

***Sales Tax Asset  
Receivable Corporation***

***Financial Statements  
For the Years Ended  
June 30, 2008 and 2007 and  
Independent Auditors' Report***

# SALES TAX ASSET RECEIVABLE CORPORATION

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-6
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007:	
Entity-Wide Financial Statements:	
Statements of Net Assets (Deficit)	7
Statements of Activities	8
Governmental Fund Financial Statements:	
Debt Service Fund Balance Sheets	9
Debt Service Fund Statements of Revenues, Expenditures and Changes in Fund Balances	10
Reconciliations of Debt Service Fund Balance Sheets to the Statements of Net Assets (Deficit)	11
Reconciliations of Debt Service Fund Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities	12
Notes to Financial Statements	13-19

## INDEPENDENT AUDITORS' REPORT

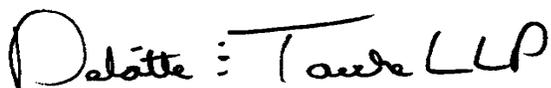
To the Members of the Audit Committee and the Board of Directors of  
Sales Tax Asset Receivable Corporation

We have audited the accompanying financial statements of the governmental activities of the Sales Tax Asset Receivable Corporation ("STAR"), a component unit of The City of New York, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These financial statements are the responsibility of STAR's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of STAR's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of STAR as of June 30, 2008 and 2007, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of STAR's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.



September 17, 2008

# **SALES TAX ASSET RECEIVABLE CORPORATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

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The following is a narrative overview and analysis of the financial activities of Sales Tax Asset Receivable Corporation ("STAR" or the "Corporation") as of June 30, 2008 and 2007 and for the years then ended. It should be read in conjunction with STAR's entity-wide financial statements, governmental funds financial statements and the notes to the financial statements.

The financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the entity-wide financial statements; and (3) the governmental fund financial statements.

The entity-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the Corporation as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments, as amended. This is to provide the reader with a broad overview of STAR's finances. The entity-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, in which all revenues and expenses are taken into account regardless of when cash is paid or received.

STAR's debt service fund (governmental fund) financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

The reconciliations of the debt service fund statements of revenues, expenditures and changes in fund balances to the statements of activities and reconciliations of the debt service fund balance sheets to the statements of net assets (deficit) are presented to assist the reader in understanding the differences between entity-wide and fund financial statements.

Although legally separate from The City of New York (the "City"), STAR is a financing instrumentality of the City and, accordingly, is included in the City's financial statements as a blended component unit, in accordance with GASB Statement 14, as amended.

### **FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS**

On November 4, 2004, STAR issued \$2.55 billion of bonds to provide for the payment of the principal and interest and redemption premium, if any, on all outstanding bonds of the Municipal Assistance Corporation For The City of New York ("MAC") and all outstanding bonds of the City held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. Principal and interest on the STAR bonds are paid from the \$170 million in annual payments required to be made by the New York State Local Government Assistance Corporation ("LGAC"), a public benefit corporation of the State of New York ("State"), pursuant to section 3238-a of the New York State Public Authorities Law, which the City has irrevocably assigned to STAR. The payment of the outstanding MAC bonds results in the receipt by the City of tax revenues that would otherwise be paid to MAC for the payment of debt service on MAC's bonds.

# SALES TAX ASSET RECEIVABLE CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (continued)

### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS (continued)

On June 30, 2008, June 29, 2007 and June 30, 2006, STAR used: \$15 million, \$53 million and \$34 million of available resources on-hand, respectively, to defease bonds, as permitted by the bond indenture. Due to decreases in market interest rates between the issuance of the bonds and the establishment of the 2008 defeasance escrow, the 2008 defeasance resulted in a deferred loss of \$0.5 million. Due to increases in market interest rates between the issuance of the bonds and the establishment of the 2007 and 2006 defeasance escrows, those defeasances resulted in deferred gains of \$1 million and \$0.5 million, respectively. The net gains are deferred and recognized in the periods when interest and principal payments would have been due for the original bonds.

