New York City Economic Development Corporation ("NYCEDC") and NYCNCC consisting of reimbursable expenses for the years ended June 30, 2019 and 2018 were \$0 and \$15,762, respectively. NYCNCC received administrative, financial, legal, and other services from NYCEDC with no in-kind value recognized in the financial statements. NYCNCC occupies office space located at One Liberty Plaza New York, NY 10006, which is leased by NYCEDC.

7. 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, 2019 and 2018, unrestricted net position is \$1,624,160 and \$1,259,181, respectively.

8. 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.

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

8. New Markets Tax Credits (continued)

The following summarizes the amount sub-allocated to the NMTC Companies, received as a QEI and made as QLICIs as of June 30, 2019:

<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
NYCNCC Sub-CDE 5, LLC	7,000,000	6,860,000
Total	\$55,000,000	\$53,900,000

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 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.

9. Subsequent Events

NYCNCC was awarded an additional \$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 15 of the NMTC Program on May 23, 2019. As of August 22, 2019, NYCNCC formed and holds managing member interests of 99.00% in NYCNCC Sub-CDE 6, LLC (“Sub-CDE 6”), NYCNCC Sub-CDE 7, LLC (“Sub-CDE 7”), NYCNCC Sub-CDE 8, LLC (“Sub-CDE 8”), NYCNCC Sub-CDE 9, LLC (“Sub-CDE 9”), NYCNCC Sub-CDE 10, LLC

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

Notes to Financial Statements (continued)
June 30, 2019 and 2018

9. Subsequent Events (continued)

(“Sub-CDE 10”) (collectively, the “New NMTC Companies”), which interests will be reduced to .01% upon a receipt of a QEI by the applicable entity.

Pursuant to the NMTC Program Allocation Agreement between Sub-CDE 6, Sub-CDE 7, Sub-CDE 8, Sub-CDE 9, Sub-CDE 10, NYCNCC; and the CDFI Fund dated August 29, 2019, NYCNCC was allocated the authority to issue \$55,000,000 of QEIs to the New NMTC Companies.

Subsequent events have been evaluated through Septmeber 30, 2019, which is the date the financial statements were available to be issued

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, 2019

	Sub-CDE 1	Sub-CDE 2	Sub-CDE 3	Sub-CDE 4	Sub-CDE 5	Management & General	Total
Operating revenues							
NMTC asset management fees	\$ 45,000	\$ 75,000	\$ 85,000	\$ 35,000	\$ 26,931	\$ -	\$ 266,931
NMTC placement and services fees	-	-	-	-	210,000	-	210,000
NMTC sponsor fees	-	-	-	-	140,000	-	140,000
NMTC incentive management fees	975	3,975	2,975	2,975	4,000	-	14,900
Total operating revenues	<u>45,975</u>	<u>78,975</u>	<u>87,975</u>	<u>37,975</u>	<u>380,931</u>	<u>-</u>	<u>631,831</u>
Operating expenses							
Consulting fees	-	-	-	-	192,500	-	192,500
Legal fees	-	-	-	-	77,760	-	77,760
Other expenses	-	-	-	-	-	9,415	9,415
Total operating expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>270,260</u>	<u>9,415</u>	<u>279,675</u>
Operating income	45,975	78,975	87,975	37,975	110,671	(9,415)	352,156
Non-operating revenues							
Interest income	-	-	-	-	-	12,823	12,823
Total non-operating revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,823</u>	<u>12,823</u>
Change in unrestricted net position	45,975	78,975	87,975	37,975	110,671	3,408	364,979
Unrestricted net position, beginning of year	<u>259,500</u>	<u>371,167</u>	<u>438,389</u>	<u>175,194</u>	<u>-</u>	<u>14,931</u>	<u>1,259,181</u>
Unrestricted net position, end of year	<u>\$ 305,475</u>	<u>\$ 450,142</u>	<u>\$ 526,364</u>	<u>\$ 213,169</u>	<u>\$ 110,671</u>	<u>\$ 18,339</u>	<u>\$ 1,624,160</u>

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, 2018

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

NYC Neighborhood Capital Corporation
(A Component Unit of The City of New York)
STATEMENTS OF FUNCTIONAL EXPENSES
For the years ended June 30, 2019 and 2018

	2019		
	Program Services	Administrative and Support	Total
Operating expenses			
Consulting fees	\$ 192,500	\$ -	\$ 192,500
Legal fees	77,760	-	77,760
Other expenses	-	9,415	9,415
Total operating expenses	\$ 270,260	\$ 9,415	\$ 279,675
	2018		
	Program Services	Administrative and Support	Total
Operating expenses			
Consulting fees	\$ 660,000	\$ -	\$ 660,000
Legal fees	15,762	-	15,762
Other expenses	-	16,198	16,198
Total operating expenses	\$ 675,762	\$ 16,198	\$ 691,960



NOVOGRADAC
& COMPANY LLP®

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 statement of net position as of June 30, 2019, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 30, 2019.

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 30, 2019