

NYCTL 2016-A TRUST

Financial Statements

For the Year ended June 30, 2017 and the Period
From May 10, 2016 (Inception) to June 30, 2016

(With Independent Auditors' Report)

NYCTL 2016-A TRUST

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INDEPENDENT AUDITORS' REPORT

Wilmington Trust Company
NYCTL 2016-A Trust:

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the NYCTL 2016-A Trust (the Trust), a blended component unit of the City of New York, as of and for the year ended June 30, 2017 and as of and for the period from May 10, 2016 (Inception) to June 30, 2016 and the related notes to financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 business-type activities, as of June 30, 2017 and 2016 and the respective changes in financial position and its cash flows for the for the year ended June 30, 2017 and for the period from May 10, 2016 (Inception) to June 30, 2016, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

The financial statements previously reported on as of and for the period ended June 30, 2016 were presented on a governmental fund basis. Beginning in 2017 the City has determined that the financial statements of the Trust are to be reported on a proprietary fund basis. Accordingly the comparative financial statements for 2016 no longer present fund financial statements, and a statement of cash flows not previously included has also been presented. Our opinion is not modified with respect to this matter.

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 5, 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 audits were 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 14 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 audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2017, 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 22, 2017

**NYCTL 2016-A TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of NYCTL 2016-A Trust (the "Trust") for the year ended June 30, 2017 and the period from May 10, 2016 (inception) to June 30, 2016. It should be read in conjunction with the 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 basic financial statements.

The financial statements of the Trust, which include the statement of net position, the statement of revenues, expenses, and changes in net position, the statement 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") standards. 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.

OVERVIEW OF THE ORGANIZATION

The Trust was created on May 10, 2016 (inception) 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 to be 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. The City is not entitled to cause the Trust to make distributions to it while bonds remain outstanding.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS

A summary of the Trust's assets, liabilities and net position and its activities as of June 30, 2017 and for the period from May 10, 2016 (inception) to June 30, 2016 is as follows:

Summary of Net Position:

	<u>2017</u>	<u>2016</u>
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 363,728	\$ 303,362
Restricted investments	11,794,380	1,209,356
Tax liens receivable	<u>18,001,120</u>	<u>17,601,337</u>
Total current assets	<u>30,159,228</u>	<u>19,114,055</u>
Noncurrent tax liens receivable, net of allowance	<u>25,106,844</u>	<u>27,674,773</u>
TOTAL ASSETS	<u>\$ 55,266,072</u>	<u>\$ 46,788,828</u>
LIABILITIES:		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,721,688	\$ 1,146
Accrued bond interest payable	64,917	-
Overages due to taxpayers	103,407	10,935
Bonds Payable, net of discount	26,493,024	-
Residual liability due to Water Board	<u>6,826,011</u>	<u>11,039,312</u>
TOTAL LIABILITIES	<u>36,209,047</u>	<u>11,051,393</u>
TOTAL NET POSITION	<u>\$ 19,057,025</u>	<u>\$ 35,737,435</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 55,266,072</u>	<u>\$ 46,788,828</u>

**NYCTL 2016-A TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

Summary of Revenues, Expenses and Changes in Net Position:

	<u>2017</u>	<u>2016</u>
REVENUES:		
Tax liens received from the City of New York	\$ 31,396,010	\$ 46,109,298
Interest on tax liens	7,240,472	744,096
Other revenue	44,005	-
TOTAL REVENUES	<u>38,680,487</u>	<u>46,853,394</u>
EXPENSES:		
Distribution to the City	43,054,846	-
Administrative expenses	1,541,983	181
Increase in allowance for doubtful accounts	1,314,609	76,466
Write-offs of uncollectible liens, net of recoveries	65,856	-
Bond interest expense	620,388	-
Costs of bond issuance	2,086,979	-
Additional liability due Water Board	<u>6,676,236</u>	<u>11,039,312</u>
TOTAL EXPENSES	<u>55,360,897</u>	<u>11,115,959</u>
NET CHANGE IN NET POSITION	<u>\$ (16,680,410)</u>	<u>\$ 35,737,435</u>