The following summarizes the activities of STAR for the years ended June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Revenues and gain:					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ -	\$ -
Other income and gain	<u>11,127</u>	<u>13,535</u>	<u>11,550</u>	<u>(2,408)</u>	<u>1,985</u>
Total revenue and gain	<u>181,127</u>	<u>183,535</u>	<u>181,550</u>	<u>(2,408)</u>	<u>1,985</u>
Expenses:					
Payment to The City of New York	-	-	27,216	-	(27,216)
Bond interest	110,175	113,085	115,583	(2,910)	(2,498)
Other	<u>1,933</u>	<u>1,941</u>	<u>1,963</u>	<u>(8)</u>	<u>(22)</u>
Total expenses	<u>112,108</u>	<u>115,026</u>	<u>144,762</u>	<u>(2,918)</u>	<u>(29,736)</u>
Change in net assets	69,019	68,509	36,788	510	31,721
Net deficit—Beginning of period	<u>(2,169,494)</u>	<u>(2,238,003)</u>	<u>(2,274,791)</u>	<u>68,509</u>	<u>36,788</u>
Net deficit—End of period	<u>\$ (2,100,475)</u>	<u>\$ (2,169,494)</u>	<u>\$ (2,238,003)</u>	<u>\$ 69,019</u>	<u>\$ 68,509</u>

STAR's revenues for FY 2008, 2007 and 2006 are composed of the annual LGAC payment and other income, which is principally investment income. FY 2008 expenses are slightly lower than those of 2007 as the declining bond principal balance outstanding resulted in reduced bond interest costs. FY 2007 expenses are lower than those of 2006, primarily because the latter included a non-recurring payment of \$27 million made to the City to enable the City to redeem City bonds held by MAC.

# SALES TAX ASSET RECEIVABLE CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (continued)

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### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—ENTITY-WIDE FINANCIAL STATEMENTS (continued)

The following summarizes STAR's assets, liabilities, and net assets as of June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Assets:					
Total assets - non-capital	<u>\$ 354,370</u>	<u>\$ 321,344</u>	<u>\$ 360,213</u>	<u>\$ 33,026</u>	<u>\$ (38,869)</u>
Liabilities:					
Current liabilities	75,440	39,633	73,045	35,807	(33,412)
Long-term liabilities	<u>2,379,405</u>	<u>2,451,205</u>	<u>2,525,171</u>	<u>(71,800)</u>	<u>(73,966)</u>
Total liabilities	<u>2,454,845</u>	<u>2,490,838</u>	<u>2,598,216</u>	<u>(35,993)</u>	<u>(107,378)</u>
Net assets (deficit):					
Restricted	334,521	299,704	336,471	34,817	(36,767)
Unrestricted	<u>(2,434,996)</u>	<u>(2,469,198)</u>	<u>(2,574,474)</u>	<u>34,202</u>	<u>105,276</u>
Total net deficit	<u>\$ (2,100,475)</u>	<u>\$ (2,169,494)</u>	<u>\$ (2,238,003)</u>	<u>\$ 69,019</u>	<u>\$ 68,509</u>

At June 30, 2008, 2007 and 2006, STAR's assets consisted mainly of cash and cash equivalents restricted for debt service payments and required debt service reserves. The liabilities are almost entirely composed of the bonds payable and unamortized original issue premium and accrued interest payable thereon. The net deficits are primarily the result of the November 2, 2004 bond issue which is being and will continue to be repaid from future LGAC revenues.

