

NYC Neighborhood Capital Corporation
Minutes of the Meeting of the Governing Board
October 2, 2017

A meeting of the Governing Board (the “Governing Board” or “Board”) of NYC Neighborhood Capital Corporation (“NCC”) was held on Monday, October 2, 2017 at 1:30 pm at the New York City Economic Development Corporation (“NYCEDC”), 110 William Street, Conference Room 5B, New York, NY 10038.

The following directors were present:

Kate Van Tassel

Vice President, NYCEDC

Tenzing Chadotsang

Vice President, NYCEDC

Nathan Bliss

Senior Vice President, NYCEDC

Elizabeth Verostek

Senior Vice President, NYCEDC

Gbenga Dawodu (via phone)

Vice President, NYCEDC

The following directors were not present:

James Patchett, Chairperson

President, NYCEDC

James Katz

Chief of Staff, NYCEDC

Jervonne Singletary

Assistant Vice President, NYCEDC

Sara Tranter

Senior Vice President, NYCEDC

Also present were the following NYCEDC staff members and interns:

Jeff Lee

Senior Vice President, NYCEDC

Mac Thayer

Assistant Vice President, NYCEDC

Lily Berticevich

Project Manager, NYCEDC

Izzy Cohn
Counsel, NYCEDC

Priya Ananthanathan
Senior Project Manager, NYCEDC

Vedesh Persaud
Assistant Vice President, NYCEDC

Mr. Thayer, Deputy Executive Director of NYCNCC, convened the meeting of the Governing Board at 2:12 p.m., at which time a quorum was present.

1. PAAA Reports

Mr. Thayer explained New York State's Public Authority Accountability Act ("PAAA") requirements as they pertain to NCC, listing the several documents and reports that must be submitted and thanking the Board members who participated in the self-evaluation survey. Mr. Bliss requested that NCC staff share the documents and reports with the Board.

2. Village Super Market

Ms. Berticevich gave a brief overview of the status of the projects that had been approved previously, noting that the Rockaway Beach Medical Arts Complex and Madison Square Boys and Girls Club were under construction and that the GMDC Ozone Park project was planning to close.

Mr. Thayer described the Village Super Market, Inc. ("Village") ShopRite grocery store project, a renovation of a 41,840 square foot building developed by Village, a family-owned operator with 29 grocery stores in the northeast. This would be their first store in New York, located in the Soundview neighborhood of the Bronx. The store would create 149 Full Time Equivalent union jobs, and Village anticipates hiring locally and using Bronx Hire and Hire NYC as resources to hire from the local community. This store would provide affordable, healthy food in a highly distressed area that is a designated FRESH zone. The project anticipates closing financing and beginning construction soon. The project has strong sources and uses, and Village has a strong track record. Village has communicated with local politicians to gain community support and is planning to be a community resource during operations. NCC strategy calls for supporting multiple project types in varied locations, and this project suits that strategy. It is a \$22 million project requesting \$7 million of NCC's New Markets Tax Credit ("NMTC") allocation.

The Advisory Board had unanimously voted to recommend the project to the Governing Board two weeks prior. The Governing Board's Investment Committee had met the week prior to review the project's financial feasibility and project readiness. Mr. Bliss explained that Tida Infahsaeng, the FRESH program director, had given the Committee confidence about the project's projected construction and operations costs, and that the developer is reputable. Ms. Verostek noted that they had done a deeper dive into the financial feasibility and had relied more on Tida's expertise for the industry-specific costs.

Ms. Van Tassel asked what amount of allocation remained, and Ms. Verostek asked if there was a required timeframe in which NCC must deploy its allocation. Mr. Cohn answered that NCC has a five-year window to be able to deploy its allocation, and both Mr. Cohn and Mr.

Thayer explained that successful CDEs deploy all of their allocation within one year and that NCC aims to do the same.

Mr. Thayer reminded the Board that \$7 million of NCC's allocation was remaining and that NCC staff had previously shared that the Caton Flats project would be a good fit. Mr. Thayer updated the Board, sharing that Caton Flats' closing timeframe had shifted to be several months later into 2018 and that, based on our strategy for receiving an additional allocation, NCC was now looking for a different project to for the remaining \$7 million allocation. The Board discussed possible projects.

Ms. Verostek suggested holding another NMTC training for the Board and EDC staff about NMTC to address the complexity of adding NMTC to projects receiving City capital grants. Mr. Cohn explained that enforcing certain aspects of deals becomes more complicated when combining those funding sources.

3. Approvals

Mr. Thayer requested a motion to approve NCC's \$7 million allocation to the Village ShopRite project, which motion was made, seconded and unanimously approved.

Mr. Thayer requested a motion to approve NCC's PAAA report submission, which motion was made, seconded and unanimously approved.

4. Adjournment

There being no further business to come before the Board of Directors at the meeting, pursuant to a motion made, seconded and unanimously approved, the meeting of the Board of Directors was adjourned at 2:20 p.m.

Approved by:

NYC NEIGHBORHOOD CAPITAL CORPORATION

By:



Mac Thayer, Deputy Executive Director

NYC NEIGHBORHOOD CAPITAL CORPORATION

Resolutions
of the Board of Directors
of NYC Neighborhood Capital Corporation

October 2, 2017

FY2017 Audited Financial Statements, Independent Auditor's Report and MD&A

RESOLVED, that the Board hereby approves the audited financial statements, independent auditor's report and management's discussion and analysis for the fiscal year ended June 30, 2017, all in substantially the forms attached hereto as Exhibit A.

FY2017 Investment Report

RESOLVED, that the Board hereby approves the Investment Report for the fiscal year ended June 30, 2017 (including all attachments, schedules and exhibits thereto) attached hereto as Exhibit B.

Acknowledgement of FY2017 Performance Measurements Report

WHEREAS, the Board acknowledges receipt of the Performance Measurements Report for the fiscal year ended June 30, 2017 attached hereto as Exhibit C.

Acknowledgement of FY2017 Board Self-Evaluation Survey Results

WHEREAS, the Board acknowledges receipt of the Board Self-Evaluation Survey Results for the fiscal year ended June 30, 2017 attached hereto as Exhibit D.

FY2017 PAAA Annual Report

RESOLVED, that the Board hereby authorizes and directs the empowered Officers of the Corporation to complete, sign and deliver the Annual Report for the fiscal year ended June 30, 2017 (which is required under the Public Authorities Law of the State of New York) (the “PAAA Annual Report”), which PAAA Annual Report may be signed and submitted electronically to the applicable governmental authorities.

FY2017 NPCL Annual Report of the Board of Directors

RESOLVED, that the Board hereby approves the Annual Report of the Board of Directors for the fiscal year ended June 30, 2017 (which is required under the Not-for-Profit Corporation Law of the State of New York) attached hereto as Exhibit E (the “NPCL Annual Report”).

RESOLVED, that the empowered Officers of the Corporation are hereby authorized and directed to sign and deliver the NPCL Annual Report to the Members of the Corporation.

Exhibit A

FY2017 Audited Financial Statements, Independent Auditor's Report and MD&A

Attached.

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

Financial Statements

**Years Ended June 30, 2017 and 2016
With Report of Independent Auditors**



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

Financial Statements

June 30, 2017 and 2016

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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, 2017, 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.

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 audit. We conducted our audit 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 2017 financial statements referred to above present fairly, in all material respects, the net position of NYC Neighborhood Capital Corporation as of June 30, 2017, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 <Report Date>, 2017, 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.

Prior Period Financial Statements

The financial statements of NYC Neighborhood Capital Corporation as of June 30, 2016, were audited by other auditors whose report dated September 19, 2016, expressed an unmodified opinion on those statements.

Norogardoc & Company LLP

New York, New York
September 26, 2017

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

Management's Discussion and Analysis

June 30, 2017

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, 2017 and 2016. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2017 Financial Highlights

- Cash, cash equivalents and investments increased by \$486,492
- Current liabilities increased by \$8,500
- Net position increased by \$477,992
- Operating revenues increased by \$1,222,667
- Operating expenses increased by \$742,612
- Operating income increased by \$480,055

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

Net Position

The following table summarizes NYCNCC’s financial position as of June 30, 2017, 2016 and 2015, and the percentage changes between June 30, 2017, 2016 and 2015:

	2017	2016	2015	% Change	
				2017-2016	2016-2015
Current assets	\$559,081	\$74,986	\$79,420	646%	(6)%
Non-current assets	2,397	-	-	-	-
Total assets	561,478	74,986	79,420	649%	(6)%
Current liabilities	11,000	2,500	4,500	340%	(44)%
Total unrestricted net position	\$550,478	\$72,486	\$74,920	659%	(3)%

In fiscal year 2017, current and non-current assets increased exponentially as result of investments in NYCNCC Sub-CDE 1, LLC (“Sub-CDE 1”) and NYCNCC Sub-CDE 2, LLC (“Sub-CDE 2”) (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 the purpose of 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.

The investments in Sub-CDE 1 and Sub-CDE 2 abetted significant developments in Queens County and New York County securing QLICIs whilst working with QALICBs to fund the Rockaway Beach Medical Arts Center and Madison Square Boys and Girls Club, respectively.

NYC Neighborhood Capital Corporation
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Management's Discussion and Analysis (continued)

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, 2017, 2016 and 2015, and the percentage changes between June 30, 2017, 2016 and 2015:

	2017	2016	2015	% Change	
				2017-2016	2016-2015
Operating revenues	\$ 1,222,667	\$ -	\$ 125,000	-	(100)%
Operating expenses	<u>745,112</u>	2,500	50,102	29704%	(95)%
Operating income	477,555	(2,500)	74,898	19202%	(103)%
Non-operating revenues	<u>437</u>	66	22	562%	200%
Change in net position	<u>\$ 477,992</u>	<u>\$ (2,434)</u>	<u>\$ 74,920</u>	19738%	(103)%

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.