During the year ended June 30, 2017, the Trust's total assets increased by \$8,477,244 resulting primarily from an increase in restricted investments of \$10,585,024, which is offset by a decrease in net tax liens receivable of \$2,168,146. The decrease in tax liens receivable resulted primarily from a decrease in principle of \$6,255,453, an increase in the allowance for doubtful accounts recorded of \$1,314,609, offset by an increase in accrued interest of \$5,401,916. The \$25,157,654 increase in the Trust's liabilities resulted primarily from an increase in bonds payable net of discount of \$26,493,024, an increase in accounts payable and accrued expenses of \$2,785,459, an increase in overages due to taxpayers of \$92,472, offset by a decrease in the residual liability due to the Water Board of \$4,213,301.

During the period from May 10, 2016 (inception) to June 30, 2016, the Trust's total assets increased by \$46,788,828 resulting primarily from an increase in net tax liens receivable of \$45,276,110, reflecting the Trust's commencement of operations during the period. The increase in tax liens receivable resulted primarily from tax liens received from the City of \$46,109,298, accrued interest of \$744,096 offset by recording an allowance for doubtful accounts of \$76,466 and receipts in satisfaction of liens and costs of \$1,500,818. The \$11,051,393 increase in the Trust's liabilities resulted primarily from an increase in the residual liability due to the Water Board of \$11,039,312.

During the year ended June 30, 2017, total revenues were \$38,680,487 and consisted of tax liens received from the City of \$31,396,010, interest on tax liens receivable of \$7,240,472, and investment income of \$44,005. Total expenses of \$55,360,897 resulted primarily from the distribution to the City of New York of \$43,054,846, and increase in the allowance for doubtful accounts of \$1,314,609, write-offs of uncollectible liens of \$65,856, and administrative fees of \$1,541,983. Additionally, there expenses during the year including in the residual liability due to the Water Board of \$6,676,236, cost of bond issuance of \$2,086,979, and bond interest expense of \$620,388.

During the period from May 10, 2016 (inception) to June 30, 2016, total revenues were \$46,853,394 and consisted of tax liens received from the City of \$46,109,298 and interest on tax liens receivable of \$744,096. Total expenses of \$11,115,959 resulted primarily from the recording of an allowance for doubtful accounts of \$76,466 and an increase in the residual liability due to the Water Board of \$11,039,312.

**NYCTL 2016-A TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

Long-Term Debt Activity:

The Trust issued debt subsequent to fund its purchase of certain tax liens from the City, as well as to fund required reserve accounts and pay costs of issuance. Debt repayments will be made solely from cash collections received as a result of payments of tax liens or from proceeds from real estate owned as a result of foreclosure on properties with unpaid tax liens. While the bonds issued have a stated maturity date of November 10, 2029, the bonds will be repaid as funds are available from cash collections, generally quarterly. The expected maturity of the bonds is August 10, 2019.

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**NYCTL 2016-A TRUST
STATEMENT OF NET POSITION
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 363,728	\$ 303,362
Restricted investments	11,794,380	1,209,356
Tax liens receivable:		
Principal	14,082,307	17,021,921
Accrued interest	3,918,813	579,416
Net tax liens receivable	18,001,120	17,601,337
Total current assets	30,159,228	19,114,055
Noncurrent assets		
Tax liens receivable:		
Principal	24,291,986	27,607,825
Accrued interest	2,205,933	143,414
Less: allowance for uncollectible accounts	(1,391,075)	(76,466)
Total noncurrent assets	25,106,844	27,674,773
TOTAL ASSETS	\$ 55,266,072	\$ 46,788,828
LIABILITIES:		
Current liabilities		
Accounts payable and accrued liabilities	2,721,688	1,146
Accrued bond interest payable	64,917	-
Overages due to taxpayers	103,407	10,935
Bonds payable:		
Class A	26,496,513	-
Discount on bonds payable	(3,489)	-
Bonds payable, net of discount	26,493,024	
Residual liability due to Water Board	6,826,011	11,039,312
Total current liabilities	36,209,047	11,051,393
NET POSITION:		
Restricted by contractual agreements	11,794,380	1,209,356
Unrestricted	7,262,645	34,528,079
Total net position	19,057,025	35,737,435
TOTAL LIABILITIES AND NET POSITION:	\$ 55,266,072	\$ 46,788,828

See accompanying notes to financial statements.

