

NYCTL 1998-2 TRUST

Financial Statements

Years ended June 30, 2018 and 2017

(With Independent Auditors' Report)

NYCTL 1998-2 TRUST

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INDEPENDENT AUDITORS' REPORT

Wilmington Trust Company
NYCTL 1998-2 Trust:

We have audited the accompanying financial statements of the business-type activities of the NYCTL 1998-2 Trust (the Trust), a blended component unit of the City of New York, as of and for the years ended June 30, 2018 and 2017 and the related notes to financial statements.

Managements 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.

Auditor's 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 auditor's 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 auditor considers internal control relevant to the Trust'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 Trust's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the NYCTL 1998-2 Trust, as of June 30, 2018 and 2017 and the respective changes in financial position and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Trust's financial statements as a whole. The supplemental schedule on page 16 is presented for purposes of additional analysis and is not a required part of the financial statements. The schedule is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2018, on our consideration of the Trust'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 the Trust's internal control over financial reporting and compliance.

Toski & Co., CPAs, P.C.

Williamsville, New York
September 26, 2018

**NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of NYCTL 1998-2 (the "Trust") for the fiscal years ended June 30, 2018 and 2017. It should be read in conjunction with Trust's financial statements, and the accompanying notes to the financial statements.

The financial statements consist of two parts: (1) management's discussion and analysis (this section) and (2) the financial statements.

The financial statements of the Trust, which include the statements of net position and the statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements, are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), as prescribed by the Governmental Accounting Standards Board ("GASB"). The financial statements are prepared using the accrual basis of accounting, in which revenues are recognized in the period they are earned and expenses are recognized in the period they are incurred.

On June 4, 2013, the Trust formed a limited liability company, NYCTL Brownfield LLC ("Brownfield"), and transferred certain tax liens to Brownfield. The Trust is the sole member of Brownfield. All of the governmental activities of Brownfield are accounted for as a blended component unit of the Trust and reported in the fund financial statements as a special revenue fund.

OVERVIEW OF THE ORGANIZATION

The Trust was created to acquire certain liens securing unpaid real estate taxes, water rents, sewer surcharges, and other charges, payable to the City of New York (the "City") and the Water Board, in exchange for the proceeds from bonds issued by the Trust, net of reserves funded by bond proceeds and bond issuance costs. The City is the sole beneficiary of the Trust and is entitled to receive distributions from the Trust after payments to bondholders and certain reserve requirements have been satisfied.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS

During the fiscal year ended June 30, 2017, the Trust did not enter into agreements with any other Trusts.

During the fiscal year ended June 30, 2018, the Trust entered into an agreement (the "2018 Agreement") with NYCTL 2015-A Trust (the "2018 Transferee") dated and effective as of December 31, 2017, whereby the 2018 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2018 Agreement, the Trust will pay all administrative expenses of the 2018 Transferee incurred after December 31, 2017 and any costs associated with the transfer.

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

A summary of the assets and liabilities transferred from the 2018 Transferee on December 31, 2017 is as follows:

ASSETS:	
Restricted investments	\$ 6,563,609
Tax liens receivable, net of allowance	<u>23,562,950</u>
	<u><u>\$ 30,126,559</u></u>
 LIABILITIES:	
Accounts payable and accrued liabilities	\$ 1,233,043
Overages due to (from) taxpayers	(438,451)
Residual liability due to Water Board	<u>9,766,014</u>
	<u>10,560,606</u>
TOTAL NET POSITION	<u><u>19,565,953</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 30,126,559</u></u>

A summary of the Trust's assets, liabilities and net position and its activities as of and for the years ended June 30, 2018 and 2017 is as follows:

Summary of Net Position:	<u>2018</u>	<u>2017</u>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 642,487	\$ 437,186
Restricted investments	18,468,507	20,210,204
Current tax liens receivable	47,512,891	46,050,116
Total current assets	<u>66,623,885</u>	<u>66,697,506</u>
Noncurrent tax liens receivable, net of allowance	173,784,080	148,402,627
TOTAL ASSETS	<u><u>\$ 240,407,965</u></u>	<u><u>\$ 215,100,133</u></u>
 LIABILITIES:		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,042,372	\$ 8,341,651
Overages due to (from) taxpayers	520,974	(3,881,866)
Residual liability due to Water Board	11,321,273	10,636,929
Total current liabilities	<u>19,884,619</u>	<u>15,096,714</u>
Noncurrent residual liability due to Water Board	37,816,197	35,538,343
TOTAL LIABILITIES	<u><u>57,700,816</u></u>	<u><u>50,635,057</u></u>
 TOTAL NET POSITION	 <u><u>182,707,149</u></u>	 <u><u>164,465,076</u></u>
 TOTAL LIABILITIES AND NET POSITION	 <u><u>\$ 240,407,965</u></u>	 <u><u>\$ 215,100,133</u></u>

