

NYCTL 2018-A TRUST
Financial Statements
Years Ended June 30, 2020 and 2019
(With Independent Auditors' Report)

**NYCTL 2018-A 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 2018-A Trust:

We have audited the accompanying financial statements of the business-type activities of the NYCTL 2018-A 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 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 2018-A 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 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 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 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 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 2018-A 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 New York City Tax Lien ("NYCTL") 2018-A Trust (the "Trust") for the years ended June 30, 2020 and 2019. 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 three parts: (1) management's discussion and analysis (this section), (2) the financial statements, and (3) the supplemental schedule.

The financial statements of the Trust, which include the statements of net position, 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.

OVERVIEW OF THE ORGANIZATION

The Trust was created on April 10, 2018 (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 New York City Water Board ("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, 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	\$ 33,735	\$ 206,970	\$ 85,450
Restricted investments	4,956,872	12,636,968	889,831
Current tax liens receivable	<u>10,318,383</u>	<u>18,088,575</u>	<u>22,403,412</u>
Total current assets	15,308,990	30,932,513	23,378,693
Noncurrent tax liens receivable, net of allowance	<u>21,111,479</u>	<u>28,254,205</u>	<u>35,974,217</u>
TOTAL ASSETS	<u>\$ 36,420,469</u>	<u>\$ 59,186,718</u>	<u>\$ 59,352,910</u>
LIABILITIES:			
Current liabilities			
Accounts payable and accrued liabilities	\$ 224,346	\$ 1,682,699	\$ 280
Overages due to taxpayers	7,822	407,218	53,372
Bonds payable, net of discount	11,989,630	36,101,588	-
Residual liability due to Water Board	<u>4,513,177</u>	<u>3,994,217</u>	<u>10,199,472</u>
TOTAL LIABILITIES	<u>16,734,975</u>	<u>42,185,722</u>	<u>10,253,124</u>
TOTAL NET POSITION	<u>19,685,494</u>	<u>17,000,996</u>	<u>49,099,786</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 36,420,469</u>	<u>\$ 59,186,718</u>	<u>\$ 59,352,910</u>

NYCTL 2018-A 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	\$ -	\$ 22,269,154	\$ 58,573,766
Interest on tax liens	3,858,564	6,791,193	726,729
Other income	<u>127,318</u>	<u>193,032</u>	<u>-</u>
TOTAL REVENUES	<u>3,985,882</u>	<u>29,253,379</u>	<u>59,300,495</u>
EXPENSES:			
Distribution to the City	-	60,139,573	-
Administrative expenses	1,138,544	1,584,046	1,237
Change in allowance for doubtful accounts	(1,121,373)	1,985,949	-
Write-offs of uncollectible liens, net of recoveries	105,301	112,894	-
Bond interest expense	659,952	1,591,653	-
Cost of bond issuance	-	2,143,309	-
Chang in residual liability due to Water Board	<u>518,960</u>	<u>(6,205,255)</u>	<u>10,199,472</u>
TOTAL EXPENSES	<u>1,301,384</u>	<u>61,352,169</u>	<u>10,200,709</u>
NET CHANGE IN NET POSITION	<u>\$ 2,684,498</u>	<u>\$ (32,098,790)</u>	<u>\$ 49,099,786</u>

During the year ended June 30, 2020, the Trust's total assets decreased by \$22,766,249 resulting primarily from a decrease in restricted investments of \$7,680,096 and a decrease in net tax liens receivable of \$14,912,918. The decrease in tax liens receivable resulted primarily from a decrease in principal of \$16,755,025, offset by a decrease in the allowance for doubtful accounts recorded of \$1,121,373 and an increase in accrued interest of \$428,451. The \$25,450,747 decrease in the Trust's liabilities resulted primarily from a decrease in bonds payable net of discount of \$24,111,958, a decrease in accounts payable and accrued expenses of \$1,458,353, a decrease in overages due to taxpayers of \$399,396, offset by an increase in the residual liability due to the Water Board of \$518,960.