Fiscal Year 2016 Activities

In fiscal year 2016, operating revenues and expenses decreased significantly primarily due to the tentativeness of the application process within the CDFI Fund.

NYC Neighborhood Capital Corporation
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Statements of Net Position

	June 30	
	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents <i>(Note 3)</i>	\$ 559,081	\$ 74,986
Total current assets	<u>559,081</u>	<u>74,986</u>
Non-current assets		
Investments in NMTC Companies <i>(Note 4)</i>	<u>2,397</u>	<u>-</u>
Total noncurrent assets	<u>2,397</u>	<u>-</u>
Total assets	561,478	74,986
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	<u>11,000</u>	<u>2,500</u>
Total current liabilities	<u>11,000</u>	<u>2,500</u>
Net position - unrestricted	<u>\$ 550,478</u>	<u>\$ 72,486</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
Operating revenues		
NMTC placement and services fees	\$ 720,000	\$ -
NMTC sponsor fees	480,000	-
NMTC asset management fees	<u>22,667</u>	<u>-</u>
Total operating revenues	1,222,667	-
 Operating expenses		
Consulting fees	660,000	-
Closing costs	57,000	-
Other expenses	23,767	2,500
Legal fees	<u>4,345</u>	<u>-</u>
Total operating expenses	<u>745,112</u>	<u>2,500</u>
 Operating income (loss)	477,555	(2,500)
 Non-operating revenues		
Interest income	<u>437</u>	<u>66</u>
Total non-operating revenues	<u>437</u>	<u>66</u>
 Change in unrestricted net position	477,992	(2,434)
 Unrestricted net position, beginning of year	<u>72,486</u>	<u>74,920</u>
 Unrestricted net position, end of year	<u>\$ 550,478</u>	<u>\$ 72,486</u>

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2017	2016
Operating activities		
NMTC placement and services fees received	\$ 720,000	\$ -
NMTC sponsor fees received	480,000	-
NMTC asset management fees received	22,667	-
Consulting fees paid	(660,000)	-
Other expenses paid	(76,612)	(4,500)
Net cash provided by (used in) operating activities	<u>486,055</u>	<u>(4,500)</u>
Investing activities		
Interest income	437	66
Contributions to NMTC Companies	(2,400)	-
Distributions from NMTC Companies	3	-
Net cash (used in) provided by investing activities	<u>(1,960)</u>	<u>66</u>
Net increase (decrease) in cash and cash equivalents	484,095	(4,434)
Cash and cash equivalents at beginning of year	<u>74,986</u>	<u>79,420</u>
Cash and cash equivalents at end of year	<u>\$ 559,081</u>	<u>\$ 74,986</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 477,555	\$ (2,500)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Changes in operating liabilities:		
Accounts payable and accrued expenses	8,500	(2,000)
Net cash provided by (used in) operating activities	<u>\$ 486,055</u>	<u>\$ (4,500)</u>

NYC Neighborhood Capital Corporation
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Notes to Financial Statements
June 30, 2017

1. Organization and Purpose

NYC Neighborhood Capital Corporation (“NYCNCC” or the “Corporation”) is a not-for-profit corporation incorporated in July 2014 under 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)

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

Economic Concentrations

As of June 30, 2017, the Corporation's major assets are investments in NYCNCC Sub-CDE 1, LLC ("Sub-CDE 1"), and NYCNCC Sub-CDE 2, LLC ("Sub-CDE 2"). In addition, NYCNCC formed NYCNCC Sub-CDE 3, LLC ("Sub-CDE 3"), NYCNCC Sub-CDE 4, LLC ("Sub-CDE 4") and NYCNCC Sub-CDE 5, LLC ("Sub-CDE 5" and together with the aforementioned entities the "NMTC Companies"), all of which are considered NMTC entities awaiting Qualified Equity Investments ("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 August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The major changes revolve around net asset classifications. ASU 2016-14 eliminates the distinction between resources with permanent restrictions and those with temporary restrictions by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions. In addition to the fundamental change in net asset classifications, the new standard also includes a number of specific amendments, such as the following: (1) disclosure requirements of qualitative information on how the organization manages its liquid available resources and liquidity risks; and (2) deporting requirements of the investment return, net of external and direct internal investment expenses (disclosure of those netted expenses is no longer required). ASU 2016-14 applies to all non-profit organizations and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The Corporation is currently evaluating the impact the adoption of this standard will have on the financial statements.

NYC Neighborhood Capital Corporation
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Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies and Nature of Operations

Updated Pronouncements (continued)

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, postemployment benefits (pensions and other postemployment) benefits, fair value measurement and application, and goodwill. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Corporation is evaluating the impact this standard will have on the Corporation's financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Provisions of this Statement are effective for fiscal years beginning after December 15, 2019. The Corporation will evaluate the impact this standard will have 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.

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

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

Notes to Financial Statements (continued)

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

Investments in NMTC Limited Liability Companies (continued)

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 and Sub-CDE 2. NYCNCC holds managing member interests of 99.00% in each of Sub-CDE 3, Sub-CDE 4 and Sub-CDE 5, which interests will be reduced to .01% in each case 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 and Sub-CDE 2 the investing members maintain substantive participating rights in each entity respectively, and in the case of Sub-CDE 3, Sub-CDE 4 and Sub-CDE 5, upon receipt of a QEI in each case, the investing members will maintain substantive participating rights in each entity respectively, 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, and asset management fees are earned and recognized as services are performed.

Subsequent Events

Subsequent events have been evaluated through September 26, 2017, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

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

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents

As of June 30, 2017 and 2016, NYCNCC’s cash balance was \$559,081 and \$74,986, 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, 2017 and 2016, NYCNCC has an ownership member interest in the following companies:

	<u>Ownership Percentage</u>	
<u>Limited liability company</u>	<u>2017</u>	<u>2016</u>
NYCNCC Sub-CDE 1, LLC	0.01%	-
NYCNCC Sub-CDE 2, LLC	0.01%	-
NYCNCC Sub-CDE 3, LLC	99.00%	-
NYCNCC Sub-CDE 4, LLC	99.00%	-
NYCNCC Sub-CDE 5, LLC	99.00%	-

Such investments at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cumulative equity contributions	\$ 2,400	\$ -
Cumulative equity distributions	(3)	-
Total	<u>\$ 2,397</u>	<u>\$ -</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.

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Notes to Financial Statements (continued)

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 the years ended June 30, 2017 and 2016, NYCNCC earned and was paid sponsor fees from the NMTC Companies in the amount of \$480,000 and \$0, 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, 2017 and 2016, NYCNCC earned and was paid asset management fees from the NMTC Companies in the amount of \$22,667 and \$0, respectively.

New York City Economic Development Corporation

There are no related party transactions between New York City Economic Development Corporation ("NYCEDC") and NYCNCC for the years ended June 30, 2017 and 2016. 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 110 William Street, New York, NY 10038, which is leased by NYCEDC.

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, 2017 and 2016, unrestricted net position is \$550,478 and \$72,486, respectively.

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

Notes to Financial Statements (continued)

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, 2017, 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, 2017:

<u>NMTC Companies</u>	<u>QEI</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
Total	<u>\$ 24,000,000</u>	<u>\$ 23,520,000</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 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.



**NOVOGRADAC
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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, 2017, 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 26, 2017.

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 NYC Neighborhood Capital Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 NYC Neighborhood Capital Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NYC Neighborhood Capital Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novoguardac & Company LLP

New York, New York
September 26, 2017

New York State Comptroller
THOMAS P. DiNAPOLI

NYC Neighborhood Capital Corporation (1336)
Fiscal Year End Date: 06/30/2017
Status: CERTIFIED

Summary Financial Information

Definitions

SUMMARY STATEMENT OF NET ASSETS

Assets

Current Assets

Cash and cash equivalents	\$ 559,081.00
Investments	0.00
Receivables, net	0.00
Other assets	0.00
Total Current Assets	559,081.00

Noncurrent Assets

Restricted cash and investments	2,397.00
Long-term receivables, net	0.00
Other assets	0.00
Capital Assets	
Land and other nondepreciable property	0.00
Buildings and equipment	0.00
Infrastructure	0.00
Accumulated depreciation	0.00
Net capital assets	0.00
Total Noncurrent Assets	2,397.00

Total Assets	561,478.00
<hr/>	
<u>Liabilities</u>	
Current Liabilities	
Accounts payable	0.00
Pension contribution payable	0.00
Other post-employment benefits	0.00
Accrued liabilities	11,000.00
Deferred revenues	0.00
Bonds and notes payable	0.00
Other long-term obligations due within one year	0.00
Total Current Liabilities	11,000.00
Noncurrent Liabilities	
Pension contribution payable	0.00
Other post-employment benefits	0.00
Bonds and notes payable	0.00
Long term leases	0.00
Other long-term obligations	0.00
Total Noncurrent Liabilities	0.00
Total Liabilities	11,000.00
<hr/>	
<u>Net Asset (Deficit)</u>	
Net Assets	
Invested in capital assets, net of related debt	0.00
Restricted	0.00
Unrestricted	550,478.00

Total Net Assets	550,478.00
-------------------------	-------------------

SUMMARY STATEMENT OF REVENUES, EXPENSES AND CHANGE IN NET ASSETS

Operating Revenues

Charges for services	0.00
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Rental & financing income	1,200,000.00
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Other operating revenues	22,667.00
--------------------------	-----------

Total Operating Revenue	1,222,667.00
--------------------------------	---------------------

Operating Expenses

Salaries and wages	0.00
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Other employee benefits	0.00
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Professional services contracts	660,000.00
---------------------------------	------------

Supplies and materials	0.00
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Depreciation & amortization	0.00
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Other operating expenses	85,112.00
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Total Operating Expenses	745,112.00
---------------------------------	-------------------

Operating Income (Loss)	477,555.00
--------------------------------	-------------------

Nonoperating Revenues

Investment earnings	437.00
---------------------	--------

State subsidies/grants	0.00
Federal subsidies/grants	0.00
Municipal subsidies/grants	0.00
Public Authority subsidies	0.00
Other nonoperating revenues	0.00
Total Nonoperating Revenue	437.00
<u>Nonoperating Expenses</u>	
Interest and other financing charges	0.00
Subsidies to other public Authorities	0.00
Grants and donations	0.00
Other nonoperating expenses	0.00
Total Nonoperating Expenses	0.00
Income (Loss) Before Contributions	477,992.00
Capital Contributions	0.00
Change in net assets	477,992.00
Net assets (deficit) beginning of year	72,486.00
Other net assets changes	0.00
Net assets (deficit) at end of year	\$ 550,478.00

Exhibit B

FY2017 Investment Report

Attached.