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

Summary of Revenues, Expenses and Change in Net Position:

	<u>2018</u>	<u>2017</u>
REVENUES:		
Tax liens received from the City of New York	\$ 54,199,417	\$ 52,572,037
Interest on tax liens	90,820,277	105,758,342
Other revenue	213,295	58,936
Transfer from other New York City Tax Lien Trusts	19,565,953	-
TOTAL REVENUES	<u>164,798,942</u>	<u>158,389,315</u>
EXPENSES:		
Distributions to the City of New York	63,607,208	53,792,771
Administrative expenses	8,430,220	11,949,945
Increase in allowance for doubtful accounts	8,550,523	30,786,984
Write-offs of uncollectible liens, net of recoveries	72,772,734	96,419,426
Increase (Decrease) to residual liability due to Water Board	(6,803,816)	3,096,507
TOTAL EXPENSES	<u>146,556,869</u>	<u>196,045,633</u>
NET CHANGE IN NET POSITION	<u>\$ 18,242,073</u>	<u>\$ (37,656,318)</u>

During fiscal year 2018, the Trust's total assets increased by \$25,307,832 reflecting an increase in net tax liens receivable of \$26,844,228 offset by a decrease in restricted investments of \$1,741,697. The increase in tax liens receivable resulted from a decrease in the allowance for doubtful accounts of \$21,580,990, an increase in principal tax lien receivables of \$4,124,033, an increase in recoverable expenses of \$2,851,683 and an increase in accrued interest of \$1,744,086, offset by a decrease in capitalized costs of \$3,456,564. The \$7,065,759 increase in the Trust's liabilities resulted from an increase in the residual liability due to the Water Board of \$2,962,198, and an increase in overages due from taxpayers of \$4,402,840.

During fiscal year 2017, the Trust's total assets decreased by \$47,796,708 reflecting a decrease in net tax liens receivable of \$36,517,960, a decrease in restricted investments of \$10,493,472, and a decrease in cash and cash equivalents of \$785,276. The decrease in tax liens receivable of \$36,517,960 resulted from a decrease in principal tax lien receivables of \$15,101,229, accrued capitalized costs of \$568,837, an increase in the allowance for doubtful accounts of \$30,786,984, offset by an increase in accrued interest receivable of \$9,939,090. The \$10,140,390 decrease in the Trust's liabilities resulted from a decrease in the residual liability due to the Water Board of \$7,540,422, an increase in accounts payable of \$585,199, and an increase in overages due from taxpayers of \$3,185,167.

During fiscal year 2018, the Trust's total revenues were \$164,798,942 and consisted primarily of tax liens received from The City of New York of \$54,199,417, the recording of interest on tax liens receivable of \$90,820,277 and the transfer from other New York City Tax Lien Trusts of \$19,565,953. Total expenses of \$146,556,869 resulted primarily from distributions to the City of \$63,607,208, write-offs of uncollectible liens of \$72,772,734, administrative expenses of \$8,430,220 and an increase in the allowance for doubtful accounts of \$8,550,523, offset by a decrease in the residual liability due to the Water Board of \$6,803,816.

**NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018 AND 2017**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

During fiscal year 2017, the Trust's total revenues were \$158,389,315 and consisted primarily of tax liens received from The City of New York of \$52,572,037 and the recording of interest on tax liens receivable of \$105,758,342. Total expenses of \$196,045,633 resulted primarily from distributions to the City of \$53,792,771, write-offs of uncollectible liens of \$96,419,426, administrative expenses of \$11,949,945, an addition to the residual liability due to the Water Board of \$3,096,507 and an increase in the allowance for doubtful accounts of \$30,786,984.