# SALES TAX ASSET RECEIVABLE CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (continued)

### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following summarizes the changes in the fund balances of STAR's sole governmental fund, its debt service fund, for the years ended June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Revenues:					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ -	\$ -
Investment income	<u>10,629</u>	<u>13,520</u>	<u>11,550</u>	<u>(2,891)</u>	<u>1,970</u>
Total revenues	<u>180,629</u>	<u>183,520</u>	<u>181,550</u>	<u>(2,891)</u>	<u>1,970</u>
Expenditures:					
Payment to The City of New York	-	-	27,216	-	(27,216)
Bond interest	115,536	118,641	121,089	(3,105)	(2,448)
Principal amount of bonds retired	15,485	48,145	46,785	(32,660)	1,360
Advance refunding escrow	14,544	53,221	33,677	(38,677)	19,544
General and administrative	<u>310</u>	<u>266</u>	<u>108</u>	<u>44</u>	<u>158</u>
Total expenditures	<u>145,875</u>	<u>220,273</u>	<u>228,875</u>	<u>(74,398)</u>	<u>(8,602)</u>
Change in fund balance	34,754	(36,753)	(47,325)	71,507	10,572
Fund balance—Beginning of period	<u>300,220</u>	<u>336,973</u>	<u>384,298</u>	<u>(36,753)</u>	<u>(47,325)</u>
Fund balance—End of period	<u>\$ 334,974</u>	<u>\$ 300,220</u>	<u>\$ 336,973</u>	<u>\$ 34,754</u>	<u>\$ (36,753)</u>

The revenue of STAR's debt service fund for FY 2008, 2007 and 2006 is composed of the annual LGAC payment and investment income. FY 2008 expenditures were lower than those of 2007 because defeasances lowered the amount of principal and interest payments due during the year. FY 2007 expenditures were lower than those of 2006, primarily because the latter included a non-recurring payment of \$27 million made to the City to enable the City to redeem City bonds held by MAC. During 2007, STAR defeased a larger amount of outstanding bond principal than in either 2008 or 2006; sizing of the defeasance transactions was based on available resources.

# SALES TAX ASSET RECEIVABLE CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (continued)

### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued)

The following summarizes STAR's debt service fund assets, liabilities, and fund balances as of June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
<b>Assets:</b>					
Cash and investments	\$ 334,835	\$ 300,056	\$ 336,842	\$ 34,779	\$ (36,786)
Other assets	<u>161</u>	<u>189</u>	<u>165</u>	<u>(28)</u>	<u>24</u>
<b>Total assets</b>	<b><u>\$ 334,996</u></b>	<b><u>\$ 300,245</u></b>	<b><u>\$ 337,007</u></b>	<b><u>\$ 34,751</u></b>	<b><u>\$ (36,762)</u></b>
<b>Liabilities</b>					
Accrued expense	<u>22</u>	<u>25</u>	<u>34</u>	<u>(3)</u>	<u>(9)</u>
<b>Total liabilities</b>	<b><u>22</u></b>	<b><u>25</u></b>	<b><u>34</u></b>	<b><u>(3)</u></b>	<b><u>(9)</u></b>
<b>Fund Balance:</b>					
Reserved for debt service	334,513	299,694	335,314	34,819	(35,620)
Reserved for debt retirement, debt service, or arbitrage rebate	8	10	1,157	(2)	(1,147)
Unreserved	<u>453</u>	<u>516</u>	<u>502</u>	<u>(63)</u>	<u>14</u>
<b>Total fund balance</b>	<b><u>334,974</u></b>	<b><u>300,220</u></b>	<b><u>336,973</u></b>	<b><u>34,754</u></b>	<b><u>(36,753)</u></b>
<b>Total liabilities and fund balance</b>	<b><u>\$ 334,996</u></b>	<b><u>\$ 300,245</u></b>	<b><u>\$ 337,007</u></b>	<b><u>\$ 34,751</u></b>	<b><u>\$ (36,762)</u></b>

At June 30, 2008, 2007 and 2006, STAR's debt service fund assets consisted mainly of cash and cash equivalents restricted for debt service payments and required debt service reserves. The fund balances are thus predominantly reserved for debt service. The restricted resources held for debt service at each year end, and the resulting reservation of fund balance, reflects the amount of bond principal and interest due during the subsequent fiscal year, including the impact of defeasances. The defeasances in 2008 and 2007 utilized virtually all resources available for that purpose, resulting in the decrease in net assets reserved for debt retirement, debt service, or arbitrage between June 30, 2006 and 2007 and again at June 30, 2008.

