SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of the City of New York

Financial Statements

June 30, 2009 and 2008

(With Independent Auditors' Report Thereon)

SALES TAX ASSET RECEIVABLE CORPORATION
A Component Unit of the City of New York

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KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

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 and the debt service fund of Sales Tax Asset Receivable Corporation (the Corporation), a component unit of the City of New York, as of and for the year ended June 30, 2009, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit. The accompanying basic financial statements of the Corporation as of June 30, 2008, were audited by other auditors whose report thereon dated September 17, 2008, expressed an unqualified opinion on those statements.

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 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 the Corporation 's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and debt service fund of the Corporation, as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2009 on our consideration of the Corporation'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

September 21, 2009

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, 2009 and 2008 and for the years then ended. It should be read in conjunction with STAR's government-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 government-wide financial statements; and (3) the governmental fund financial statements.

The government-wide financial statements, which include the statements of net assets 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 government-wide financial 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 government-wide and fund financial statements.

Financial Highlights and Overall Analysis – Government-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 of New York (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.

On June 30, 2009, June 29, 2008 and June 30, 2007, STAR used: $37 million, $15 million and $53 million of available resources on-hand, respectively, to defease bonds, as permitted by the Trust Indenture dated October 1, 2004 (the Indenture). The fiscal year 2009 loss on defeasance resulted from market interest rates at time of defeasance being lower than interest rates at time of bond issuance. When the defeased investments were purchased to fund the related debt service it caused an accounting loss to occur.

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Government-Wide Financial Statements – (continued)

The following summarizes the activities of STAR for the fiscal years ended June 30, 2009, 2008 and 2007:

	2009	2008	2007	2009 v 2008 Change	2008 v 2007 Change
Revenues and gains:					
LGAC revenue	$ 170,000	$ 170,000	$ 170,000	$ —	$ —
Other income and gains	5,472	11,127	13,535	(5,655)	(2,408)
Total revenues and gain	175,472	181,127	183,535	(5,655)	(2,408)
Expenses:					
Bond interest	108,145	110,175	113,085	(2,030)	(2,910)
Other	3,946	1,933	1,941	2,013	(8)
Total expenses	112,091	112,108	115,026	(17)	(2,918)
Change in net assets	63,381	69,019	68,509	(5,638)	510
Net (deficit) – beginning of year	(2,100,475)	(2,169,494)	(2,238,003)	69,019	68,509
Net (deficit) – end of year	$ (2,037,094)	$ (2,100,475)	$ (2,169,494)	$ 63,381	$ 69,019

STAR's revenues for fiscal years 2009, 2008 and 2007 are composed of the annual LGAC payments and other income, which is principally investment income. Expenses for fiscal year 2009 are slightly lower than fiscal year 2008; and fiscal year 2008 expenses are lower than fiscal year 2007, as the declining bond principal outstanding resulted in reduced bond interest costs each year.

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Government-Wide Financial Statements – (continued)

The following summarizes STAR's assets, liabilities, and net assets as of June 30, 2009, 2008 and 2007:

	2009	2008	2007	2009 v 2008 Change	2008 v 2007 Change
Assets:					
Noncapital	$ 325,622	$ 354,370	$ 321,344	$ (28,748)	$ 33,026
Total assets	325,622	354,370	321,344	(28,748)	33,026
Liabilities:					
Current liabilities	49,674	75,440	39,633	(25,766)	35,807
Long-term liabilities	2,313,042	2,379,405	2,451,205	(66,363)	(71,800)
Total liabilities	2,362,716	2,454,845	2,490,838	(92,129)	(35,993)
Net assets:					
Unrestricted	(2,037,094)	(2,100,475)	(2,169,494)	63,381	69,019
Total net (deficit)	$ (2,037,094)	$ (2,100,475)	$ (2,169,494)	$ 63,381	$ 69,019

At June 30, 2009, 2008 and 2007, STAR's assets consisted mainly of cash equivalents and investments 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 4, 2004 bond issue which is being and will continue to be repaid from future LGAC revenues.