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NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

STATEMENTS OF NET POSITION
June 30, 2018 and 2017

	2018	2017
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 642,487	\$ 437,186
Restricted investments	18,468,507	20,210,204
Tax liens receivable:		
Principal	15,414,495	16,471,994
Accrued interest	<u>32,098,396</u>	<u>29,578,122</u>
Net tax liens receivable	<u>47,512,891</u>	<u>46,050,116</u>
Total current assets	<u>66,623,885</u>	<u>66,697,506</u>
Noncurrent assets		
Tax liens receivable:		
Principal	247,992,790	242,811,258
Accrued interest	293,850,383	294,626,571
Accrued capitalized costs	1,667,344	5,123,908
Recoverable expenses	26,924,341	24,072,658
Less: allowance for uncollectible accounts	<u>(396,650,778)</u>	<u>(418,231,768)</u>
Total noncurrent assets	<u>173,784,080</u>	<u>148,402,627</u>
TOTAL ASSETS	<u>\$ 240,407,965</u>	<u>\$ 215,100,133</u>
LIABILITIES:		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,042,372	\$ 8,341,651
Overages due to (from) taxpayers	520,974	(3,881,866)
Residual liability due to Water Board	<u>11,321,273</u>	<u>10,636,929</u>
Total current liabilities	<u>19,884,619</u>	<u>15,096,714</u>
Noncurrent liabilities		
Residual liability due to Water Board	<u>37,816,197</u>	<u>35,538,343</u>
Total noncurrent liabilities	<u>37,816,197</u>	<u>35,538,343</u>
Total liabilities	<u>57,700,816</u>	<u>50,635,057</u>
NET POSITION:		
Restricted by contractual agreements	18,468,507	20,210,204
Unrestricted	<u>164,238,642</u>	<u>144,254,872</u>
Total net position	<u>182,707,149</u>	<u>164,465,076</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 240,407,965</u>	<u>\$ 215,100,133</u>

See accompanying notes to financial statements.

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Tax liens received from the City of New York	\$ 54,199,417	\$ 52,572,037
Interest on tax liens	90,820,277	105,758,342
TOTAL OPERATING REVENUES	145,019,694	158,330,379
OPERATING EXPENSES:		
Distributions to the City of New York	63,607,208	53,792,771
Increase (Decrease) in allowance for doubtful accounts	8,550,523	30,786,984
Addition to residual liability due to Water Board	(6,803,816)	3,096,507
Write-offs of uncollectible liens, net of recoveries	72,772,734	96,419,426
Trust administrative expenses		
Servicer fees	5,108,781	4,912,354
Trustee fees	460,508	403,151
Financial advisor/management fees	973,305	774,103
Lien and other expenses	1,887,626	5,860,337
Total administrative expenses	8,430,220	11,949,945
TOTAL OPERATING EXPENSES	146,556,869	196,045,633
OPERATING INCOME (LOSS)	(1,537,175)	(37,715,254)
NONOPERATING REVENUES (EXPENSES):		
Other income - investment income	213,295	58,936
Transfer from other New York City Tax Lien Trusts	19,565,953	-
TOTAL NONOPERATING REVENUES (EXPENSES)	19,779,248	58,936
NET CHANGE IN NET POSITION	18,242,073	(37,656,318)
Net Position - Beginning of Year	164,465,076	202,121,394
NET POSITION - END OF YEAR	\$ 182,707,149	\$ 164,465,076

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Cash collections	\$ 60,415,159	\$ 67,641,929
Overages due to (from) tax payers	<u>4,841,291</u>	<u>(3,185,167)</u>
Total cash receipts from operating activities	<u>65,256,450</u>	<u>64,456,762</u>
Cash payments for:		
Distributions to the City of New York	(63,607,208)	(53,792,771)
Services and supplies	<u>(9,962,542)</u>	<u>(22,001,675)</u>
Total cash payments for operating activities	<u>(73,569,750)</u>	<u>(75,794,446)</u>
Net Cash Used in Operating Activities	<u>(8,313,300)</u>	<u>(11,337,684)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer from other New York City Tax Lien Trusts	<u>6,563,609</u>	<u>-</u>
Net Cash Provided by Noncapital Financing Activities	<u>6,563,609</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(106,725,716)	(97,879,270)
Sale of investments	108,467,413	108,372,742
Interest received on investments	<u>213,295</u>	<u>58,936</u>
Net Cash Provided by Investing Activities	<u>1,954,992</u>	<u>10,552,408</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	205,301	(785,276)
Cash and cash equivalents - beginning of year	<u>437,186</u>	<u>1,222,462</u>
CASH AND CASH EQUIVALENTS—END OF YEAR	<u>\$ 642,487</u>	<u>\$ 437,186</u>
RECONCILIATION OF OPERATING SURPLUS TO CASH FLOW FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (1,537,175)	\$ (37,715,254)
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Increase in allowance for doubtful accounts	8,550,523	30,786,984
Write-offs of uncollectible liens	72,772,734	96,419,426
Tax liens receivable	(84,604,535)	(90,688,450)
Accounts payable	(1,532,322)	585,199
Overages due to taxpayers	4,841,291	(3,185,167)
Due to Water Board	<u>(6,803,816)</u>	<u>(7,540,422)</u>
Net Cash Provided by (Used in) Operating Activities	<u>\$ (8,313,300)</u>	<u>\$ (11,337,684)</u>