During the year ended June 30, 2019, the Trust's total assets decreased by \$166,192 resulting primarily from an decrease in net tax liens receivable of \$12,034,849, offset by an increase in restricted investments of \$11,747,137. The decrease in tax liens receivable resulted primarily from decrease in principal of \$15,557,002, an increase in the allowance for doubtful accounts recorded of \$1,985,949, offset by an increase in accrued interest of \$3,457,277. The \$31,932,598 increase in the Trust's liabilities resulted primarily from an increase in bonds payable, net of discount, of \$36,101,588, an increase in accounts payable and accrued expenses of \$1,682,419, and increase in overages due to taxpayers of \$353,846, offset by a decrease in the residual liability due to the Water Board of \$6,205,255.

During the year ended June 30, 2020, total revenues were \$3,985,882 and consisted of interest on tax liens receivable of \$3,858,564, and investment income of \$127,318. Total expenses of \$1,301,384 resulted primarily from administrative fees of \$1,138,544, write-offs of uncollectible liens of \$105,301, in addition to an increase in residual liability due to the Water Board of \$518,960, offset by a decrease in allowance for doubtful accounts of \$1,121,373.

During the year ended June 30, 2019, total revenues were \$29,253,379 and consisted of tax liens received from the City of \$22,269,154, interest on tax liens receivable of \$6,791,193, and investment income of \$193,032. Total expenses of \$61,352,169 resulted primarily from the distribution to the City of New York of \$60,139,573, and increase in the allowance for doubtful accounts of \$1,985,949, write-offs of uncollectible liens of \$112,894, and administrative fees of \$1,584,046. Other expenses include a reduction in the residual liability due to the Water Board of \$6,205,255, cost of bond issuance of \$2,143,309, and bond interest expense of \$1,591,653.

**NYCTL 2018-A TRUST
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**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2020 AND 2019**

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – FINANCIAL STATEMENTS (CONTINUED)

Long-Term Debt Activity:

The Trust issued debt 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, 2031, the bonds will be repaid as funds are available from cash collections, generally quarterly. The expected maturity of the bonds is May 10, 2022.

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NYCTL 2018-A TRUST
(A Blended Component Unit of the City of New York)

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2020 AND 2019

	2020	2019
ASSETS:		
Current assets		
Cash and cash equivalents	\$ 33,735	\$ 206,970
Restricted investments	4,956,872	12,636,968
Tax liens receivable:		
Principal	8,379,326	15,960,805
Accrued interest	1,939,057	2,127,770
Net tax liens receivable	10,318,383	18,088,575
Total current assets	15,308,990	30,932,513
Noncurrent assets		
Tax liens receivable:		
Principal	16,971,397	26,144,943
Accrued interest	2,661,550	2,044,386
Accrued capitalized costs	126,487	-
Recoverable expenses	2,216,621	2,050,825
Less: allowance for uncollectible accounts	(864,576)	(1,985,949)
Total noncurrent assets	21,111,479	28,254,205
TOTAL ASSETS	\$ 36,420,469	\$ 59,186,718
LIABILITIES:		
Current liabilities		
Accounts payable and accrued liabilities	\$ 159,817	\$ 1,488,946
Accrued bond interest payable	64,529	193,753
Overages due to taxpayers	7,822	407,218
Bonds payable:		
Class A	11,990,623	36,103,078
Discount on bonds payable	(993)	(1,490)
Bonds payable, net of discount	11,989,630	36,101,588
Residual liability due to Water Board	4,513,177	3,994,217
Total current liabilities	16,734,975	42,185,722
NET POSITION:		
Restricted by contractual agreements	4,956,872	12,636,968
Unrestricted	14,728,622	4,364,028
Total net position	19,685,494	17,000,996
TOTAL LIABILITIES AND NET POSITION	\$ 36,420,469	\$ 59,186,718