(Amounts in thousands, except as noted)

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, 2009, 2008 and 2007:

	2009	2008	2007	2009 v 2008 Change	2008 v 2007 Change
Revenues:					
LGAC revenue	$ 170,000	$ 170,000	$ 170,000	$ —	$ —
Investment income	5,472	10,629	13,520	(5,157)	(2,891)
Total revenues	175,472	180,629	183,520	(5,157)	(2,891)
Expenditures:					
Bond interest	113,784	115,536	118,641	(1,752)	(3,105)
Principal amount of bonds retired	51,520	15,485	48,145	36,035	(32,660)
Advance refunding escrow	36,900	14,544	53,221	22,356	(38,677)
General and administrative	302	310	266	(8)	44
Total expenditures	202,506	145,875	220,273	56,631	(74,398)
Net change in fund balance	(27,034)	34,754	(36,753)	(61,788)	71,507
Fund balance – beginning of year	334,974	300,220	336,973	34,754	(36,753)
Fund balance – end of year	$ 307,940	$ 334,974	$ 300,220	$ (27,034)	$ 34,754

The revenue of STAR's debt service fund for fiscal years 2009, 2008 and 2007 is composed of the annual LGAC payment and investment income. Fiscal year 2009 expenditures were greater than those in fiscal year 2008, primarily because a greater amount of principal payments were due during the year. Fiscal year 2008 expenditures were lower than those in fiscal year 2007 primary because defeasances lowered the amount of principal payments due during the year. During fiscal year 2009 and fiscal year 2007, STAR defeased a larger amount of outstanding bond principal than in fiscal year 2008; sizing of the defeasance transactions was based on available resources.

(Amounts in thousands, except as noted)

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, 2009, 2008 and 2007:

	2009	2008	2007	2009 v 2008 Change	2008 v 2007 Change
Assets:					
Cash and investments	$ 307,801	$ 334,835	$ 300,056	$ (27,034)	$ 34,779
Other assets	153	161	189	(8)	(28)
Total assets	$ 307,954	$ 334,996	$ 300,245	$ (27,042)	$ 34,751
Liabilities:					
Accrued expenses	$ 14	$ 22	$ 25	$ (8)	$ (3)
Total liabilities	14	22	25	(8)	(3)
Fund balances:					
Reserved for debt service	307,369	334,513	299,694	(27,144)	34,819
Reserved for debt retirement, debt service, or arbitrage rebate	—	8	10	(8)	(2)
Unreserved	571	453	516	118	(63)
Total fund balances	307,940	334,974	300,220	(27,034)	34,754
Total liabilities and fund balances	$ 307,954	$ 334,996	$ 300,245	$ (27,042)	$ 34,751

At June 30, 2009, 2008 and 2007, STAR's debt service fund assets consisted mainly of cash equivalents and investments 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 reflects the amount of bond principal and interest due during the subsequent fiscal year, the required reserve set by the Indenture, and the impact of defeasances.

SALES TAX ASSET RECEIVABLE CORPORATION
A Component Unit of the City of New York

Statements of Net Assets (Deficit)

June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Assets:		
Unrestricted cash and cash equivalents	$ 82	$ 15
Restricted cash and cash equivalents	2	3,435
Unrestricted investments	350	300
Restricted investments	307,367	331,085
Restricted interest receivable	—	1
Other receivables	—	4
Prepaid expenses	153	156
Unamortized bond issuance costs	17,668	19,374
Total assets	325,622	354,370
Liabilities:		
Accrued expenses	14	22
Accrued interest payable	23,210	23,898
Deferred net gain on defeasances	—	400
Bonds payable:		
Portion due within one year	26,450	51,520
Portion due after one year	2,226,370	2,287,080
Unamortized bond premium	86,672	91,925
Total liabilities	2,362,716	2,454,845
Net assets (deficit):		
Unrestricted	(2,037,094)	(2,100,475)
Total net (deficit)	$ (2,037,094)	$ (2,100,475)

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION
A Component Unit of the City of New York

Statements of Activities

Years ended June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Revenues and gains:		
New York State Local Government Assistance Corporation revenue	$ 170,000	$ 170,000
Investment income	5,472	10,629
Gain on defeasance	—	498
Total revenues and gains	175,472	181,127
Expenses:		
Bond interest	108,145	110,175
Loss on defeasance	2,163	—
Amortization of bond issuance costs	1,481	1,623
General and administrative	302	310
Total expenses	112,091	112,108
Change in net assets	63,381	69,019
Net (deficit) – beginning of year	(2,100,475)	(2,169,494)
Net (deficit) – end of year	$ (2,037,094)	$ (2,100,475)

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of the City of New York

Debt Service Fund Balance Sheets

June 30, 2009 and 2008

(Amounts in thousands)

		2009		2008
Assets:				
Unrestricted cash and cash equivalents	$	82	$	15
Restricted cash and cash equivalents		2		3,435
Unrestricted investments		350		300
Restricted investments		307,367		331,085
Restricted interest receivable		—		1
Other receivables		—		4
Prepaid expenses		153		156
Total assets	$	307,954	$	334,996
Liabilities:				
Accrued expenses	$	14	$	22
Total liabilities		14		22
Fund balances:				
Reserved for debt service		307,369		334,513
Reserved for debt retirement, debt service, or arbitrage rebate		—		8
Unreserved		571		453
Total fund balances		307,940		334,974
Total liabilities and fund balances	$	307,954	$	334,996