NYCTL 2016-A TRUST
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2017 AND FOR THE
PERIOD FROM MAY 10, 2016 (INCEPTION) TO JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Tax liens received from the City of New York	\$ 31,396,010	\$ 46,109,298
Interest on tax liens	<u>7,240,472</u>	<u>744,096</u>
TOTAL OPERATING REVENUES:	<u>38,636,482</u>	<u>46,853,394</u>
OPERATING EXPENSES:		
Distributions to the City of New York	43,054,846	-
Increase in allowance for doubtful accounts	1,314,609	76,466
Addition to residual liability due to Water Board	6,676,236	11,039,312
Write-offs of uncollectible liens, net of recoveries	65,856	-
Trust administrative expenses		
Servicer fees	1,032,240	-
Trustee fees	110,643	-
Financial advisor/management fees	208,451	-
Lien and other expenses	<u>190,649</u>	<u>181</u>
Total administrative expenses	<u>1,541,983</u>	<u>181</u>
Bond interest expense	620,388	-
Costs of bond issuance	<u>2,086,979</u>	<u>-</u>
TOTAL OPERATING EXPENSES:	<u>55,360,897</u>	<u>11,115,959</u>
OPERATING (LOSS) GAIN:	<u>(16,724,415)</u>	<u>35,737,435</u>
NONOPERATING REVENUES:		
Other income - investment income	<u>44,005</u>	<u>-</u>
TOTAL NONOPERATING REVENUES:	<u>44,005</u>	<u>-</u>
NET CHANGE IN NET POSITION	(16,680,410)	35,737,435
Net Position - Beginning of Period	<u>35,737,435</u>	<u>-</u>
NET POSITION - END OF YEAR	<u>\$ 19,057,025</u>	<u>\$ 35,737,435</u>

See accompanying notes to financial statements.

**NYCTL 2016-A TRUST
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Cash collections	\$ 42,008,038	\$ 1,512,718
Total cash receipts from operating activities	42,008,038	1,512,718
Cash payments for:		
Distributions to NYC	(43,054,846)	-
Water board	(10,889,537)	-
Services and supplies	(3,955,294)	-
Total cash payments for operating activities	(57,899,677)	-
Net Cash (Used in) Provided by Operating Activities	(15,891,639)	1,512,718
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Bond issued	64,977,000	-
Bond retired	(38,480,487)	-
Bond discount	(3,489)	-
Net Cash Provided by Noncapital Financing Activities	26,493,024	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(83,288,873)	(5,007,006)
Sale of investments	72,703,849	3,797,650
Interest received on investments	44,005	-
Net Cash Used in Investing Activities	(10,541,019)	(1,209,356)
NET INCREASE IN CASH AND CASH EQUIVALENTS	60,366	303,362
Cash and cash equivalents - beginning of year	303,362	-
CASH AND CASH EQUIVALENTS—END OF YEAR	\$ 363,728	\$ 303,362
RECONCILIATION OF OPERATING SURPLUS TO CASH FLOW FROM OPERATING ACTIVITIES:		
Operating (loss) gain	\$ (16,724,415)	\$ 35,737,435
Adjustments to reconcile change in net position to net cash provided by operating activities:		
Increase in allowance for doubtful accounts	1,314,609	76,466
Write-offs of uncollectible liens	65,856	-
Tax liens receivable	787,681	(45,352,576)
Accounts payable	2,720,542	1,146
Overages due to taxpayers	92,472	10,935
Bonds interest payable	64,917	-
Due to Water Board	(4,213,301)	11,039,312
Net Cash Provided by Operating Activities	\$ (15,891,639)	\$ 1,512,718

**NYCTL 2016-A TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

NYCTL 2016-A Trust (the “Trust”) is a Delaware statutory trust formed on May 10, 2016. The Trust is governed by a Declaration and Agreement of Trust dated May 10, 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 4) 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.