NONCASH ACTIVITIES:

In addition to the cash transfer of \$6,563,609, the Trust received a noncapital financing transfer of certain assets and liabilities from the New York City Tax Lien 2015-A Trust. The net book value of the assets and liabilities at the time of the transfer was \$13,002,344.

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

NYCTL 1998-2 Trust (the “Trust”) is a Delaware statutory trust formed in 1998. The Trust is governed by the 2016 Amended and Restated Declaration and Agreement of Trust dated April 30, 2016 between the City of New York (the “City”) and the Wilmington Trust Company of Wilmington, Delaware (the “Owner Trustee”). Tax lien sales are authorized by Chapter 3 of Title 11 of the Administrative Code of the City of New York. In accordance with a purchase and sale agreement between the Trust and the City, the Trust was created to acquire certain tax liens (Note 5) from the City in exchange for the proceeds from bonds issued by the Trust, net of reserves funded by bond proceeds and bond issuance costs.

The Trust’s intended purpose is the collection of delinquent tax and utility receivables, including appropriate interest, fees and service charges, and the eventual distribution of net proceeds back to the originating City fund. Accordingly, the Trust is not intended to function as an independent business.

On June 4, 2013, the Trust formed a limited liability company, NYCTL Brownfield LLC (“Brownfield”). The Trust is the sole member of Brownfield. All of the governmental activities of Brownfield are accounted for as a blended component unit of the Trust and reported in the fund financial statements as a special revenue fund.

Although legally separate from the City, the Trust is an instrumentality of the City and, accordingly, is included in the City’s financial statements as a blended component unit.

The City is the sole beneficiary of the Trust and is entitled to receive distributions from the Trust after certain reserve requirements have been satisfied. As certain tax liens secure unpaid water and sewer rents and sewer surcharges, the City and the New York City Water Board (“Water Board”) have agreed that the City and the Water Board will share in the distributions and residual assets of the Trusts (see Note 2D).

The Trust issued Tax Lien Collateralized Bonds, Series 1998-2, which were secured solely by the assets of the Trust, consisting primarily of tax liens, and were not an obligation of the City. The bonds were fully retired and no subsequent bonds have been issued.

The Trust does not have any employees. In addition to its interaction with various City agencies, the Trust’s affairs are administered by the Owner Trustee, its program manager, tax lien servicer, paying agent and investment custodian.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. As a governmental activity the Trust reports its activities in business-type financial statements.

The financial statements of the Trust, which include the statements of net position and the statements of revenues, expenses, and changes in net positions, and the statements of cash flows, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. Net position is reported as restricted where resources are constrained for debt service or redemption in accordance with the bond indenture. The Trust’s net position on the statement of net position includes restricted by contractual agreements. The balance is classified as unrestricted.

When both restricted and unrestricted resources are available for use for a specific purpose, it is the Trust’s policy to use restricted resources first then unrestricted resources as they are needed.

**NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- B. Cash equivalents include short-term investments with maturities of three months or less at date of acquisition. Investments, including accrued interest, are reported at fair value.
- C. The Trust records tax lien receivables based on the amounts that are receivable for real estate taxes, water rents, sewer surcharges, and other charges. Interest that accrues on the outstanding balances as well as certain other costs, such as public notices that can be recovered from the taxpayer as part of the tax lien balance are capitalized. The Trust establishes an allowance for doubtful accounts by comparing tax lien receivable balances with the estimated fair value of the properties subject to the liens as provided by the City. The Trust also considers certain factors related to specific properties, such as environmental issues, and where other tax liens have legal priority over the Trust's tax liens in determining the adequacy of its allowance for doubtful accounts.
- D. The City and the Water Board have agreed to share in the distributions and residual assets of the Trust in accordance with the fixed percentages of 84% and 16%, respectively. As the City is the sole beneficiary of the net position of the Trusts, the amounts that would be due to the Water Board under this agreement are recorded as a general long-term liability for financial reporting purposes.
- E. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Trust's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of additions and deductions in net position during the reporting period. Actual results could differ from those estimates.
- F. The Trust distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. The principal operating revenues include tax liens collected and interest on tax liens. Major operating expenses include distributions to the City and services and supplies.
- G. Certain line items in the June 30, 2017 financial statements have been reclassified to conform to the June 30, 2018 presentation.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Trust's cash and cash equivalents consisted of cash in demand deposit accounts and money market funds. As of June 30, 2018, the book and bank value of the total cash and cash equivalents were \$642,487 and \$1,730,630, of which approximately \$1,346,502 was in excess of Federal Deposit Insurance Corporation coverage. As of June 30, 2017 total cash and cash equivalents were \$437,186 of which approximately \$338,681 was in excess of Federal Deposit Insurance Corporation coverage.

NOTE 4 – RESTRICTED INVESTMENTS

The Trust has limited its investments to those eligible investments specified in its agreement with its paying agent and investment custodian, which is The Bank of New York Mellon. The eligible investments are obligations of, or guaranteed by, the U.S. government; Fannie Mae, Freddie Mac or the Federal Farm Credit System; certain highly-rated certificates of deposit (or similar instruments), certain highly-rated municipal obligations; certain highly-rated commercial paper (or similar instruments), certain investment agreements with highly-rated institutions; certain repurchase obligations with highly-rated institutions, certain highly-rated corporate securities (that do not exceed 20% of its investments); and certain highly-rated taxable money market funds. In addition, the Trust is authorized to invest in the Residual Interest Bonds, which are bonds sold by other New York City Tax Lien Trusts.

**NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 – RESTRICTED INVESTMENTS (Continued)

The Trust is required under contractual agreements to maintain separate accounts, representing restricted investments:

- 1) Collection Account – an account established by the paying agent, which receives daily transfers from lockbox accounts to which payments received from property owners on tax liens are deposited. The paying agent used this account to pay expenses of the Trust and distributions to the City and the Water Board, in order of priority as specified in the Paying Agent and Custody Agreement.
- 2) Working Capital Reserve Fund – initially funded out of proceeds from the sale of bonds in the amount of \$4,000,000, this fund is used to pay lien administration expenses and the base fee to the tax lien servicers to the extent amounts on deposit in the Collection Account are insufficient for such purpose. The Working Capital Reserve Fund is replenished from the Collection Account
- 3) Residual Interest Bonds – in order to comply with Securities and Exchange Commission (“SEC”) Risk Retention regulations, the Trust, as a majority owned affiliate of the City, purchases bonds of other trusts.

As of June 30, 2018 and 2017, the amounts held in each of these funds were as follows:

	<u>2018</u>	<u>2017</u>
Working Capital Reserve Fund	\$ 3,325,070	\$ 3,621,497
Collection Account	11,742,579	16,588,707
2017A Residual Interest Bonds	<u>3,400,858</u>	<u>-</u>
Total Restricted Investments	<u>\$ 18,468,507</u>	<u>\$ 20,210,204</u>

A majority of the restricted funds were invested in various short-term investment funds. During the fiscal year ended June 30, 2018 was Goldman Financial Square Prime Obligation and during the fiscal year ended June 30, 2017 the short-term investment fund was Goldman Sachs Financial Square Government Fund. Both funds are money market portfolios carry a rating of AAAM by Standard & Poors and Aaa-mf by Moody’s Investor Services Inc. The Trust’s investments in residual interest bonds carry a rating of Aaa by Moody’s Investor Services Inc. and AAA by Kroll Bond Rating Agency.

Risk Disclosure

Interest Rate Risk - Interest rate risk is the risk that the government will incur losses in fair value caused by changing interest rates. The Trust does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from changing interest rates. Generally, the Trust does not invest in any long-term investment obligations.

Credit Risk - Credit risk is the risk that an issuer or other counterparty will not fulfill its specific obligation even without the entity’s complete failure. The Trust does not have a formal credit risk policy other than restrictions to obligations allowable under the General Municipal Law of the State of New York.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of investments or collateral securities that are in possession of an outside party. The Trust’s investments balance of \$15,067,649 and \$3,400,858 were in Goldman Sachs Financial Square Government Fund and residual interest bonds, respectively.