NYC NEIGHBORHOOD CAPITAL CORPORATION
INVESTMENT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

Comprehensive Investment Guidelines Policy

Attached hereto as Schedule I is the Investment Guidelines Policy of NYC Neighborhood Capital Corporation (the "Corporation"), as approved by the Corporation's Board of Directors on May 2, 2017 (the "Investment Guidelines Policy").

Investment Objectives

By way of summary, the investment objectives set forth in the Investment Guidelines Policy are as follows: preservation of capital; maintenance of liquidity and maximization of return.

Annual Independent Audit

The results of the annual independent audit (including the independent accountant's audit report) for the fiscal year ended June 30, 2017 are attached hereto as Schedule II.

Investment Income Record

Investment income from interest earned on bank accounts, certificates of deposits and securities was \$437.00 for the fiscal year ended June 30, 2017.

Fees, Commissions and Other Charges

The Corporation did not pay any fees, commissions or other charges to an investment banker, broker, agent, dealer or advisor rendering investment associated services during the fiscal year ended June 30, 2017.

Schedule I to Investment Report

**NYC NEIGHBORHOOD CAPITAL CORPORATION
INVESTMENT GUIDELINES POLICY**

Attached.

**NYC NEIGHBORHOOD CAPITAL CORPORATION
INVESTMENT GUIDELINES POLICY**

Adopted May 2, 2017

I. PURPOSE

The purpose of this Investment Guidelines Policy (this “Policy”) is to establish procedures and guidelines regarding the investing, monitoring and reporting of the Funds (as defined below) of NYC Neighborhood Capital Corporation (“NYCNCC”).

II. GENERAL PROVISIONS

A. Scope of Policy

This Policy applies to the funds of NYCNCC, which for purposes of this Policy and the guidelines stated herein, consist of all moneys and other financial resources available for deposit and investment by NYCNCC on its own behalf and for its own account (collectively, the “Funds”). As used herein, the defined term “Funds” shall not include the proceeds of equity contributions received by NYCNCC from third party investors for use in connection with federal new markets tax credit program projects.

B. Investment Objectives

The Funds shall be managed to accomplish the following objectives:

1. *Preservation of Principal* – The single most important objective of NYCNCC’s investment program is the preservation of the principal of the Funds.
2. *Maintenance of Liquidity* – The Funds shall be managed in such a manner that assures that funds are available as needed to meet immediate and/or future operating requirements of NYCNCC.
3. *Maximize Return* – The Funds shall be managed in such a fashion as to maximize income through the purchase of Permitted Investments (hereinafter defined), taking into account the other investment objectives.

III. IMPLEMENTATION OF GUIDELINES

The Chief Financial Officer of NYCNCC or, if under the direction of the Chief Financial Officer, the Treasurer of NYCNCC or an Assistant Treasurer of NYCNCC (the “Designated Officers”), are each hereby authorized to invest the Funds. The Designated Officers shall be responsible for the prudent investment of the Funds and for the implementation of the investment program and the establishment of investment procedures and a system of controls to regulate the activities of subordinate staff, consistent with this Policy.

IV. AUTHORIZED INVESTMENTS

A. The Designated Officers may invest the Funds in the following securities (collectively, the “Securities”):

1. *U.S.A.* Obligations or securities issued by the United States.
2. *Federal Agency Obligations.* Obligations or securities issued by any agency or instrumentality of the United States if guaranteed, as to principal and interest, by the United States.
3. *Commercial Paper.* Debt obligations with a maturity of no greater than 270 days and with ratings that are the highest ratings issued by at least two rating agencies approved by the Comptroller of the State of New York.
4. *Bankers’ Acceptances* of banks with worldwide assets in excess of \$50 million that are rated with the highest categories of the leading bank rating services and regional banks also rated within the highest categories.
5. *Certificates of Deposit and Time Deposits* with New York banks, including minority-owned banks. All such certificates of deposit in these banks must be Federal Deposit Insurance Corporation (“FDIC”) insured; provided, however, that if and to the extent such certificates of deposits or time deposits are not FDIC insured, such Securities shall comply with all other applicable requirements of the General Municipal Law of the State of New York, including, but not limited to, requirements as to the collateralization of deposits of funds in excess of the amounts insured by the FDIC.
6. *Other investments* approved by the Comptroller of New York City for the investment of City funds.

B. NYCNCC shall instruct its Agents (as such term is defined in Part X of this Policy) to obtain competitive quotes for each purchase or sale of Securities, other than governmental Securities, when such transaction equals or exceeds \$2,500,000 in amount.

The Treasurer of NYCNCC shall maintain, or cause to be maintained, proper books and records of all Securities held by or for NYCNCC and for all transactions pertinent thereto. Such books and records shall at least identify the Security, the fund for which held, and the place where kept; and the entries made therein shall show the competitive quotes obtained therefor, the date of sale or other disposition, and the amount realized therefrom.

C. In addition to investments in Securities, NYCNCC may deposit Funds needed for operational expenses and Funds awaiting investment or disbursement in the following funds and accounts (collectively, the “Deposit Accounts”):

1. High quality no-load money market mutual funds that restrict their investments to short term, highly rated money market instruments.
2. Other interest bearing accounts, if permitted by applicable laws, rules and regulations, with New York City financial institutions designated by the New York City Banking Commission or such other financial institutions approved by the Deputy Mayor for Housing and Economic Development or his or her successor in function.

V. WRITTEN CONTRACTS

NYCNCC shall enter into written contracts pursuant to which investments are made which conform with the requirements of this Policy and Section 2925(3)(c) of the Public Authorities Law unless the Board of Directors determines by resolution that a written contract containing such provisions is not practical or that there is not a regular business practice of written contracts containing such provisions with respect to a specific investment or transaction, in which case the Board of Directors shall adopt procedures covering such investment or transaction.

VI. DIVERSIFICATION

The investment portfolio for the Funds shall be structured diversely to reduce the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issuer or a specific type of security. The maximum percentage of the total portfolio permitted in the indicated type of eligible security is as follows:

REFERENCE	SECURITY	MAXIMUM
IV.A.1	U.S.A.	100% maximum
IV.A.2	Federal Agency	100% maximum
IV.A.3	Commercial Paper	40% maximum
IV.A.4	Bankers Acceptances	25% maximum
IV.A.5	Certificates of Deposit; Time Deposits	45% maximum
IV.A.6	Other Investments Approved by NYC Comptroller for City Funds	A percentage deemed prudent by the CFO

VII. MAXIMUM MATURITY

Maintenance of adequate liquidity to meet the cash flow needs of NYCNCC is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with cash requirements in order to avoid the forced sale of securities prior to maturity.

For purposes of this Policy, assets of the portfolio shall be segregated into two categories based on expected liquidity needs and purposes – Cash Equivalents and Investments. Assets categorized as Cash Equivalents will be invested in permitted investments maturing in ninety (90) days or less or in Deposit Accounts. Assets categorized as Investments will be invested in permitted investments with a stated maturity of no more than two (2) years from the date of purchase.

VIII. MONITORING AND ADJUSTING THE INVESTMENT PORTFOLIO

Those responsible for the day-to-day management of the portfolio will routinely monitor the contents of the portfolio, the available markets and the relative values of competing instruments, and will adjust the portfolio as necessary to meet the requirements and goals of this Policy. It is recognized and understood that the non-speculative active management of portfolio holdings may cause a loss on the sale of an owned investment.

IX. INTERNAL CONTROLS

The Designated Officers shall establish and be responsible for monitoring a system of internal controls governing the administration and management of the portfolio. Such controls shall be designed to prevent and control losses of the portfolio funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by any personnel.

X. ELIGIBLE BROKERS, AGENTS, DEALERS, INVESTMENT ADVISORS, INVESTMENT BANKERS AND CUSTODIANS

The following are the standards for the qualifications of brokers, agents, dealers, investment advisors, investment bankers and custodians:

A. Brokers, Agents and Dealers

The categories of firms listed below are the categories from which NYCNCC may select firms to purchase and sell Securities (as selected, an “Agent”). Factors to be considered by NYCNCC in selecting Agents from these categories shall include the following: size and capitalization; quality and reliability; prior experience generally and prior experience with NYCNCC specifically; and level of expertise for the transactions contemplated.

1. any bank or trust company organized and/or licensed under the laws of the United States, which is authorized to do business in New York State;
2. any bank or trust company organized and/or licensed under the laws of any state of the United States, which is authorized to do business in New York State;
3. any broker-dealer licensed and/or permitted to provide services under federal law and, when necessary, qualified to do business in New York State.