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# SALES TAX ASSET RECEIVABLE CORPORATION

## STATEMENTS OF NET ASSETS (DEFICIT)

AS OF JUNE 30, 2008 AND 2007

(Amounts in thousands)

	2008	2007
ASSETS:		
Unrestricted cash and cash-equivalents	\$ 15	\$ 378
Restricted cash and cash-equivalents	3,435	31
Unrestricted investments	300	-
Restricted investments	331,085	299,647
Unrestricted interest receivable	-	1
Restricted interest receivable	1	25
Other receivables	4	-
Prepaid expenses	156	163
Unamortized bond issuance costs	<u>19,374</u>	<u>21,099</u>
Total assets	<u>354,370</u>	<u>321,344</u>
LIABILITIES:		
Accrued expenses	22	25
Accrued interest payable	23,898	24,123
Deferred net gain on defeasances	400	1,397
Bonds payable:		
Portion due within one year	51,520	15,485
Portion due after one year	2,287,080	2,352,630
Unamortized bond premium	<u>91,925</u>	<u>97,178</u>
Total liabilities	<u>2,454,845</u>	<u>2,490,838</u>
NET ASSETS (DEFICIT):		
Restricted for debt service	334,513	299,694
Restricted for debt retirement, debt service, or arbitrage rebate	8	10
Unrestricted	<u>(2,434,996)</u>	<u>(2,469,198)</u>
Total deficit	<u>\$ (2,100,475)</u>	<u>\$ (2,169,494)</u>

See notes to financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

## STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands)

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	2008	2007
REVENUES AND GAINS:		
New York State Local Government Assistance		
Corporation revenue	\$ 170,000	\$ 170,000
Investment income	10,629	13,520
Gain on defeasance	498	15
	<u>181,127</u>	<u>183,535</u>
Total revenues and gains		
EXPENSES:		
Bond interest expense	110,175	113,085
Amortization of bond issuance costs	1,623	1,675
General and administrative expense	310	266
	<u>112,108</u>	<u>115,026</u>
Total expenses		
CHANGE IN NET ASSETS	<u>69,019</u>	<u>68,509</u>
NET DEFICIT—Beginning of period	<u>(2,169,494)</u>	<u>(2,238,003)</u>
NET DEFICIT—End of period	<u>\$ (2,100,475)</u>	<u>\$ (2,169,494)</u>

See notes to financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

## DEBT SERVICE FUND BALANCE SHEETS AS OF JUNE 30, 2008 AND 2007 (Amounts in thousands)

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	2008	2007
ASSETS:		
Unrestricted cash and cash-equivalents	\$ 15	\$ 378
Restricted cash and cash-equivalents	3,435	31
Unrestricted investments	300	-
Restricted investments	331,085	299,647
Unrestricted interest receivable	-	1
Restricted interest receivable	1	25
Other receivables	4	-
Prepaid expenses	<u>156</u>	<u>163</u>
 Total assets	 <u>\$ 334,996</u>	 <u>\$ 300,245</u>
LIABILITIES:		
Accrued expenses	<u>22</u>	<u>25</u>
 Total liabilities	 <u>22</u>	 <u>25</u>
FUND BALANCE:		
Reserved for debt service	334,513	299,694
Reserved for debt retirement, debt service, or arbitrage rebate	8	10
Unreserved	<u>453</u>	<u>516</u>
 Total fund balance	 <u>334,974</u>	 <u>300,220</u>
 Total liabilities and fund balance	 <u>\$ 334,996</u>	 <u>\$ 300,245</u>

See notes to financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

## DEBT SERVICE FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

(Amounts in thousands)