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 payments to bondholders and certain reserve requirements have been satisfied. The City is not entitled to cause the Trust to make distributions to it. 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 2E).

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, the statements of revenues, expenses, and changes in net position, 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.

The Trust’s net position is classified in the following categories: restricted net position and unrestricted net position.

The Trustee of the Trust upon duly executed direction from the City constitutes the Trust’s highest level of decision-making authority. When resolutions are adopted by the Trustee that constrain fund balances for a specific purpose, such resources are accounted for and reported as committed for such purpose; unless and until a subsequent resolution altering the commitment is adopted by the Trustee. There is no authority under which net position may be internally constrained.

Net position that is constrained for use for a specific purpose, based on the direction of any officer of the Trust who is duly authorized due to executed direction from the City, to direct the movement of such funds, are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same or another duly authorized officer, or by the Trustee, is taken which removes or changes the assignment.

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.

Resources constrained for debt service or redemption in accordance with the bond indenture are classified as restricted on the statements of net position and the governmental funds balance sheets.

**NYCTL 2016-A TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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.
- 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. Bond discounts are amortized over the life of the related debt in proportion to the debt that is repaid each year. Amortization of bond discounts is recorded as a component of bond interest expense. Bond issuance costs are expensed in the year the bonds are issued. (see Note 6)
- E. 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 as of the first purchase of tax liens of 76.4% and 23.6% respectively. After the second purchase of tax liens (see Note 4), the percentages to the City and the Water Board were adjusted to 79.80% and 20.20%, respectively. As the City is the sole beneficiary of the net position of the Trust, 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.
- F. 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 fiduciary net position during the reporting period. Actual results could differ from those estimates.
- G. The Trust distinguishes operating revenues and expenses from nonoperating items in the preparation of its financial statements. The principal operating revenues include tax liens received from the City of New York and interest on tax liens. Major operating expenses includes distributions to the City of New York and addition to a residual liability due to Water Board.
- H. The financial statements were previously reported on a governmental fund basis, and are now reported on a proprietary fund basis. Accordingly, the financial statements no longer present fund financial statements (separate presentation of current assets and liabilities), and now present the statements of cash flows for the years ended June 30, 2017 and June 30, 2016.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Trust's cash and cash equivalents consist of cash in demand deposit accounts and money market funds. As of June 30, 2017, total cash and cash equivalents were \$363,728, of which \$118,739 was in excess of Federal Deposit Insurance Corporation coverage. As of June 30, 2016, total cash and cash equivalents were \$303,362 of which \$53,363 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.

**NYCTL 2016-A TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 4 – RESTRICTED INVESTMENTS (CONTINUED)

The Trust is required under its bond indenture to maintain three separate accounts, representing restricted investments:

- 1) Bond 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 uses this account to make principal and interest payments on the bonds, as well as payments for other expenses of the Trust, in the order of priority specified in the bond indenture.
- 2) Interest Reserve Fund – initially funded out of the proceeds from the sale of bonds, this fund maintains an amount equal to six months of interest on outstanding bonds and is to be used solely to pay interest on the bonds in the event there are insufficient funds in the Bond Account for these interest payments. The Interest Reserve Fund is replenished from the Bond Account.
- 3) Working Capital Reserve Fund – initially funded out of proceeds from the sale of bonds in the amount of \$3,400,000, 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 Bond Account are insufficient for such purpose. The Working Capital Reserve Fund is replenished from the Bond Account.

As of June 30, 2017 and 2016, the amounts held in each of these funds were as follows:

	2017	2016
Working Capital Reserve Fund	\$ 2,768,420	\$ 1,209,356
Interest Reserve	239,049	-
Bond Account	8,786,911	-
Total Restricted Investments	\$ 11,794,380	\$ 1,209,356

All of the restricted funds were invested in various short-term investment funds. During the fiscal year ended June 30, 2017 and 2016, the short-term investment funds were in Goldman Sachs Financial Square Government Fund, a money market portfolio that carries a rating of AAAM by Standard & Poors and Aaa-mf by Moody's Investor Services Inc.