NYCTL 2018-A 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

	2020	2019
OPERATING REVENUES:		
Tax liens received from the City of New York	\$ -	\$ 22,269,154
Interest on tax liens	3,858,564	6,791,193
TOTAL OPERATING REVENUES	3,858,564	29,060,347
OPERATING EXPENSES:		
Distributions to the City of New York	-	60,139,573
(Decrease) increase in allowance for doubtful accounts	(1,121,373)	1,985,949
Increase (decrease) to residual liability due to Water Board	518,960	(6,205,255)
Write-offs of uncollectible liens, net of recoveries	105,301	112,894
Trust administrative expenses		
Servicer fees	793,072	904,402
Trustee fees	100,666	250,204
Financial advisor/management fees	95,924	259,008
Lien and other expenses	148,882	170,432
Total administrative expenses	1,138,544	1,584,046
Bond interest expense	659,952	1,591,653
Costs of bond issuance	-	2,143,309
TOTAL OPERATING EXPENSES	1,301,384	61,352,169
OPERATING INCOME (LOSS)	2,557,180	(32,291,822)
NONOPERATING REVENUES:		
Other income - investment income	127,318	193,032
TOTAL NONOPERATING REVENUES	127,318	193,032
NET CHANGE IN NET POSITION	2,684,498	(32,098,790)
Net Position - Beginning of Year	17,000,996	49,099,786
NET POSITION - END OF YEAR	\$ 19,685,494	\$ 17,000,996

See accompanying notes to financial statements.

NYCTL 2018-A 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	\$ 19,953,350	\$ 41,047,178
Overages due to taxpayers	-	353,846
Total cash receipts from operating activities	19,953,350	41,401,024
Cash payments for:		
Distributions to the City of New York	-	(60,139,573)
Bond issuance and interest costs	(781,920)	(3,535,940)
Other services	(3,032,865)	(2,146,205)
Total cash payments for operating activities	(3,814,785)	(65,821,718)
Net Cash Provided by (Used in) Operating Activities	16,138,565	(24,420,694)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Bond issued	-	74,659,000
Bond retired	(24,112,455)	(38,555,922)
Bond discount	(6,759)	(6,759)
Net Cash (Used in) Provided by Noncapital Financing Activities	(24,119,214)	36,096,319
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	(27,608,566)	(51,838,515)
Sale of investments	35,288,662	40,091,378
Interest received on investments	127,318	193,032
Net Cash Provided by (Used in) Investing Activities	7,807,414	(11,554,105)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(173,235)	121,520
Cash and cash equivalents - beginning of year	206,970	85,450
CASH AND CASH EQUIVALENTS—END OF YEAR	\$ 33,735	\$ 206,970
RECONCILIATION OF OPERATING INCOME (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ 2,557,180	\$ (32,291,822)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:		
Change in allowance for doubtful accounts	(1,121,373)	1,985,949
Write-offs of uncollectible liens	105,301	112,894
Amortization	7,256	5,269
Tax liens receivable	15,928,990	9,936,006
Accounts payable	(1,329,129)	1,488,666
Overages due to taxpayers	(399,396)	353,846
Accrued bond interest payable	(129,224)	193,753
Due to (from) Water Board	518,960	(6,205,255)
Net Cash Provided by (Used in) Operating Activities	\$ 16,138,565	\$ (24,420,694)

See accompanying notes to financial statements.

NYCTL 2018-A 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 2018-A Trust (the “Trust”) is a Delaware statutory trust formed on April 10, 2018. The Trust is governed by a Declaration and Agreement of Trust dated April 10, 2018 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. 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.

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 while bonds remain outstanding. 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, 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 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 the 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.

NYCTL 2018-A TRUST
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 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 82.8% and 17.2%, respectively. After the purchase of tax liens (see Note 5), the percentages to the City and the Water Board were adjusted to 83.8% and 16.2%, 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 and interest on tax liens. Major operating expenses include additions to the residual liability due to the Water Board.

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

The Trust's cash and cash equivalents consist of cash in demand deposit accounts and money market funds. As of June 30, 2020, total cash and cash equivalents were \$33,735, of which \$0 was in excess of Federal Deposit Insurance Corporation ("FDIC") coverage. As of June 30, 2019, total cash and cash equivalents were \$206,970, of which \$0 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.

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.

NYCTL 2018-A TRUST
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 4 – RESTRICTED INVESTMENTS (Continued)

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	\$ 3,119,637	\$ 1,805,039
Interest Reserve	241,736	603,344
Bond Account	<u>1,595,499</u>	<u>10,228,585</u>
Total Restricted Investments	<u>\$ 4,956,872</u>	<u>\$ 12,636,968</u>

All of the funds were invested in various short-term investment funds. During the years ended June 30, 2020 and 2019, the short-term investment fund was Invesco Government & Agency Portfolio, a money market portfolio that carries a rating of AAAM by Standard & Poor's and Aaa-mf by Moody's Investors Services Inc.