B. Investment Advisors

In addition to the requirements set forth in “A” preceding, any Agent selected by NYCNCC to be an investment advisor shall be registered with the SEC under the Investment Advisors Act of 1940.

C. Investment Bankers

In addition to the requirements set forth in “A” preceding, any Agent selected by NYCNCC to serve as a senior managing underwriter for negotiated sales must be registered with the SEC.

D. Custodians

In addition to the requirements set forth in “A” preceding, any Agent selected by NYCNCC to be a custodian shall have capital and surplus of not less than \$50,000,000.

XI. REPORTING

A. Quarterly

The Designated Officers shall prepare and deliver to the Board of Directors once for each quarter of NYCNCC’s fiscal year a report setting forth a summary of new investments made during that quarter, the inventory of existing investments and the selection of investment bankers, brokers, agents, dealers, investment advisors and auditors.

B. Annually

1. *Independent Audit* – NYCNCC’s independent accountants shall conduct an annual audit of NYCNCC’s investments for each fiscal year of NYCNCC, the results of which shall be made available to the Board of Directors at the time of its annual review and approval of this Policy.

2. *Investment Report* – Annually, the Treasurer or, if under the direction of the Treasurer, an Assistant Treasurer, shall prepare and the Board of Directors shall review and approve an Investment Report, which shall include:

- a. This Policy and amendments thereto since the last report;

- b. An explanation of this Policy and any amendments made since the last report;
- c. The independent audit report required by paragraph 1 above;
- d. The investment income record of NYCNCC for the fiscal year; and
- e. A list of fees, commissions or other charges paid to each investment banker, broker, agent, dealer and advisor rendering investment associated services to NYCNCC since the last report.

The Investment Report shall be submitted to the Mayor and the Comptroller of the City of New York and to the New York State Department of Audit and Control. Copies of the report shall also be made available to the public upon reasonable request.

XII. APPLICABILITY

Nothing contained in this Policy shall be deemed to alter, affect the validity of, modify the terms of or impair any contract or agreement for investment of the Funds, made or entered into in violation of, or without compliance with, the provisions of this Policy.

XIII. CONFLICT OF LAW

In the event that any portion of this Policy is in conflict with any State, City or Federal law, that law will prevail.

XIV. PRIOR AUTHORIZATIONS NOT SUPERSEDED

This Policy does not supersede or replace the following authorizations: (i) powers and other authorizations provided to the Chief Financial Officer and the Treasurer of NYCNCC in the By-Laws of NYCNCC and (ii) the powers and other authorizations provided in any prior resolutions adopted by NYCNCC's Board of Directors, including the banking resolutions adopted on August 6, 2014.

XV. MWBEs

NYCNCC shall seek to encourage participation by minority and women-owned business enterprises (i.e., "MWBEs") in providing financial services to NYCNCC.

Schedule II to Investment Report

RESULTS OF ANNUAL INDEPENDENT AUDIT

Attached.

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

Financial Statements

**Years Ended June 30, 2017 and 2016
With Report of Independent Auditors**



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

Financial Statements

June 30, 2017 and 2016

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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, 2017, 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.

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 audit. We conducted our audit 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 2017 financial statements referred to above present fairly, in all material respects, the net position of NYC Neighborhood Capital Corporation as of June 30, 2017, and the changes in its net position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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 <Report Date>, 2017, 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.

Prior Period Financial Statements

The financial statements of NYC Neighborhood Capital Corporation as of June 30, 2016, were audited by other auditors whose report dated September 19, 2016, expressed an unmodified opinion on those statements.

Norogardoc & Company LLP

New York, New York
September 26, 2017

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

Management's Discussion and Analysis

June 30, 2017

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, 2017 and 2016. Please read it in conjunction with the financial statements and accompanying notes, which follow this section.

Fiscal Year 2017 Financial Highlights

- Cash, cash equivalents and investments increased by \$486,492
- Current liabilities increased by \$8,500
- Net position increased by \$477,992
- Operating revenues increased by \$1,222,667
- Operating expenses increased by \$742,612
- Operating income increased by \$480,055

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

Net Position

The following table summarizes NYCNCC’s financial position as of June 30, 2017, 2016 and 2015, and the percentage changes between June 30, 2017, 2016 and 2015:

	2017	2016	2015	% Change	
				2017-2016	2016-2015
Current assets	\$559,081	\$74,986	\$79,420	646%	(6)%
Non-current assets	2,397	-	-	-	-
Total assets	561,478	74,986	79,420	649%	(6)%
Current liabilities	11,000	2,500	4,500	340%	(44)%
Total unrestricted net position	\$550,478	\$72,486	\$74,920	659%	(3)%

In fiscal year 2017, current and non-current assets increased exponentially as result of investments in NYCNCC Sub-CDE 1, LLC (“Sub-CDE 1”) and NYCNCC Sub-CDE 2, LLC (“Sub-CDE 2”) (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 the purpose of 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.

The investments in Sub-CDE 1 and Sub-CDE 2 abetted significant developments in Queens County and New York County securing QLICIs whilst working with QALICBs to fund the Rockaway Beach Medical Arts Center and Madison Square Boys and Girls Club, respectively.

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

Management's Discussion and Analysis (continued)

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, 2017, 2016 and 2015, and the percentage changes between June 30, 2017, 2016 and 2015:

	2017	2016	2015	% Change	
				2017-2016	2016-2015
Operating revenues	\$ 1,222,667	\$ -	\$ 125,000	-	(100)%
Operating expenses	<u>745,112</u>	2,500	50,102	29704%	(95)%
Operating income	477,555	(2,500)	74,898	19202%	(103)%
Non-operating revenues	<u>437</u>	66	22	562%	200%
Change in net position	<u>\$ 477,992</u>	<u>\$ (2,434)</u>	<u>\$ 74,920</u>	19738%	(103)%

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.

Fiscal Year 2016 Activities

In fiscal year 2016, operating revenues and expenses decreased significantly primarily due to the tentativeness of the application process within the CDFI Fund.

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

Statements of Net Position

	June 30	
	<u>2017</u>	<u>2016</u>
Assets		
Current assets		
Cash and cash equivalents <i>(Note 3)</i>	\$ 559,081	\$ 74,986
Total current assets	<u>559,081</u>	<u>74,986</u>
Non-current assets		
Investments in NMTC Companies <i>(Note 4)</i>	<u>2,397</u>	<u>-</u>
Total noncurrent assets	<u>2,397</u>	<u>-</u>
Total assets	561,478	74,986
Liabilities		
Current liabilities		
Accounts payable and accrued expenses	<u>11,000</u>	<u>2,500</u>
Total current liabilities	<u>11,000</u>	<u>2,500</u>
Net position - unrestricted	<u>\$ 550,478</u>	<u>\$ 72,486</u>

See accompanying notes.

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

Statements of Revenues, Expenses and Changes in Net Position

	Year Ended June 30	
	<u>2017</u>	<u>2016</u>
Operating revenues		
NMTC placement and services fees	\$ 720,000	\$ -
NMTC sponsor fees	480,000	-
NMTC asset management fees	<u>22,667</u>	<u>-</u>
Total operating revenues	1,222,667	-
Operating expenses		
Consulting fees	660,000	-
Closing costs	57,000	-
Other expenses	23,767	2,500
Legal fees	<u>4,345</u>	<u>-</u>
Total operating expenses	<u>745,112</u>	<u>2,500</u>
Operating income (loss)	477,555	(2,500)
Non-operating revenues		
Interest income	<u>437</u>	<u>66</u>
Total non-operating revenues	<u>437</u>	<u>66</u>
Change in unrestricted net position	477,992	(2,434)
Unrestricted net position, beginning of year	<u>72,486</u>	<u>74,920</u>
Unrestricted net position, end of year	<u>\$ 550,478</u>	<u>\$ 72,486</u>

See accompanying notes.

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

Statements of Cash Flows

	Year Ended June 30	
	2017	2016
Operating activities		
NMTC placement and services fees received	\$ 720,000	\$ -
NMTC sponsor fees received	480,000	-
NMTC asset management fees received	22,667	-
Consulting fees paid	(660,000)	-
Other expenses paid	(76,612)	(4,500)
Net cash provided by (used in) operating activities	<u>486,055</u>	<u>(4,500)</u>
Investing activities		
Interest income	437	66
Contributions to NMTC Companies	(2,400)	-
Distributions from NMTC Companies	3	-
Net cash (used in) provided by investing activities	<u>(1,960)</u>	<u>66</u>
Net increase (decrease) in cash and cash equivalents	484,095	(4,434)
Cash and cash equivalents at beginning of year	<u>74,986</u>	<u>79,420</u>
Cash and cash equivalents at end of year	<u>\$ 559,081</u>	<u>\$ 74,986</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ 477,555	\$ (2,500)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Changes in operating liabilities:		
Accounts payable and accrued expenses	8,500	(2,000)
Net cash provided by (used in) operating activities	<u>\$ 486,055</u>	<u>\$ (4,500)</u>

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

Notes to Financial Statements
June 30, 2017

1. Organization and Purpose

NYC Neighborhood Capital Corporation (“NYCNCC” or the “Corporation”) is a not-for-profit corporation incorporated in July 2014 under 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)

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

Economic Concentrations

As of June 30, 2017, the Corporation's major assets are investments in NYCNCC Sub-CDE 1, LLC ("Sub-CDE 1"), and NYCNCC Sub-CDE 2, LLC ("Sub-CDE 2"). In addition, NYCNCC formed NYCNCC Sub-CDE 3, LLC ("Sub-CDE 3"), NYCNCC Sub-CDE 4, LLC ("Sub-CDE 4") and NYCNCC Sub-CDE 5, LLC ("Sub-CDE 5" and together with the aforementioned entities the "NMTC Companies"), all of which are considered NMTC entities awaiting Qualified Equity Investments ("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 August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The major changes revolve around net asset classifications. ASU 2016-14 eliminates the distinction between resources with permanent restrictions and those with temporary restrictions by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes: net assets with donor restrictions and net assets without donor restrictions. In addition to the fundamental change in net asset classifications, the new standard also includes a number of specific amendments, such as the following: (1) disclosure requirements of qualitative information on how the organization manages its liquid available resources and liquidity risks; and (2) deporting requirements of the investment return, net of external and direct internal investment expenses (disclosure of those netted expenses is no longer required). ASU 2016-14 applies to all non-profit organizations and is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. Early application is permitted. The Corporation is currently evaluating the impact the adoption of this standard will have on the financial statements.

