

NYCTL 1998-2 TRUST

Financial Statements

Years ended June 30, 2020 and 2019

(With Independent Auditors' Report)

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

**FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)**

YEARS ENDED JUNE 30, 2020 AND 2019

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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, 2020 and 2019 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 NYCTL 1998-2 Trust, as of June 30, 2020 and 2019 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 25, 2020, 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 the effectiveness of the Trust's 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.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 25, 2020

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of NYCTL 1998-2 Trust (the "Trust") for the fiscal years ended June 30, 2020 and 2019. It should be read in conjunction with Trust's financial statements, and the accompanying notes to the financial statements.

The financial statements consist of three parts: (1) management's discussion and analysis (this section), (2) the financial statements, and (3) supplemental schedule.

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, 2020, the Trust entered into an agreement (the "2020 Agreement") with NYCTL 2017-A Trust (the "2020 Transferee") dated and effective as of December 31, 2019, whereby the 2020 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2020 Agreement, the Trust will pay all administrative expenses of the 2020 Transferee incurred after December 31, 2019 and any costs associated with the transfer.

During the fiscal year ended June 30, 2019, the Trust entered into an agreement (the "2019 Agreement") with NYCTL 2016-A Trust (the "2019 Transferee") dated and effective as of October 31, 2018, whereby the 2019 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2019 Agreement, the Trust will pay all administrative expenses of the 2019 Transferee incurred after October 31, 2018 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, 2020 AND 2019

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

A summary of the assets and liabilities transferred from the 2020 Transferee on December 31, 2019 and the 2019 Transferee on October 31, 2018 are as follows:

	<u>2020 Transferee</u>	<u>2019 Transferee</u>
ASSETS:		
Cash	\$ 28,581	\$ 46,749
Restricted investments	2,253,532	7,380,474
Tax liens receivable, net of allowance	<u>21,135,213</u>	<u>23,291,126</u>
	<u>\$ 23,417,326</u>	<u>\$ 30,718,349</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 327,962	\$ 346,969
Overages due to taxpayers	47,035	61,349
Residual liability due to Water Board	<u>7,292,453</u>	<u>7,720,264</u>
	<u>7,667,450</u>	<u>8,128,582</u>
TOTAL NET POSITION	<u>15,749,876</u>	<u>22,589,767</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 23,417,326</u>	<u>\$ 30,718,349</u>

A summary of the Trust's assets, liabilities and net position and its activities as of and for the years ended June 30, 2020, 2019 and 2018 is as follows:

Summary of Net Position:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
ASSETS:			
Current assets			
Cash and cash equivalents	\$ 131,881	\$ 510,987	\$ 642,487
Restricted investments	9,503,775	20,139,158	18,468,507
Current tax liens receivable	<u>43,274,600</u>	<u>40,504,322</u>	<u>47,512,891</u>
Total current assets	52,910,256	61,154,467	66,623,885
Noncurrent tax liens receivable, net of allowance	<u>131,192,084</u>	<u>170,702,644</u>	<u>173,784,080</u>
TOTAL ASSETS	<u>\$ 184,102,340</u>	<u>\$ 231,857,111</u>	<u>\$ 240,407,965</u>
LIABILITIES:			
Current liabilities			
Accounts payable and accrued liabilities	\$ 8,781,543	\$ 7,165,369	\$ 8,042,372
Overages due to taxpayers	757,872	782,262	520,974
Residual liability due to Water Board	<u>10,230,595</u>	<u>11,643,467</u>	<u>11,321,273</u>
Total Current Liabilities	<u>19,770,010</u>	<u>19,591,098</u>	<u>19,884,619</u>
Noncurrent residual liability due to Water Board	<u>34,250,252</u>	<u>38,980,304</u>	<u>37,816,197</u>
TOTAL LIABILITIES	<u>54,020,262</u>	<u>58,571,402</u>	<u>57,700,816</u>
TOTAL NET POSITION	<u>130,082,078</u>	<u>173,285,709</u>	<u>182,707,149</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 184,102,340</u>	<u>\$ 231,857,111</u>	<u>\$ 240,407,965</u>