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 of collateral securities that are in possession of an outside party. The Trust's investment balance of \$4,956,872 was in Invesco Government & Agency Portfolio.

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 has all its investments held in one banking institution, Invesco Government & Agency Portfolio.

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 6% 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.

NYCTL 2018-A TRUST
(A Blended Component Unit of the City of New York)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

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 \$(864,576) as of June 30, 2020 and \$(1,985,949) as of June 30, 2019

The changes in the tax liens receivable for the period from June 30, 2018 to June 30, 2020 were as follows:

	<u>Gross tax lien receivable balance</u>
Balance as of June 30, 2018	\$ 58,377,629
Add: Tax liens received from the City of New York	22,269,154
Accrued interest on outstanding lien	6,791,193
Accrued legal expenses	763,187
Accrued recoverable costs	1,287,638
Less: Cash collections in satisfaction of liens and costs	(41,047,178)
Write-offs of uncollectible lien and defective liens	<u>(112,894)</u>
Balance as of June 30, 2019	48,328,729
Add: Tax liens received from the City of New York	-
Accrued interest on outstanding liens	3,858,564
Accrued legal expenses	269,310
Less: Cash collections in satisfaction of liens and costs	(19,953,350)
Recoverable costs in satisfaction of liens and costs	(103,514)
Write-offs of uncollectible lien and defective liens	<u>(105,301)</u>
Balance as of June 30, 2020	<u>\$ 32,294,438</u>

NOTE 6 – BONDS PAYABLE

On August 9, 2018, the Trust issued Tax Lien Collateralized Bonds, Series 2018-A for the principal amount of \$74,659,000.

The Trust's Indenture includes events of default, certain of which (relating to failure to pay debt service, insolvency, material misrepresentations) could result in acceleration of tax lien trust bonds if so directed by Indenture Trustee or the Holders of Bonds representing more than 50% of the Aggregate Current Principal Amount of the Outstanding Bonds.

The tax liens purchased by the Trust are secured by the assessed value of the properties to which the liens are attached. The Trust has the right to foreclose and take title to properties for which related tax lien collection efforts are unsuccessful. The Trust may be unable to recover the amount of certain tax liens when the value of the attached 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 following is a summary of changes in the principal amounts of the Trust's Tax Lien Collateralized Bonds, Series 2018-A for the years ended June 30, 2020 and 2019:

	Balance at June 30, 2018	Issued	Retired	Balance at June 30, 2019	Retired	Balance at June 30, 2020
Class A	<u>\$ -</u>	<u>\$ 74,659,000</u>	<u>\$ 38,555,922</u>	<u>\$ 36,103,078</u>	<u>\$ 24,112,455</u>	<u>\$ 11,990,623</u>

NYCTL 2018-A TRUST
(A Blended Component Unit of the City of New York)

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

NOTE 6 – BONDS PAYABLE (Continued)

The stated maturity of the bonds is November 10, 2031. However, the final payment of the bonds could occur earlier than the stated maturity date. The expected maturity is May 10, 2022. 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 3.22%. The closing date of the sale of the bonds was August 9, 2018. Interest expense has been recorded for the fiscal years ended June 30, 2020 and 2019 of \$659,952 and \$1,591,653, respectively. Bond issuance costs were \$0 and \$2,143,309 for the fiscal year ended June 30, 2020 and 2019, respectively. Bond issuance costs were expensed in the period of the bond issuance.

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, 2020 and 2019, the trusts investments amount to \$4,956,872 and \$12,636,968, respectively. The Trust's investment in Invesco Government & Agency Portfolio is stated at net asset value (Level 2 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 2018-A TRUST
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SUPPLEMENTAL SCHEDULE
SCHEDULE 1 - CHANGES IN RESIDUAL LIABILITY DUE TO WATER BOARD
FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	Residual Liability Due Water Board
Beginning balance at June 30, 2018	\$ 10,199,472
Tax liens received from the City of New York	3,607,603
Net change in net position	(70,247)
Distributions	(9,742,611)
Ending balance at June 30, 2019	\$ 3,994,217
Tax liens received from the City of New York	-
Net change in net position	518,960
Distributions	-
Ending balance at June 30, 2020	\$ 4,513,177

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 2018-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 2018-A 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