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

Notes to Financial Statements (continued)

2. Summary of Significant Accounting Policies and Nature of Operations

Updated Pronouncements (continued)

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, postemployment benefits (pensions and other postemployment) benefits, fair value measurement and application, and goodwill. The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Corporation is evaluating the impact this standard will have on the Corporation's financial statements.

In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Provisions of this Statement are effective for fiscal years beginning after December 15, 2019. The Corporation will evaluate the impact this standard will have 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.

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

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

Notes to Financial Statements (continued)

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

Investments in NMTC Limited Liability Companies (continued)

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 and Sub-CDE 2. NYCNCC holds managing member interests of 99.00% in each of Sub-CDE 3, Sub-CDE 4 and Sub-CDE 5, which interests will be reduced to .01% in each case 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 and Sub-CDE 2 the investing members maintain substantive participating rights in each entity respectively, and in the case of Sub-CDE 3, Sub-CDE 4 and Sub-CDE 5, upon receipt of a QEI in each case, the investing members will maintain substantive participating rights in each entity respectively, 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, and asset management fees are earned and recognized as services are performed.

Subsequent Events

Subsequent events have been evaluated through September 26, 2017, which is the date the financial statements were available to be issued, and there are no subsequent events requiring disclosure.

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

Notes to Financial Statements (continued)

3. Cash and Cash Equivalents

As of June 30, 2017 and 2016, NYCNCC’s cash balance was \$559,081 and \$74,986, 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, 2017 and 2016, NYCNCC has an ownership member interest in the following companies:

	<u>Ownership Percentage</u>	
<u>Limited liability company</u>	<u>2017</u>	<u>2016</u>
NYCNCC Sub-CDE 1, LLC	0.01%	-
NYCNCC Sub-CDE 2, LLC	0.01%	-
NYCNCC Sub-CDE 3, LLC	99.00%	-
NYCNCC Sub-CDE 4, LLC	99.00%	-
NYCNCC Sub-CDE 5, LLC	99.00%	-

Such investments at June 30, 2017 and 2016 are summarized as follows:

	<u>2017</u>	<u>2016</u>
Cumulative equity contributions	\$ 2,400	\$ -
Cumulative equity distributions	(3)	-
Total	<u>\$ 2,397</u>	<u>\$ -</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
(A Component Unit of The City of New York)

Notes to Financial Statements (continued)

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 the years ended June 30, 2017 and 2016, NYCNCC earned and was paid sponsor fees from the NMTC Companies in the amount of \$480,000 and \$0, 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, 2017 and 2016, NYCNCC earned and was paid asset management fees from the NMTC Companies in the amount of \$22,667 and \$0, respectively.

New York City Economic Development Corporation

There are no related party transactions between New York City Economic Development Corporation ("NYCEDC") and NYCNCC for the years ended June 30, 2017 and 2016. 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 110 William Street, New York, NY 10038, which is leased by NYCEDC.

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, 2017 and 2016, unrestricted net position is \$550,478 and \$72,486, respectively.

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

Notes to Financial Statements (continued)

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, 2017, 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, 2017:

<u>NMTC Companies</u>	<u>QEI</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
Total	<u>\$ 24,000,000</u>	<u>\$ 23,520,000</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 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.



**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, 2017, 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 26, 2017.

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 NYC Neighborhood Capital Corporation's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 NYC Neighborhood Capital Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NYC Neighborhood Capital Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Novoguardac & Company LLP

New York, New York
September 26, 2017

Exhibit C

NYC NEIGHBORHOOD CAPITAL CORPORATION PERFORMANCE MEASUREMENTS REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2017

List of Performance Measurements (as adopted by the Board on May 2, 2017)

- Number of total jobs in connection with projects (current fiscal year and previous fiscal year)
- Amount of private investment leveraged (current fiscal year and previous fiscal year)

Performance Measurements Report

In fiscal year 2017, the Corporation provided investment capital to two projects in low-income communities in New York City: the Rockaway Beach Medical Arts Center Project in Rockaway Beach, Queens, and the Madison Square Boys & Girls Club project in Central Harlem, Manhattan. As of the end of Fiscal Year 2017, both projects were still under construction, and therefore job numbers were not yet finalized. The job creation estimates are the following:

- Rockaway Beach Medical Arts Center: 100 temporary construction jobs, 100 FTE permanent jobs.
- Madison Square Boys & Girls Club: 100 temporary construction jobs, 38 FTE permanent jobs.

Both projects also leveraged private investment:

- Rockaway Beach Medical Arts Center: \$25 million in private investment.
- Madison Square Boys & Girls Club: \$45 million in private investment.

Exhibit D

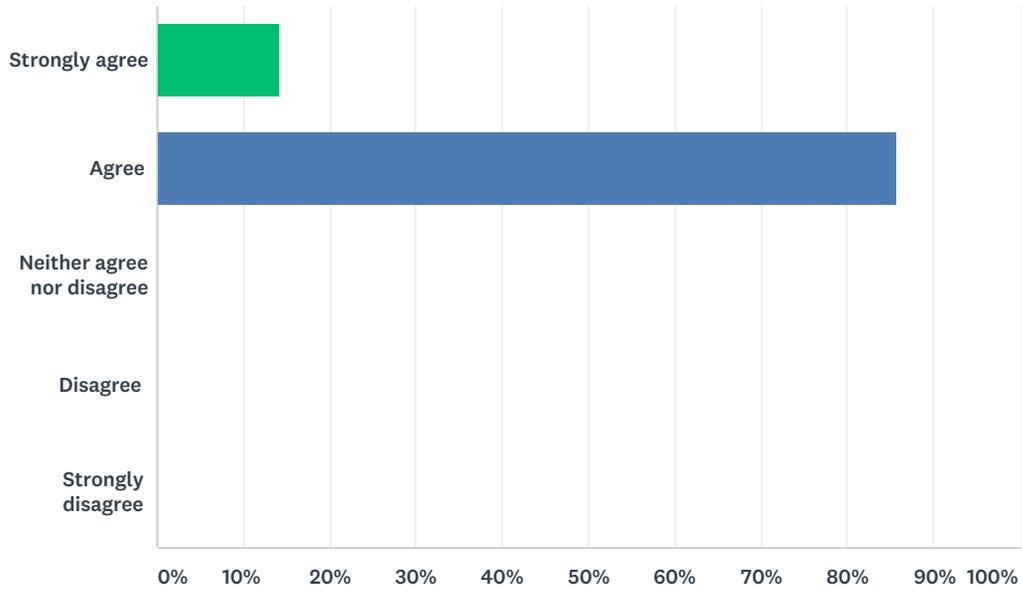
FY2017 Board Self-Evaluation Survey Results

Attached.

NYCNCC staff prepared a self-evaluation survey for its Board of Directors. The survey was distributed electronically to NYCNCC board members on Friday, September 22, 2017. As of September 30, 2017, 55% of the NYCNCC board members (5 out of 9) responded to the survey. Following this page are the results of the survey.

Q1 Board members have a shared understanding of the mission and purpose of NYCNCC.

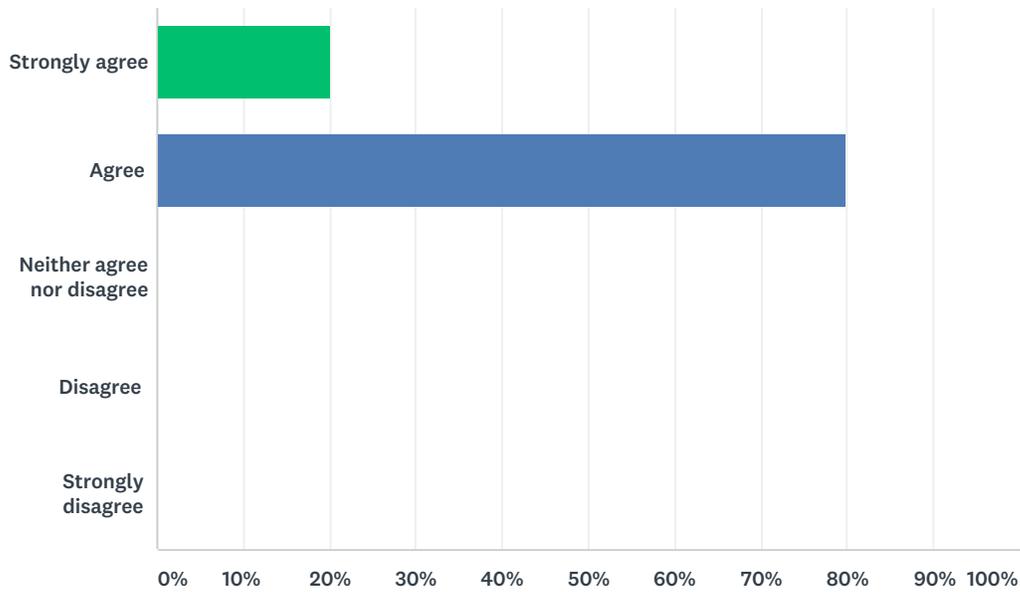
Answered: 7 Skipped: 0



ANSWER CHOICES	RESPONSES	
Strongly agree	14.29%	1
Agree	85.71%	6
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		7

Q2 The policies, practices and decisions of the Board are always consistent with this mission.