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	2008	2007
REVENUES:		
New York State Local Government Assistance Corporation revenue	\$ 170,000	\$ 170,000
Investment income	<u>10,629</u>	<u>13,520</u>
Total revenues	<u>180,629</u>	<u>183,520</u>
EXPENDITURES:		
Bond interest	115,536	118,641
Principal amount of bonds retired	15,485	48,145
Advance refunding escrow	14,544	53,221
General and administrative	<u>310</u>	<u>266</u>
Total expenditures	<u>145,875</u>	<u>220,273</u>
CHANGE IN FUND BALANCE	34,754	(36,753)
FUND BALANCE—Beginning of period	<u>300,220</u>	<u>336,973</u>
FUND BALANCE—End of period	<u>\$ 334,974</u>	<u>\$ 300,220</u>

See notes to financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

## RECONCILIATIONS OF DEBT SERVICE FUND BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT) AS OF JUNE 30, 2008 AND 2007 (Amounts in thousands)

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	2008	2007
Fund balance - debt service fund	\$ 334,974	\$ 300,220
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of bond issuance are reported as expenditures in the governmental fund financial statements. However, in the statements of net assets (deficit), the costs of bond issuance are reported as capitalized assets and amortized over the life of the bond.	19,374	21,099
Bond premiums are reported as other financing sources in the governmental fund financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bond.	(91,925)	(97,178)
Payments to defease bonds prior to maturity are reported as expenditures in the governmental fund financial statements. However, in the statements of net assets (deficit), the difference between the carrying value of the defeased bond and the amount paid to defease the bond is reported as deferred gains or losses and amortized over the life of the bond.	(400)	(1,397)
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental fund financial statements, but are reported in the statements of net assets (deficit). Those liabilities consist of:		
Bonds payable	(2,338,600)	(2,368,115)
Accrued interest payable	<u>(23,898)</u>	<u>(24,123)</u>
Net deficit	<u>\$ (2,100,475)</u>	<u>\$ (2,169,494)</u>

## SALES TAX ASSET RECEIVABLE CORPORATION

### RECONCILIATIONS OF DEBT SERVICE FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

(Amounts in thousands)

	2008	2007
Net change in debt service fund balance	\$ 34,754	\$ (36,753)
Amount reported for governmental activities in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities on the statements of net assets (deficit).	15,485	48,145
Governmental fund financial statements report the costs of debt issuance as expenditures. However, on the statements of activities, the cost of debt issuance is amortized over the life of the debt.	(1,623)	(1,675)
Governmental fund financial statements report bond premiums as other financing sources. However, on the statements of activities, premiums are amortized as interest expense over the life of the bond.	5,253	5,253
Payments to defease bonds prior to maturity are reported as expenditures in the governmental fund financial statements, However, in the statements of net assets (deficit), the difference between the carrying value of the defeased debt and the amount paid to defease it is reported as deferred gains or losses and amortized over the life of the bond.	15,042	52,796
Interest is reported on the statement of activities on the accrual basis. However, interest is reported as an expenditure in governmental fund financial statements when the outlay of financial resources is required.	<u>108</u>	<u>743</u>
Change in net assets	<u>\$ 69,019</u>	<u>\$ 68,509</u>

See notes to financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

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### 1. ORGANIZATION

Sales Tax Asset Receivable Corporation (“STAR” or the “Corporation”) is a special purpose, bankruptcy remote, local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the “State”). STAR is an instrumentality of, but separate and apart from, The City of New York (the “City”). STAR is governed by a Board of Directors elected by its six Members, all of whom are officials of the City. STAR’s Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor of the City prior to any such actions. Although legally separate from the City, STAR is a financing instrumentality of the City and, accordingly, is included in the City’s financial statements as a blended component unit in accordance with Governmental Accounting Standards Board (“GASB”) Statement 14, as amended.