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 is 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 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, 2017 and 2016, the Trust did not have title to any properties.

**NYCTL 2016-A TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 – TAX LIENS RECEIVABLE (Continued)

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.

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, where other tax liens have legal priority over the Trust's tax liens, or where the court awards a reduced expense amount. The Trust has recorded an allowance for uncollectible tax liens of \$1,391,075 as of June 30, 2017, and \$76,466 as of June 30, 2016.

The changes in the tax liens receivable for the period from May 10, 2016 (inception) to June 30, 2016 were as follows:

	<u>Gross tax lien receivable balance</u>
Balance as of May 10, 2016 (inception)	\$ -
Add: Tax liens received from the City of New York	46,109,298
Accrued interest on outstanding lien	744,096
Less: Receipts in satisfaction of liens and costs	<u>(1,500,818)</u>
Balance as of June 30, 2016	45,352,576
Add: Tax Liens received from the City of New York	31,396,010
Accrued interest on outstanding liens	7,240,472
Accrued legal expenses	494,436
Less: Receipts in satisfaction of liens and costs	(39,918,599)
Write –offs of uncollectible lien and defective liens	<u>(65,856)</u>
Balance as of June 30, 2017	<u>\$ 44,499,039</u>

NOTE 6 – BONDS PAYABLE

On August 3, 2016, the Trust issued Tax Lien Collateralized Bonds, Series 2016-A for the principal amount of \$64,977,000.

The following is a summary of changes in the principal amounts of the Trust's Tax Lien Collateralized Bonds, Series 2016-A for the year ended June 30, 2017:

	Balance at June 30, 2016	Issued	Retired	Balance at June 30, 2017
Class A	\$ -	\$ 64,977,000	\$ 38,480,487	\$ 26,496,513

The stated maturity of the bonds is November 10, 2029. However, the final payment of the bonds could occur earlier than the stated maturity date. The expected maturity is November 10, 2019. Collections on tax liens are used to pay accrued interest on the Class A bonds and then principal on the bonds. The timing of the repayment of the principal amount of the bonds and all accrued interest is entirely dependent upon the redemption of the tax liens or the liquidation of any real estate owned resulting from foreclosure.

The interest rate on the bonds is fixed at 1.47%. The closing date of the bonds was August 3, 2016. Accordingly, no interest expense or amortization of bond discount has been recorded through June 30, 2016.

Bond issuance costs were \$2,086,979 for the fiscal year ended June 30, 2017. Bond issuance costs were expensed in the period of the bond issuance. The closing date of the bonds was August 3, 2016 accordingly, no bond issuance cost was recorded through June 30, 2016.

**NYCTL 2016-A TRUST
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7 – 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, 2017 and 2016 the trusts investments amount to \$11,794,380 and \$1,209,356, respectively. Such investment in Goldman Sachs Financial Square Government Fund is valued using quoted market prices (Level 1 inputs).

NOTE 8 – 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 2016-A TRUST
SUPPLEMENTAL SCHEDULE
SCHEDULE 1 - CHANGES IN RESIDUAL LIABILITY DUE TO WATER BOARD
FOR THE YEAR ENDED JUNE 30, 2017 AND
FOR THE PERIOD FROM MAY 10, 2016 (INCEPTION) TO JUNE 30, 2016**

	Residual Liability Due Water Board
Beginning balance at May 10, 2016 (Inception)	\$ -
Tax liens received from the City of New York	10,881,794
Net change in net position	157,518
Ending balance at June 30, 2016	11,039,312
Tax liens received from the City of New York	6,341,994
Net change in net position	334,242
Distributions	(10,889,537)
Ending balance at June 30, 2017	\$ 6,826,011

**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 2016-A 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 2016-A Trust (the Trust), a blended component unit of the City of New York, as of June 30, 2017 and 2016, and for the period 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 22, 2017.

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 22, 2017