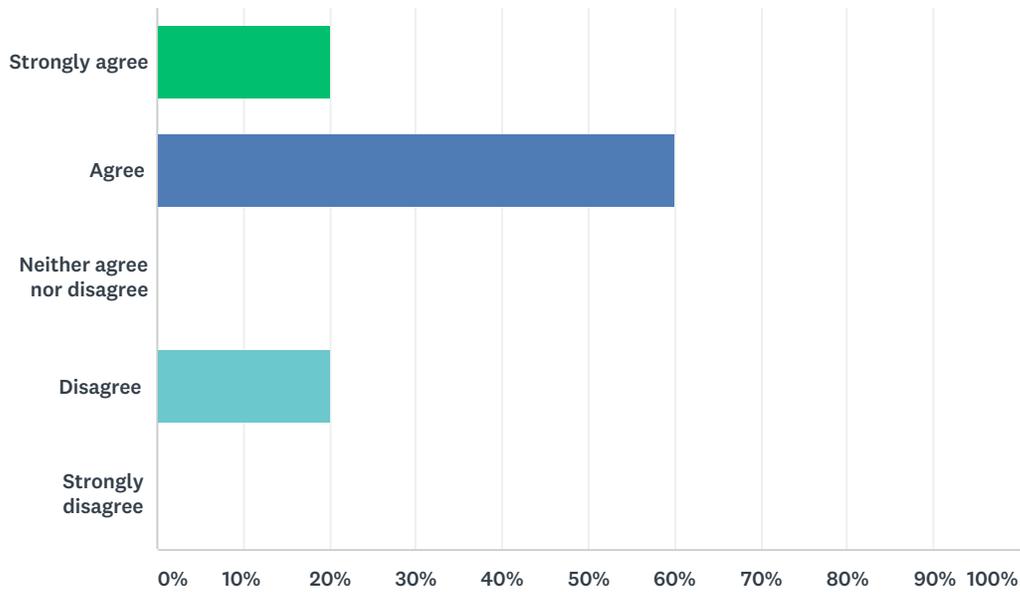
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ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	80.00%	4
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q3 Board members comprehend their role and fiduciary responsibilities and hold themselves and each other to these principles.

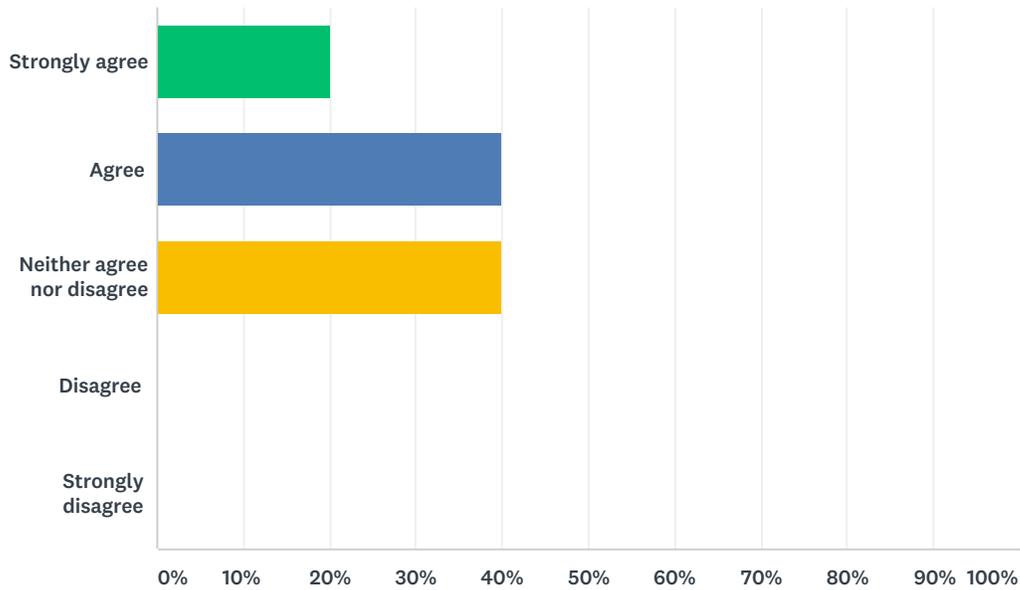
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ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	60.00%	3
Neither agree nor disagree	0.00%	0
Disagree	20.00%	1
Strongly disagree	0.00%	0
TOTAL		5

Q4 The Board has adopted policies, by-laws and practices for the effective governance, management and operations of NYCNCC and reviews these annually.

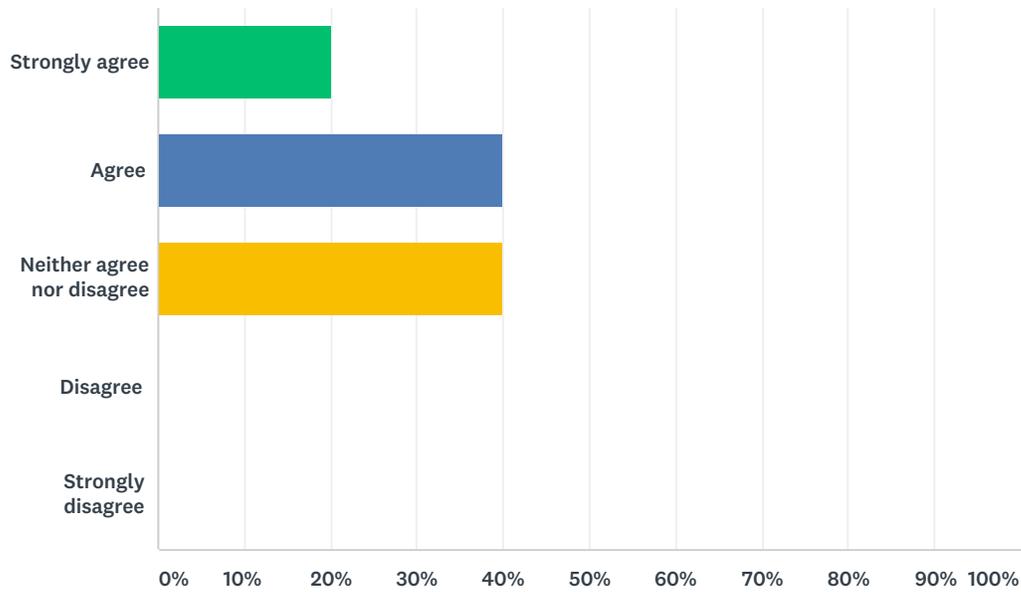
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ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	40.00%	2
Neither agree nor disagree	40.00%	2
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q5 The Board sets clear and measurable performance goals for NYCNCC that contribute to accomplishing its mission.

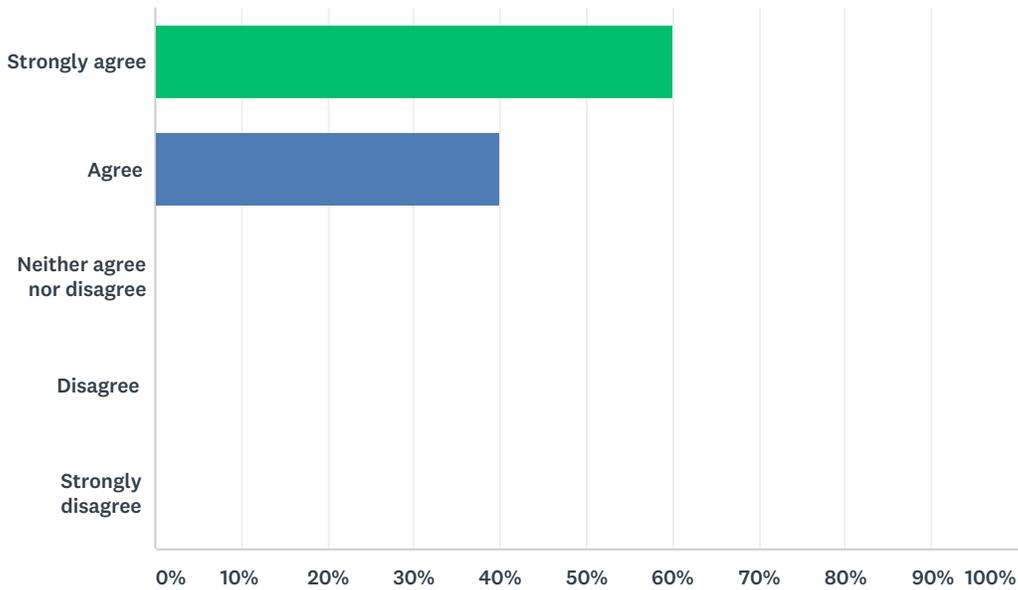
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ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	40.00%	2
Neither agree nor disagree	40.00%	2
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q6 The decisions made by Board members are arrived at through independent judgment and deliberation, free of political influence, pressure or self-interest.