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION
A Component Unit of the City of New York

Reconciliations of Debt Service Fund Balance Sheets to Statements of Net Assets

June 30, 2009 and 2008

(Amounts in thousands)

	2009	2008
Fund balance – debt service fund	$ 307,940	$ 334,974
Amounts reported in the statements of net assets are different because:		
Costs of bond issuance are reported as expenditures in the debt service fund financial statements upon issuance. However, in the statements of net assets, the costs of bond issuance are reported as capitalized assets and amortized over the life of the bonds.	17,668	19,374
Bond premiums are reported as other financing sources in the debt service fund financial statements. However, in the statements of net assets, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(86,672)	(91,925)
Payments to defease bonds prior to maturity are reported as expenditures in the governmental fund financial statements. However, in the statements of net assets, the difference between the carrying value of the defeased bonds and the amount paid to defease the bonds is reported as deferred gains or losses and amortized over the life of the bonds.	—	(400)
Some liabilities are not due and payable in the current period from currently available financial resources at year end and are therefore not reported in the debt service fund financial statements, but are reported in the statement of net assets. Those liabilities consist of:		
Bonds payable	(2,252,820)	(2,338,600)
Accrued interest payable	(23,210)	(23,898)
Net assets (deficit) – statement of net assets	$ (2,037,094)	$ (2,100,475)

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION
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Debt Service Fund Statements of Revenues, Expenditures
and Change in Fund Balances

Years ended June 30, 2009 and 2008

(Amounts in thousands)

		2009		2008
Revenues:				
New York State Local Government Assistance Corporation revenue	$	170,000	$	170,000
Investment income		5,472		10,629
Total revenues		175,472		180,629
Expenditures:				
Bond interest		113,784		115,536
Principal amount of bonds retired		51,520		15,485
Advance refunding escrow		36,900		14,544
General and administrative		302		310
Total expenditures		202,506		145,875
Net change in fund balance		(27,034)		34,754
Fund balance – beginning of year		334,974		300,220
Fund balance – end of year	$	307,940	$	334,974

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION
A Component Unit of the City of New York

Reconciliations of Debt Service Fund Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities

Years ended June 30, 2009 and 2008

(Amounts in thousands)

		2009		2008
Net change in fund balances – debt service fund	$	(27,034)	$	34,754
Amounts reported in the statements of activities are different because:				
Repayment of bond principal is an expenditure in the debt service fund financial statements, but the repayment reduces bonds payable on the statements of net assets.		51,520		15,485
Governmental funds financial statements report costs of bond issuance as expenditures. However, on the statements of activities, the cost of debt issuance is amortized over the life of the bonds.		(1,481)		(1,623)
Governmental fund financial statements report bond premiums as other financing sources upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.		5,253		5,253
Payments to defease bonds prior to maturity are reported as expenditures in the debt service fund financial statements, however, in the statements of net assets, the difference between the carrying value of the defeased bonds and the amount paid to defease the bonds are reported as deferred gains or losses and amortized over the life of the bonds.		34,737		15,042
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in debt service fund financial statements when the outlay of financial resources is required.		386		108
Change in net assets – statement of net assets	$	63,381	$	69,019

See accompanying notes to financial statements.

(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 No. 14, *The Financial Reporting Entity*, 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 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 based on its allocated share of personnel and overhead costs.

(2) Summary of Significant Accounting Policies

The government-wide financial statements of STAR, which include the statements of net assets and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended. The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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.

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.

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 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 government-wide financial statements. The amounts of unamortized bond premium at June 30, 2009 and 2008 are $86,672 and $91,925, respectively, which are net of accumulated amortization of $24,515 and $19,262, respectively. The amounts of unamortized issuance costs at June 30, 2009 and 2008 are $17,668 and $19,374, respectively, which are net of accumulated amortization and amounts written-off for defeasance of $9,060 and $7,354, 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 an other 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 government-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 as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

Resources set aside for debt service or redemption in accordance with STAR's Trust Indenture, dated October 1, 2004 (the Indenture), are classified as restricted on the statements of net assets. 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.

Certain 2008 net asset amounts were reclassified to conform to 2009 presentation.

As a Component Unit of the City, STAR implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the new standards which will or may impact STAR.