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 – TAX LIENS RECEIVABLE

A tax lien is a lien on a parcel of real estate located in the City securing unpaid real property taxes, assessments, sewer rents, sewer surcharges, water rents, and other City charges, such as environmental charges, Department of Housing Preservation and Development charges and business improvement district charges. In addition to these unpaid items, a tax lien also includes the costs of any advertisements and notices given in connection with the sale of the tax lien, that had become a lien against the property prior to the sale of the lien to the Trust, and interest and penalties accrued at various rates up to the time of sale of the lien to the Trust. In addition, a tax lien also includes a surcharge of 5% on all of the aforementioned amounts computed through the date of the sale to the Trust. The total of these amounts described in this paragraph represents the tax lien principal balance as of the date of the sale to the Trust. The City was required to redeem or replace any tax liens that are determined to be defective, in accordance with the provisions of the bond indenture. As the bond indenture has been discharged, the City may elect to reduce its distributions for defective liens.

Subsequent to the purchase of the tax liens by the Trust, the tax liens accrue interest at the annual rate of 6%, 9% or 18% depending on the underlying assessed value of the properties to which the liens are attached, compounded daily. In addition, certain costs incurred by the Trust are eligible to be capitalized as part of the tax lien balance. Special rules for calculating tax lien amounts apply to bankruptcy tax liens.

The Trust has the right to foreclose and take title to properties for which related tax lien collection efforts are unsuccessful. Such properties are referred to as real estate owned ("REO"). As of June 30, 2018 and 2017, the Trust did not have title to any properties.

The Trust has agreements with both Tower Capital Management LLC, Inc. and MTAG Services, LLC for servicing, managing, maintaining custody of certain documents, and collection activities on its tax liens.

On June 4, 2013, a bill of Sale was entered into by the Trust and its component unit, Brownfield, of which the Trust is the sole member. Brownfield purchased \$71,053,270 of environmentally challenged tax liens. The Trust, as the seller, received 100% membership interest in Brownfield. On October 10, 2014, the Trust entered into a bill of sale where Brownfield purchased \$29,550,572 of environmentally challenged tax liens.

The Trust has signed Purchase and Sale agreements with the City for the sale of tax liens directly to the Trust. The Trust purchased \$54,199,417 and \$52,572,037 for the years ended June 30, 2018 and 2017, respectively.

The Trust may be unable to recover the amount of certain tax liens, including accumulated interest and capitalized expenses, when the value of the related property is less than the amount of the tax lien, when other tax liens have legal priority over the Trust's tax liens, or when the court awards a reduced expense amount. The Trust has recorded an allowance for uncollectible tax liens of \$396,650,778 and \$418,231,768 as of June 30, 2018 and 2017, respectively.

NYCTL 1998-2 TRUST
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 – TAX LIENS RECEIVABLE (Continued)

The changes in the tax liens receivable for the fiscal years ended June 30, 2018 and 2017 were as follows:

	<u>Gross tax lien receivable balance</u>
Balance as of June 30, 2016	\$ 618,415,487
Add: Tax Liens received from the City of New York	52,572,037
Accrued interest on outstanding liens	105,758,342
Accrued legal expenses	1,971,465
Less: Receipts in satisfaction of liens and costs	(69,613,394)
Write –offs of uncollectible lien and defective liens	<u>(96,419,426)</u>
Balance as of June 30, 2017	612,684,511
Tax liens received from the City of New York	54,199,417
Add: Accrued interest on outstanding lien	90,820,277
Accrued legal expenses	1,342,018
Less: Receipts in satisfaction of liens and costs	(61,757,177)
Write-offs directly against allowance	(31,355,412)
Write-offs of uncollectible lien and defective liens	(72,772,734)
Transfer from other New York City Tax Lien Trusts	<u>24,786,849</u>
Balance as of June 30, 2018	<u><u>617,947,749</u></u>

NOTE 6 – FAIR VALUE HIERARCHY

The Trust categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2018 and 2017 the Trust's investments amount to \$18,468,507 and \$20,210,204, respectively. The Trust's investment in Goldman Financial Square Prime Obligation Fund and Goldman Sachs Financial Square Government Fund and residual interest bonds are valued based on various market and industry inputs (Level 2 inputs).