Section 3238-a of the New York State Public Authorities Law (the “Law”), which terminates on July 1, 2034, requires that \$170 million be paid annually by the New York State Local Government Assistance Corporation (“LGAC Revenue”) to the City or its assignee. Pursuant to the Assignment and Agreement (the “Assignment”) between the City and STAR, the City irrevocably assigned to STAR all rights and interest in all amounts payable to the City under the Law.

In consideration for this assignment, STAR used the proceeds of its November 4, 2004 \$2.55 billion bond issue to provide for the payment of the principal and interest and redemption premium, if any, on all outstanding bonds of the Municipal Assistance Corporation For The City of New York (“MAC”) and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. The payment of the outstanding MAC bonds results in the receipt by the City of tax revenues that would otherwise be paid to MAC for the payment of debt service on MAC’s bonds.

STAR does not have any employees; its affairs are administered by employees of the City and of another component unit of the City, for which STAR pays a management fee, rent and overhead based on its allocated share of personnel and other costs.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The entity-wide financial statements of STAR, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34. The entity-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

STAR’s governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenue is generally considered available if expected to be received within one year after period end. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The governmental fund financial statements consist solely of a debt service fund, which accounts for the accumulation of resources for payment of principal and interest on debt and supports the operations of STAR.

Investments, including accrued interest, are reported at fair value as of the reporting date.

Bond premium and issuance costs are capitalized and amortized over the life of the related debt using the interest method in the entity-wide financial statements. The amounts of unamortized bond premium at June 30, 2008 and 2007 are \$91,925 and \$97,178, respectively, which are net of accumulated amortization of \$19,262 and \$14,009, respectively. The amounts of unamortized issuance costs at June 30, 2008 and 2007 are \$19,374 and \$21,099, respectively, which are net of accumulated amortization and amounts written-off for defeasance of \$7,354 and \$5,629, respectively.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the period of the related bond issuance. The face amount of debt issued is reported as another financing source, as is the premium on debt issued. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Principal payments and payments into defeasance escrow accounts are reported as expenditures in the period made.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the governmental fund financial statements.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires STAR'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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Resources set aside for debt service or redemption in accordance with STAR's bond indenture are classified as restricted on the statements of net assets (deficit). When both restricted and unrestricted resources are available for use, it is STAR's policy to use restricted resources first, then unrestricted resources as they are needed.

STAR has adopted Statement of Governmental Accounting Standards No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenue ("GASB No. 48"). GASB No. 48 does not have an impact on the STAR's financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

### 3. BONDS PAYABLE

In connection with the assignment of The City's right to and interest in the LGAC Revenue to STAR, STAR has issued \$2.55 billion of bonds as of June 30, 2008. STAR has pledged the LGAC Revenue to secure the bonds.

Outstanding bonds payable bear interest at fixed rates ranging from 3.600% to 5.250%. A summary of changes in outstanding bonds during the year ended June 30, 2008 is as follows:

	Balance June 30, 2007	Period Ended June 30, 2008		Balance June 30, 2008
		Bonds Issued	Bonds Retired & Defeased	
2005 Series A	\$ 1,869,010	\$ -	\$ -	\$ 1,869,010
2005 Series B	<u>499,105</u>	<u>-</u>	<u>29,515</u>	<u>469,590</u>
Totals	<u>\$ 2,368,115</u>	<u>\$ -</u>	<u>\$ 29,515</u>	<u>\$ 2,338,600</u>

A summary of changes in outstanding bonds during the period ended June 30, 2007 is as follows:

	Balance June 30, 2006	Period Ended June 30, 2007		Balance June 30, 2007
		Bonds Issued	Bonds Retired & Defeased	
2005 Series A	\$ 1,869,010	\$ -	\$ -	\$ 1,869,010
2005 Series B	<u>601,395</u>	<u>-</u>	<u>102,290</u>	<u>499,105</u>
Totals	<u>\$ 2,470,405</u>	<u>\$ -</u>	<u>\$ 102,290</u>	<u>\$ 2,368,115</u>