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

Summary of Revenues, Expenses and Changes in Net Position:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES:			
Tax liens received from the City of New York	\$ 38,007,026	\$ 11,613,400	\$ 54,199,417
Interest on tax liens	87,894,938	101,678,628	90,820,277
Other income	255,743	305,715	213,295
Transfer from other New York City Tax Lien Trusts	<u>15,749,876</u>	<u>22,589,767</u>	<u>19,565,953</u>
TOTAL REVENUE	<u>141,907,583</u>	<u>136,187,510</u>	<u>164,798,942</u>
EXPENSES:			
Distributions to the City	49,388,714	43,781,196	55,182,866
Purchase of liens	11,302,344	9,719,548	8,424,342
Administrative expenses	6,061,623	6,727,862	8,430,220
Increase in allowance for doubtful accounts	25,768,678	15,677,410	8,550,523
Write-offs of uncollectible liens, net of recoveries	106,025,232	75,936,897	72,772,734
Change to residual liability due to Water Board	<u>(13,435,377)</u>	<u>(6,233,963)</u>	<u>(6,803,816)</u>
TOTAL EXPENSES	<u>185,111,214</u>	<u>145,608,950</u>	<u>146,556,869</u>
NET CHANGE IN NET POSITION	<u>\$ (43,203,631)</u>	<u>\$ (9,421,440)</u>	<u>\$ 18,242,073</u>

During fiscal year 2020, the Trust's total assets decreased by \$47,754,771 reflecting a decrease in net tax liens receivable of \$36,740,282. The decrease in tax liens receivable resulted from a decrease in accrued interest of \$56,314,973 and an increase in allowance for doubtful accounts of \$19,399,876, offset by an increase in principal tax lien receivables of \$35,548,086, an increase in capitalized costs of \$383,222, and an increase in recoverable expenses of \$3,043,259. The \$4,551,140 decrease in the Trust's liabilities resulted from a decrease in the residual liability due to the Water Board of \$6,142,924, and a decrease in overages due to taxpayers of \$24,390, offset by an increase in accounts payable and accrued liabilities of \$1,616,174.

During fiscal year 2019, the Trust's total assets decreased by \$8,550,854 reflecting a decrease in net tax liens receivable of \$10,090,005. The decrease in tax liens receivable resulted from a decrease in principal tax lien receivables of \$49,388,838, offset by an increase in accrued interest of \$35,564,279, an increase in capitalized costs of \$314,059, an increase in recoverable expenses of \$404,108, and a decrease in the allowance for doubtful accounts of \$3,016,387. The \$870,586 increase in the Trust's liabilities resulted from an increase in the residual liability due to the Water Board of \$1,322,194, and an increase in overages due to taxpayers of \$261,288, offset by a decrease in accounts payable and accrued liabilities of \$877,003.

During fiscal year 2020, the Trust's total revenues were \$141,907,583 and consisted primarily of tax liens received from The City of New York of \$38,007,026, the recording of interest on tax liens receivable of \$87,894,938 and the transfer from other New York City Tax Lien Trusts of \$15,749,876. Total expenses of \$185,111,214 resulted primarily from distributions to the City of \$49,388,714, purchase of liens of 11,302,344, write-offs of uncollectible liens of \$106,025,232, administrative expenses of \$6,061,623 and an increase in the allowance for doubtful accounts of \$25,768,678, offset by a decrease in the residual liability due to the Water Board of \$13,435,377.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

During fiscal year 2019, the Trust's total revenues were \$136,187,510 and consisted primarily of tax liens received from the City of New York of \$11,613,400, the recording of interest on tax liens receivable of \$101,678,628 and the transfer from other New York City Tax Lien Trusts of \$22,589,767. Total expenses of \$145,608,950 resulted primarily from distributions to the City of \$43,781,196, purchase of liens of \$9,719,548, write-offs of uncollectible liens of \$75,936,897, administrative expenses of \$6,727,862 and an increase in the allowance for doubtful accounts of \$15,677,410, offset by a decrease in the residual liability due to the Water Board of \$6,233,963.