- 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 STAR's financial statements.
- In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement established accounting and financial reporting standards for pollution remediation obligations which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. GASB 49 was effective for financial statements for periods beginning after December 15, 2007, and was thus implemented by the City for its fiscal year ended June 30, 2009. There was no impact on STAR's financial statements as a result of implementation of GASB 49.
- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 are effective for financial statements for periods beginning after June 15, 2009. STAR has not completed the process of evaluating GASB 51, but does not expect GASB 51 to have a material impact on its financial statements.
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. The requirements for GASB 53 are effective for financial statements for periods beginning after June 15, 2009. STAR has not completed the process of evaluating the impact of GASB 53 on its financial statements.
- In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances in the financial statements and requires that governments disclose their fund balance classifications, policies and procedures in the Notes. Fund balances will be classified as nonspendable, restricted, committed, assigned, and/or unassigned, depending on the definitions provided in the Statement. Additionally, GASB 54 refines the definitions of each of the governmental fund types, such as debt service and capital projects funds. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. STAR has not completed the process of evaluating the impact of GASB 54 on its financial statements, but STAR's governmental fund financial statement presentation will most likely be impacted by the implementation of GASB 54.

(Continued)

(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, 2009. STAR has pledged the LGAC revenue to secure the bonds.

Outstanding bonds payable bear interest at fixed rates ranging from 3.50% to 5.25%. A summary of changes in outstanding bonds during the year ended June 30, 2009 is as follows:

	Balance June 30, 2008	Period ended June 30, 2009: Bonds issued	Period ended June 30, 2009: Bonds retired and defeased	Balance June 30, 2009
2005 Series A	$ 1,869,010	$ —	$ —	$ 1,869,010
2005 Series B	469,590	—	85,780	383,810
Totals	$ 2,338,600	$ —	$ 85,780	$ 2,252,820

A summary of changes in outstanding bonds during the period ended June 30, 2008 is as follows:

	Balance June 30, 2007	Period ended June 30, 2008: Bonds issued	Period ended June 30, 2008: Bonds retired and defeased	Balance June 30, 2008
2005 Series A	$ 1,869,010	$ —	$ —	$ 1,869,010
2005 Series B	499,105	—	29,515	469,590
Totals	$ 2,368,115	$ —	$ 29,515	$ 2,338,600

(Amounts in thousands, except as noted)

Debt service requirements, including principal and interest, at June 30, 2009, are as follows:

		Principal		**Interest**		**Total**
Year ended June 30:						
2010	$	26,450	$	110,900	$	137,350
2011		11,640		110,157		121,797
2012		26,910		109,349		136,259
2013		60,815		107,433		168,248
2014		63,690		104,637		168,327
2015 – 2019		367,950		473,746		841,696
2020 – 2024		473,500		368,213		841,713
2025 – 2029		607,055		233,332		840,387
2030 – 2034		614,810		63,966		678,776
Totals	$	2,252,820	$	1,681,733	$	3,934,553

As of June 30, 2009 and 2008, STAR had defeased, with defeasance collateral, bonds with principal amounts totaling $136,680 and $102,420, respectively, of which $102,435 remains to be paid as of June 30, 2009 from defeasance collateral held in escrow accounts on deposit with STAR's escrow trustee.

(4) Cash and Cash Equivalents

As of June 30, 2009, STAR did not have any cash deposits on hand. Cash equivalents were comprised of a Treasury Money Market Fund which was partially restricted for debt service (see note 5). STAR's cash equivalents consisted of the following at June 30, 2009 and 2008:

		2009		**2008**
Cash	$	—	$	—
Cash equivalents (see note 5)		84		3,450
Cash and cash equivalents	$	84	$	3,450

(Amounts in thousands, except as noted)

(5) Investments

STAR's investments consisted of the following at June 30, 2009 and 2008:

		2009		**2008**
Unrestricted:				
Treasury Money Market Funds	$	82	$	15
Federal National Mortgage Association discount notes (maturing within one year)		350		300
Total unrestricted		432		315
Restricted for debt service:				
Treasury Money Market Funds		2		3,427
Federal Home Loan Bank discount notes (maturing within one year)		62,486		162,456
Federal National Mortgage Association discount notes (maturing within one year)		150,661		168,629
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)		94,220		—
Total restricted		307,369		334,512
Restricted for debt retirement, debt service or arbitrage rebate:				
Treasury Money Market Funds		—		8
Total restricted for debt retirement, debt service, or arbitrage		—		8
Total investments including cash equivalents		307,801		334,835
Less amounts reported as cash equivalents (see note 4)		(84)		(3,450)
Total investments	$	307,717	$	331,385

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

Credit Risk – STAR limits all investments in obligations of, or guaranteed by, the United States of America, or are rated "AAA" by Standard & Poor's and "Aaa" by 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.

(Continued)

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of STAR's investment in a single issuer (5% or more). STAR's investment policy places no limit on the amount STAR may invest in any one issuer of eligible government obligations as defined in the Indenture. As of June 30, 2009 more than 5% of STAR's investments are in the Federal Home Loan Bank, Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. These investments are 20.3%, 48.9% and 30.6%, respectively, of STAR's total investments.