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

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### 3. BONDS PAYABLE (continued)

Debt service requirements, including principal and interest, at June 30, 2008, are as follows:

Year Ended June 30,	Principal	Interest	Total
2009	\$ 51,520	\$ 113,784	\$ 165,304
2010	26,450	112,350	138,800
2011	14,640	111,546	126,186
2012	58,170	110,013	168,183
2013	60,815	107,433	168,248
2014 to 2018	350,480	491,056	841,536
2019 to 2023	450,340	391,616	841,956
2024 to 2028	577,420	263,247	840,667
2029 to 2033	741,380	97,809	839,189
2034	<u>7,385</u>	<u>166</u>	<u>7,551</u>
Totals	<u>\$ 2,338,600</u>	<u>\$ 1,799,020</u>	<u>\$ 4,137,620</u>

As of June 30, 2008 and 2007, STAR had defeased, with Defeasance Collateral, bonds with principal amounts totaling \$102,420 and \$88,390, respectively, of which \$68,175 remains to be paid as of June 30, 2008 from Defeasance Collateral held in escrow accounts on deposit with STAR's escrow trustee.

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

### 4. CASH

STAR's cash consisted of the following deposits at June 30, 2008 and 2007:

	June 30, 2008		June 30, 2007	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Unrestricted:				
FDIC insured deposits	\$ -	\$ -	\$ -	\$ -
Uninsured and not collateralized	-	-	-	-
Total unrestricted	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Restricted for debt service				
FDIC insured deposits	-	-	-	-
Uninsured and not collateralized	-	-	21	21
Total restricted for debt service	<u>-</u>	<u>-</u>	<u>21</u>	<u>21</u>
Restricted for debt retirement, debt service or arbitrage rebate:				
FDIC insured deposits	-	-	-	-
Uninsured and not collateralized	-	-	-	-
Total restricted for debt retirement, debt service or arbitrage rebate	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Deposits	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21</u>	<u>\$ 21</u>

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

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### 5. INVESTMENTS

STAR's investments consisted of the following at June 30, 2008 and 2007:

	June 30, 2008	June 30, 2007
Unrestricted:		
Money market funds	\$ 15	\$ 41
Federal Home Loan Mortgage Corporation discount notes (maturing within 120 days)	300	-
Federal Farm Credit Bank Notes (maturing within 90 days)	<u>-</u>	<u>337</u>
Total unrestricted	<u>315</u>	<u>378</u>
Restricted for debt service:		
Money Market Funds	3,427	-
Federal Home Loan Bank discount notes (maturing within 120 days)	162,456	295,350
Federal National Mortgage Association discount notes (maturing within 120 days)	168,629	-
Federal Home Loan Mortgage Corporation discount notes (maturing within 120 days)	<u>-</u>	<u>4,298</u>
Total restricted for debt service	<u>334,512</u>	<u>299,648</u>
Restricted for debt retirement, debt service or arbitrage rebate:		
Money market funds	<u>8</u>	<u>9</u>
Total Restricted for debt-retirement, debt service or arbitrage rebate	<u>8</u>	<u>9</u>
Total investments	<u>\$ 334,835</u>	<u>\$ 300,035</u>

Each account of STAR is held pursuant to the Indenture and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture. All investments are registered and are held by STAR's agent in STAR's name.

# SALES TAX ASSET RECEIVABLE CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (AMOUNTS IN THOUSANDS, EXCEPT AS NOTED)

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### 5. INVESTMENTS (continued)

**Credit Risk**—At June 30, 2008 and 2007, all investments held by STAR are obligations of, or guaranteed by, the United States of America, or carry ratings of “AAA” from Standard & Poor’s and “Aaa” from Moody’s.

**Interest Rate Risk**—All investments held by STAR are short term maturities, and thus are subject to minimal risk of fair value decline due to changes in market interest rates.

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