NOTE 7 – LITIGATION

A number of parties contesting the foreclosure of tax liens previously sold by the City have challenged, among other things, (i) the power of the City to sell tax liens to the trusts, (ii) the power of the City to sell tax liens when some tax liens are less than a year old, (iii) the enforceability of tax liens when a tax certiorari challenge is pending, (iv) the power of the City to restore tax charges that were not previously billed, (v) the 5% surcharge and the applicable interest rate on the tax liens, (vi) the standing of the Indenture Trustee to foreclose on the tax liens, (vii) the priority of tax liens over other liens, (viii) failure by the City to give proper or adequate notice of the tax lien sale and (ix) that the upset price bid in a tax lien foreclosure auction in the amount of the Redemptive Value of the tax lien is fraudulent. In addition, legal challenges to the collection of the tax liens have alleged violations of the Federal Fair Debt Collection Practices Act, the Truth in Lending Act, the New York General Business Law, the New York General Obligation Law, breach of contract and unjust enrichment. To date, no such action or challenge has been successful after completion of the appeal process. Certain parties have also asserted individual defenses against the enforcement of tax liens on properties, such as improper billing, full or partial payment prior to sale, the partial or full tax-exempt status of properties, the existence of forbearance agreements with the City or Trust, or inadequate service of process. The outcome of these challenges is not expected to have a material negative impact on the Trust, as the City is required to redeem or replace defective liens. No assurance can be given that similar or other actions will not be brought against the Trust.

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 8 – ASSIGNMENT AND ASSUMPTION AGREEMENT

The Trust entered into an agreement (the “2018 Agreement”) with NYCTL 2015-A Trust (the “2018 Transferee”) dated and effective as of December 31, 2017, whereby the 2018 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2018 Agreement, the Trust will pay all administrative expenses of the 2018 Transferee incurred after December 31, 2017 and any costs associated with the transfer.

A summary of the assets and liabilities transferred from the 2018 Transferee on December 31, 2017 is as follows:

ASSETS:	
Restricted investments	\$ 6,563,609
Tax liens receivable, net of allowance	<u>23,562,950</u>
	<u>\$ 30,126,559</u>
LIABILITIES:	
Accounts payable and accrued liabilities	\$ 1,233,043
Overages due to (from) taxpayers	(438,451)
Residual liability due to Water Board	<u>9,766,014</u>
	<u>10,560,606</u>
TOTAL NET POSITION	<u><u>19,565,953</u></u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 30,126,559</u></u>

The Trust did not enter into any such agreements during the fiscal year ended June 30, 2017.

NOTE 9 – SUBSEQUENT EVENTS

Additional Receipt of Tax Liens

In July 2018, the Trust received additional tax liens of approximately \$11,613,400.

Distributions

In order to comply with SEC Risk Retention regulations, the Trust, as a majority owned affiliate of the City, purchased \$3.7 million of the \$74.7 million of bonds issued by the NYCTL 2018-A Trust in July 2018.

On August 20, 2018, the Trust made a distribution to the City of New York and the Water Board in the amounts of approximately \$8,813,118 and \$906,430, respectively, from the closing of the sale of tax liens.

NYCTL 1998-2 TRUST
(A Blended Component Unit of the City of New York)

SUPPLEMENTAL SCHEDULE
SCHEDULE 1 - CHANGES IN RESIDUAL LIABILITY DUE TO WATER BOARD
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	Residual Liability
	Due Water Board
	<hr/>
Ending balance at June 30, 2016	\$ 53,715,694
Tax liens received from the City of New York	8,464,098
Net change in net position	(5,367,591)
Distributions	(10,636,929)
	<hr/>
Ending balance at June 30, 2017	46,175,272
Tax liens received from the City of New York	8,473,794
Net change in net position	4,964,763
Distributions	(10,476,359)
	<hr/>
Ending balance at June 30, 2018	<u>\$ 49,137,470</u>

INDEPENDENT AUDITORS' REPORT 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

Wilmington Trust Company
NYCTL 1998-2 Trust:

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 financial statements of the business-type activities of the NYCTL 1998-2 Trust (the Trust), a blended component unit of the City of New York, as of June 30, 2018 and 2017 and for the years then ended, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements, and have issued our report thereon dated September 26, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstance for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 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 over financial reporting 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 the Trust's financial statements are free of 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 disclose no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

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

Toski & Co., CPAs, P.C.

Williamsville, New York
September 26, 2018