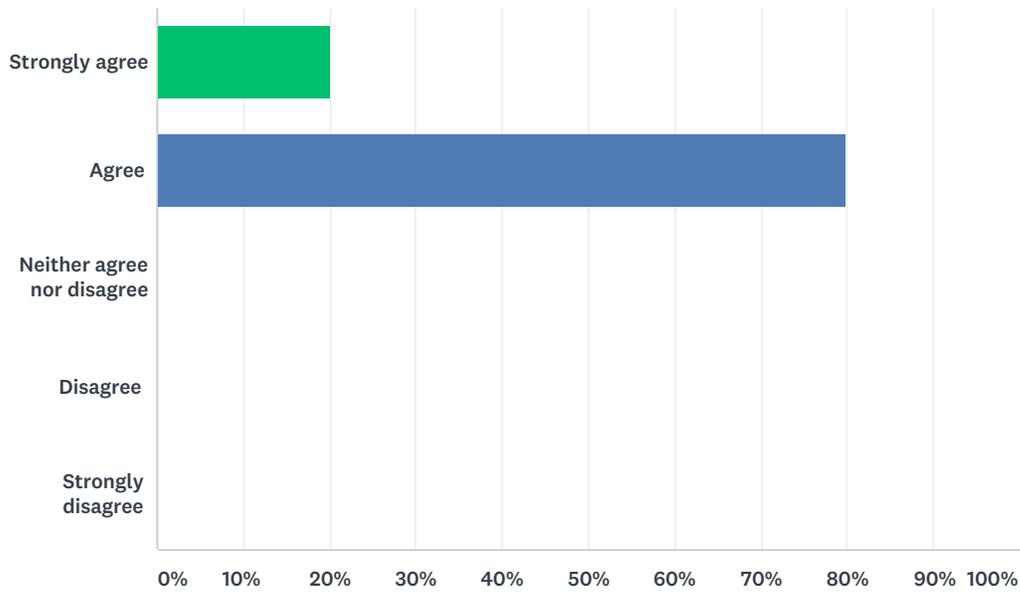
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ANSWER CHOICES	RESPONSES	
Strongly agree	60.00%	3
Agree	40.00%	2
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q7 Individual Board members communicate effectively with executive staff so as to be well informed on the status of all important issues.

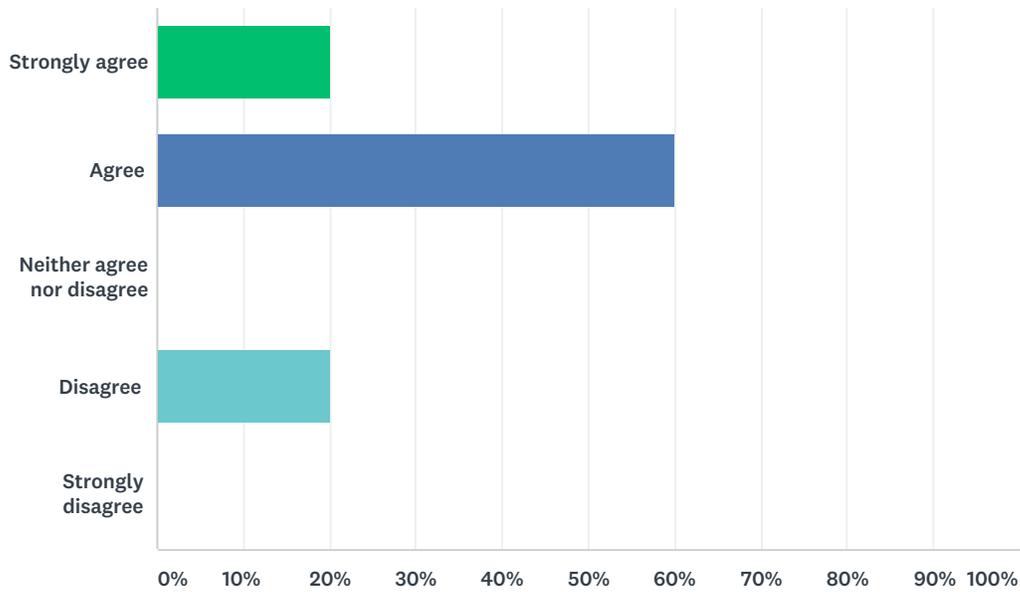
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ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	80.00%	4
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q8 Board members are knowledgeable about NYCNCC's programs, financial statements, reporting requirements, and other transactions.

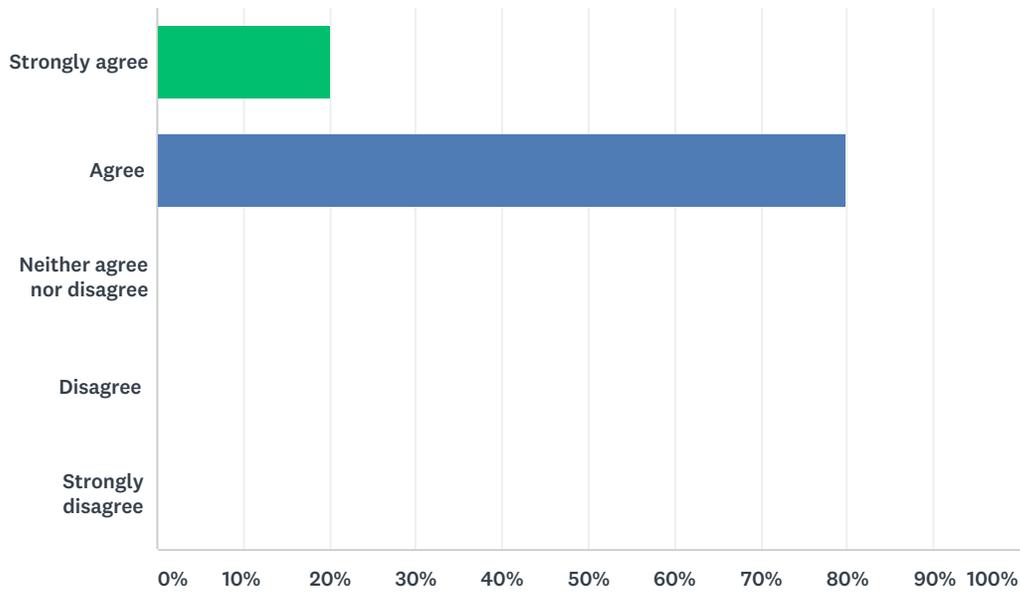
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ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	60.00%	3
Neither agree nor disagree	0.00%	0
Disagree	20.00%	1
Strongly disagree	0.00%	0
TOTAL		5

Q9 The Board knows the statutory obligations of NYCNCC and if NYCNCC is in compliance with the law.

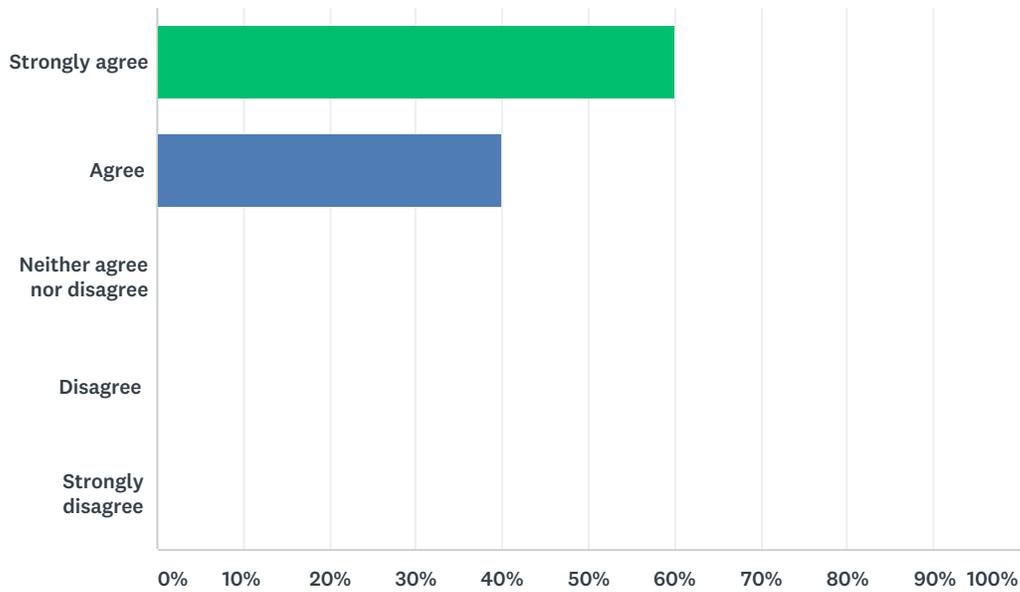
Answered: 5 Skipped: 2



ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	80.00%	4
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q10 Board and committee meetings facilitate open, deliberate and thorough discussion, and the active participation of members.

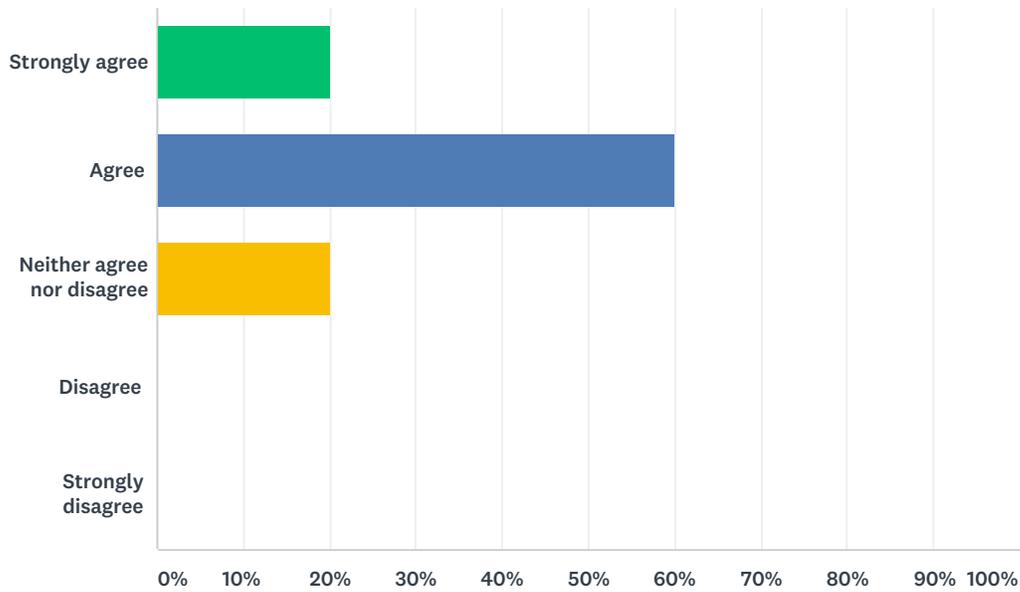
Answered: 5 Skipped: 2



ANSWER CHOICES	RESPONSES	
Strongly agree	60.00%	3
Agree	40.00%	2
Neither agree nor disagree	0.00%	0
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q11 Board members have sufficient opportunity to research, discuss, question and prepare before decisions are made and votes taken.