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

STATEMENTS OF NET POSITION
JUNE 30, 2020 AND 2019

	2020	2019
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 131,881	\$ 510,987
Restricted investments	9,503,775	20,139,158
Tax liens receivable:		
Principal	13,873,721	15,152,205
Accrued interest	29,400,879	25,352,117
Net tax liens receivable	43,274,600	40,504,322
Total current assets	52,910,256	61,154,467
Noncurrent assets		
Tax liens receivable:		
Principal	235,692,812	198,866,242
Accrued interest	275,797,206	336,160,941
Accrued capitalized costs	2,364,625	1,981,403
Recoverable expenses	30,371,708	27,328,449
Less: allowance for uncollectible accounts	(413,034,267)	(393,634,391)
Total noncurrent assets	131,192,084	170,702,644
TOTAL ASSETS	\$ 184,102,340	\$ 231,857,111
LIABILITIES:		
Current liabilities		
Accounts payable and accrued liabilities	\$ 8,781,543	\$ 7,165,369
Overages due to taxpayers	757,872	782,262
Residual liability due to Water Board	10,230,595	11,643,467
Total current liabilities	19,770,010	19,591,098
Noncurrent liabilities		
Residual liability due to Water Board	34,250,252	38,980,304
Total liabilities	54,020,262	58,571,402
NET POSITION:		
Restricted by contractual agreements	9,503,775	20,139,158
Unrestricted	120,578,303	153,146,551
Total net position	130,082,078	173,285,709
TOTAL LIABILITIES AND NET POSITION	\$ 184,102,340	\$ 231,857,111

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, 2020 AND 2019

	<u>2020</u>	<u>2019</u>
OPERATING REVENUES:		
Tax liens received from the City of New York	\$ 38,007,026	\$ 11,613,400
Interest on tax liens	<u>87,894,938</u>	<u>101,678,628</u>
TOTAL OPERATING REVENUES	<u>125,901,964</u>	<u>113,292,028</u>
OPERATING EXPENSES:		
Distributions to the City of New York	49,388,714	43,781,196
Purchase of liens	11,302,344	9,719,548
Increase in allowance for doubtful accounts	25,768,678	15,677,410
Change to residual liability due to Water Board	(13,435,377)	(6,233,963)
Write-offs of uncollectible liens, net of recoveries	106,025,232	75,936,897
Trust administrative expenses		
Servicer fees	3,951,865	4,731,843
Trustee fees	239,542	260,974
Financial advisor/management fees	1,050,750	1,091,287
Lien and other expenses	<u>819,466</u>	<u>643,758</u>
Total administrative expenses	<u>6,061,623</u>	<u>6,727,862</u>
TOTAL OPERATING EXPENSES	<u>185,111,214</u>	<u>145,608,950</u>
OPERATING LOSS	<u>(59,209,250)</u>	<u>(32,316,922)</u>
NONOPERATING REVENUES:		
Other income - investment income	255,743	305,715
Transfer from other New York City Tax Lien Trusts	<u>15,749,876</u>	<u>22,589,767</u>
TOTAL NONOPERATING REVENUES	<u>16,005,619</u>	<u>22,895,482</u>
CHANGE IN NET POSITION	(43,203,631)	(9,421,440)
Net Position - Beginning of Year	<u>173,285,709</u>	<u>182,707,149</u>
NET POSITION - END OF YEAR	<u>\$ 130,082,078</u>	<u>\$ 173,285,709</u>

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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash receipts from:		
Cash collections	\$ 51,983,549	\$ 55,058,852
Overages due to taxpayers	(71,425)	199,939
Total cash receipts from operating activities	51,912,124	55,258,791
Cash payments for:		
Distributions to the City of New York	(49,388,714)	(43,781,196)
Purchase of liens	(11,302,344)	(9,719,548)
Servicer fees	(3,483,796)	(4,263,774)
Other expenses	(1,289,615)	(3,688,060)
Total cash payments for operating activities	(65,464,469)	(61,452,578)
Net Cash Used in Operating Activities	(13,552,345)	(6,193,787)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Transfer from other New York City Tax Lien Trusts	2,282,113	7,427,223
Net Cash Provided by Noncapital Financing Activities	2,282,113	7,427,223
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(117,877,311)	(82,027,525)
Sale of investments	128,512,694	80,356,874
Interest received on investments	255,743	305,715
Net Cash Provided by (Used in) Investing Activities	10,891,126	(1,364,936)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(379,106)	(131,500)
Cash and cash equivalents - beginning of year	510,987	642,487
CASH AND CASH EQUIVALENTS—END OF YEAR	\$ 131,881	\$ 510,987
RECONCILIATION OF OPERATING LOSS TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (59,209,250)	\$ (32,316,922)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Increase in allowance for doubtful accounts	25,768,678	15,677,410
Write-offs of uncollectible liens	106,025,232	75,936,897
Tax liens receivable	(73,918,415)	(58,233,176)
Accounts payable	1,288,212	(1,223,972)
Overages due to taxpayers	(71,425)	199,939
Change to Water Board	(13,435,377)	(6,233,963)
Net Cash Used in Operating Activities	\$ (13,552,345)	\$ (6,193,787)

NONCASH ACTIVITIES:

In 2020, in addition to the cash transfer of \$2,282,113, the Trust received a noncapital financing transfer of certain assets and liabilities from the New York City Tax Lien 2017-A Trust. The net book value of the assets and liabilities at the time of the transfer was \$13,467,763.

In 2019, in addition to the cash transfer of \$7,427,223, the Trust received a noncapital financing transfer of certain assets and liabilities from the New York City Tax Lien 2016-A Trust. The net book value of the assets and liabilities at the time of the transfer was \$15,162,544.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 (see 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 Trust (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 in this series 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 position, and the statements of cash flows, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board (“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.

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.

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- C. The Trust records tax liens receivable 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 U.S. GAAP 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, direct purchase of liens, and services fees.

NOTE 3 – CASH AND CASH EQUIVALENTS AND CONCENTRATION OF CREDIT RISK

The Trust's cash and cash equivalents consisted of cash in demand deposit accounts and money market funds. As of June 30, 2020, the book and bank value of the total cash and cash equivalents were \$131,881 and \$1,243,598, respectively, of which approximately \$732,600 was in excess of Federal Deposit Insurance Corporation ("FDIC") coverage. As of June 30, 2019 total cash and cash equivalents were \$510,987 and \$1,823,151, respectively, of which approximately \$1,137,000 was in excess of FDIC 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.

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 uses 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.

NYCTL 1998-2 TRUST
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 – RESTRICTED INVESTMENTS (Continued)

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.

- 2) 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, 2020 and 2019, the amounts held in each of these funds were as follows:

	<u>2020</u>	<u>2019</u>
Working Capital Reserve Fund	\$ 3,779,013	\$ 2,933,939
Collection Account	2,608,492	14,933,598
2019A Residual Interest Bonds	2,516,731	-
2018A Residual Interest Bonds	599,539	1,805,178
2017A Residual Interest Bonds	-	466,443
Total Restricted Investments	<u>\$ 9,503,775</u>	<u>\$ 20,139,158</u>

A majority of the restricted funds were invested in various short-term investment funds. During the fiscal years ended June 30, 2020 and 2019, the balances were invested in Goldman Sachs Financial Square Government Fund. This fund is a money market portfolio carrying a rating of AAAM by Standard & Poors and Aaa-mf by Moody’s Investor Services Inc. The Trust’s investments in residual interest bonds carried 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 investment 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. As of June 30, 2020 and 2019, the Trust’s investments balances of \$6,387,505 and \$17,867,537 were in Goldman Sachs Financial Square Government Fund, respectively, and \$3,116,270 and \$2,271,621 of the investments were residual interest bond funds, respectively.

Concentration of Credit Risk - Concentration of credit risk is the risk attributed to the magnitude of an investment to a single issuer. As of June 30, 2020 and 2019, the Trust’s investments balance of \$6,387,505 and \$17,867,537 were in Goldman Sachs Financial Square Government Fund.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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%, 7%, 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, 2020 and 2019, 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 and 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 \$38,007,026 and \$11,613,400 for the years ended June 30, 2020 and 2019, 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 \$413,034,267 and \$393,634,391 as of June 30, 2020 and 2019, respectively.