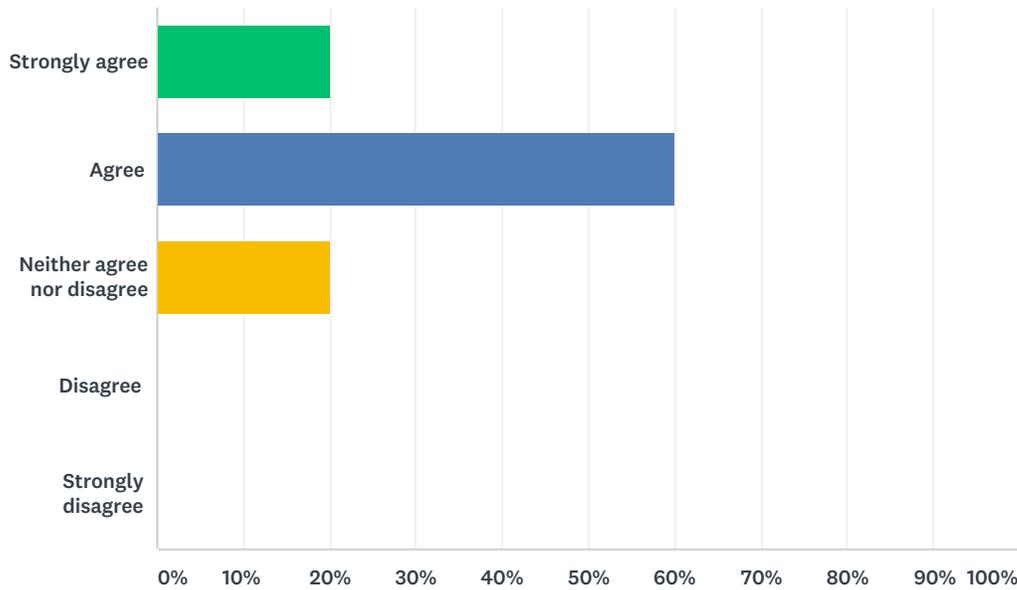
Answered: 5 Skipped: 2



ANSWER CHOICES	RESPONSES	
Strongly agree	20.00%	1
Agree	60.00%	3
Neither agree nor disagree	20.00%	1
Disagree	0.00%	0
Strongly disagree	0.00%	0
TOTAL		5

Q12 Individual Board members feel empowered to delay votes, defer agenda items, or table actions if they feel additional information or discussion is required.

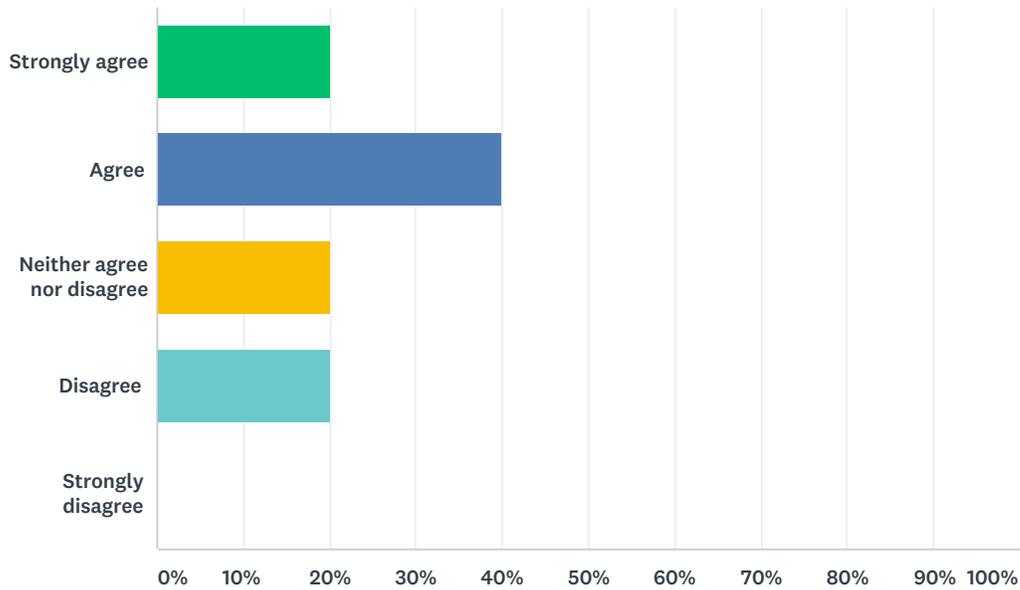
Answered: 5 Skipped: 2



ANSWER CHOICES	RESPONSES
Strongly agree	20.00% 1
Agree	60.00% 3
Neither agree nor disagree	20.00% 1
Disagree	0.00% 0
Strongly disagree	0.00% 0
TOTAL	5

Q13 The Board exercises appropriate oversight of the CEO and other executive staff, including setting performance expectations and reviewing performance annually.

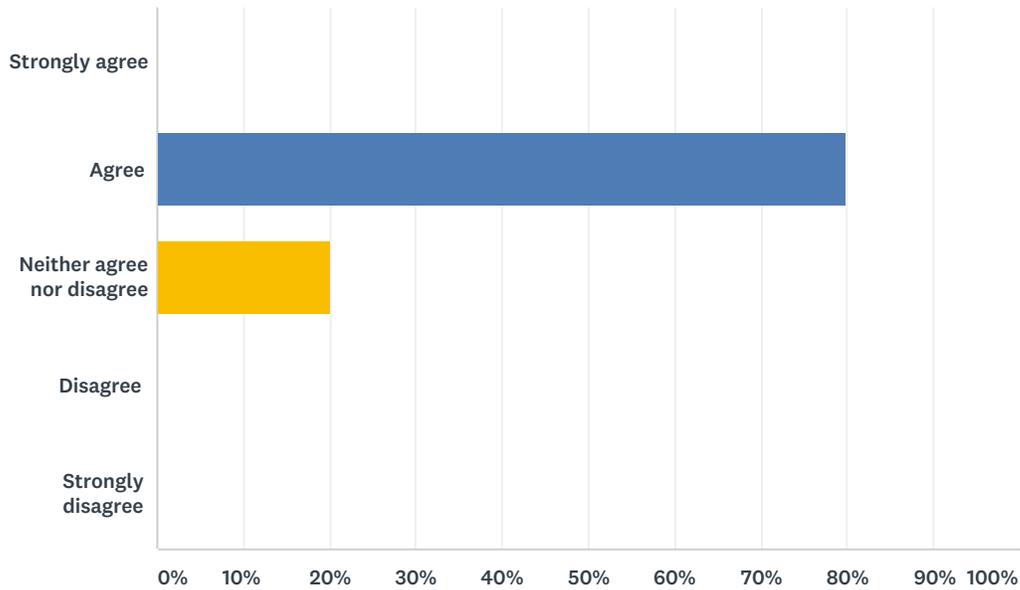
Answered: 5 Skipped: 2



ANSWER CHOICES	RESPONSES
Strongly agree	20.00% 1
Agree	40.00% 2
Neither agree nor disagree	20.00% 1
Disagree	20.00% 1
Strongly disagree	0.00% 0
TOTAL	5

Q14 The Board has identified the areas of most risk to NYCNCC and works with management to implement risk mitigation strategies before problems occur.

Answered: 5 Skipped: 2



ANSWER CHOICES	RESPONSES
Strongly agree	0.00% 0
Agree	80.00% 4
Neither agree nor disagree	20.00% 1
Disagree	0.00% 0
Strongly disagree	0.00% 0
TOTAL	5

Exhibit E

FY2017 NPCL Annual Report

Attached.

**Annual Report of the Board of Directors
of NYC Neighborhood Capital Corporation (“NYCNCC”)
for the Fiscal Year Ended June 30, 2017**

TO: The Members of NYCNCC

The Board of Directors of NYCNCC respectfully submits for your information the following report relating to NYCNCC for the twelve-month fiscal period ended June 30, 2017:

1. Attached hereto are the audited financial statements of NYCNCC for the fiscal year ended June 30, 2017, which has been certified by, and includes an audit report from, Novogradac & Company LLP, Certified Public Accountants. Such attachments show in appropriate detail the financial information required to be provided to the Members of NYCNCC pursuant to Section 519 of the Not-for-Profit Corporation Law of the State of New York.
2. The number of Members of NYCNCC as of September 30, 2017 is nine.
3. The number of Members of NYCNCC was zero as of July 28, 2014 (the date of formation), eleven as of August 6, 2014 (the date that the By-Laws of NYCNCC were adopted), and nine as of June 30, 2017 (the last day of the fiscal year).
4. The names and addresses of the current Members of NYCNCC may be found in the minute book of NYCNCC, which is kept at 110 William Street, 6th Floor, New York, New York 10038.

Dated October 2, 2017
New York, New York



McCosh Thayer, Deputy Executive Director



Spencer Hobson, Treasurer