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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 5 – TAX LIENS RECEIVABLE (Continued)

The changes in the tax liens receivable for the fiscal years ended June 30, 2020 and 2019 were as follows:

	<u>Gross tax lien receivable balance</u>
Balance as of June 30, 2018	\$ 617,947,749
Add: Tax liens received from the City of New York	11,613,400
Accrued interest on outstanding liens	101,678,628
Less: Cash collections in satisfaction of liens and costs	(55,058,852)
Write-offs directly against allowance	(19,440,886)
Write-offs of uncollectible lien and defective liens	(75,936,897)
Transfer from New York City Tax Lien Trusts	<u>24,038,215</u>
Balance as of June 30, 2019	604,841,357
Add: Tax liens received from the City of New York	38,007,026
Accrued interest on outstanding lien	87,894,938
Less: Cash collections in satisfaction of liens and costs	(51,983,549)
Write-offs directly against allowance	(7,369,195)
Write-offs of uncollectible lien and defective liens	(106,025,232)
Transfer from New York City Tax Lien Trusts	<u>22,135,606</u>
Balance as of June 30, 2020	<u>\$ 587,500,951</u>

NOTE 6 – FAIR VALUE HIERARCHY

The Trust categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. 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, 2020 and 2019, the Trust's investments amount to \$9,503,775 and \$20,139,158, respectively. The Trust's investment in 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.

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(A Blended Component Unit of the City of New York)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 8 – ASSIGNMENT AND ASSUMPTION AGREEMENT

During the year ended June 30, 2020, the Trust entered into an agreement (the “2020 Agreement”) with NYCTL 2017-A Trust (the “2020 Transferee”) dated and effective as of December 31, 2019, whereby the 2020 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2020 Agreement, the Trust will pay all administrative expenses of the 2020 Transferee incurred after December 31, 2019 and any costs associated with the transfer.

During the year ended June 30, 2019, the Trust entered into an agreement (the “2019 Agreement”) with NYCTL 2016-A Trust (the “2019 Transferee”) dated and effective as of October 31, 2018, whereby the 2019 Transferee transferred all of its rights and obligations to the Trust. In accordance with the 2019 Agreement, the Trust will pay all administrative expenses of the 2019 Transferee incurred after October 31, 2018 and any costs associated with the transfer.

A summary of the assets and liabilities transferred from the 2020 and 2019 Transferees on December 31, 2019 and October 31, 2018 are as follows:

	<u>2020</u>	<u>2019</u>
ASSETS:		
Cash	\$ 28,581	\$ 46,749
Restricted investments	2,253,532	7,380,474
Tax liens receivable, net of allowance	<u>21,135,213</u>	<u>23,291,126</u>
	<u>\$ 23,417,326</u>	<u>\$ 30,718,349</u>
LIABILITIES:		
Accounts payable and accrued liabilities	\$ 327,962	\$ 346,969
Overages due to taxpayers	47,035	61,349
Residual liability due to Water Board	<u>7,292,453</u>	<u>7,720,264</u>
	<u>7,667,450</u>	<u>8,128,582</u>
TOTAL NET POSITION	<u>15,749,876</u>	<u>22,589,767</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 23,417,326</u>	<u>\$ 30,718,349</u>

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, 2020 AND 2019

	Residual Liability Due to Water Board
Ending balance at June 30, 2018	\$ 49,137,470
Tax liens received from the City of New York	1,892,984
Net change in net position	8,313,938
Distributions	<u>(8,720,621)</u>
Ending balance at June 30, 2019	50,623,771
Tax liens received from the City of New York	7,054,104
Net change in net position	(1,932,768)
Distributions	<u>(11,264,260)</u>
Ending balance at June 30, 2020	<u>\$ 44,480,847</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, 2020 and for the year 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 25, 2020.

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.

EFPR Group, CPAs, PLLC

Williamsville, New York
September 25, 2020