



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

Financial Statements

June 30, 2011 and 2010

(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
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Sales Tax Asset Receivable Corporation (the Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2011 and 2010, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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 audits provide 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 each major fund of the Corporation, as of June 30, 2011 and 2010, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011 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 8 is not a required part of the basic financial statements but is 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 27, 2011

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

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, 2011 and 2010 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 (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) standards. 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. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

STAR's governmental funds 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 principal and interest on bonds payable, which are recognized when due.

The reconciliations of the governmental funds balance sheets to the statements of net assets (deficit) and the reconciliations of the governmental funds statements of revenues, expenditures and changes in fund balances to the statements of activities 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, 2011, June 30, 2010 and June 30, 2009, STAR used: \$54 million, \$52 million and \$37 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 2011 and 2010 loss on defeasance resulted from market interest rates at the time of defeasance being lower than interest rates at time of bond issuance. When the defeasance investments were purchased to fund the related debt service, it caused an accounting loss.

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Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(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, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Revenues:					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ —	\$ —
Other income	3,837	984	5,472	2,853	(4,488)
Total revenues	<u>173,837</u>	<u>170,984</u>	<u>175,472</u>	<u>2,853</u>	<u>(4,488)</u>
Expenses:					
Bond interest	102,690	105,435	108,145	(2,745)	(2,710)
Other	5,751	5,513	3,946	238	1,567
Total expenses	<u>108,441</u>	<u>110,948</u>	<u>112,091</u>	<u>(2,507)</u>	<u>(1,143)</u>
Change in net assets	65,396	60,036	63,381	5,360	(3,345)
Net (deficit) – beginning of year	<u>(1,977,058)</u>	<u>(2,037,094)</u>	<u>(2,100,475)</u>	<u>60,036</u>	<u>63,381</u>
Net (deficit) – end of year	<u>\$ (1,911,662)</u>	<u>\$ (1,977,058)</u>	<u>\$ (2,037,094)</u>	<u>\$ 65,396</u>	<u>\$ 60,036</u>

STAR's revenues for fiscal years 2011, 2010, and 2009 are composed of the annual LGAC payments and other income, which is primarily investment income. Expenses for fiscal year 2011 are lower than fiscal year 2010, and fiscal year 2010 expenses are lower than fiscal year 2009, because the declining bond principal outstanding resulted in reduced bond interest costs each year.

The following summarizes STAR's assets, liabilities, and net assets as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Assets:					
Non-capital	\$ 302,977	\$ 304,846	\$ 325,622	\$ (1,869)	\$ (20,776)
Total assets	<u>302,977</u>	<u>304,846</u>	<u>325,622</u>	<u>(1,869)</u>	<u>(20,776)</u>
Liabilities:					
Current liabilities	32,927	34,224	49,674	(1,297)	(15,450)
Long-term liabilities	2,181,712	2,247,680	2,313,042	(65,968)	(65,362)
Total liabilities	<u>2,214,639</u>	<u>2,281,904</u>	<u>2,362,716</u>	<u>(67,265)</u>	<u>(80,812)</u>
Net assets:					
Unrestricted	<u>(1,911,662)</u>	<u>(1,977,058)</u>	<u>(2,037,094)</u>	<u>65,396</u>	<u>60,036</u>
Total net (deficit)	<u>\$ (1,911,662)</u>	<u>\$ (1,977,058)</u>	<u>\$ (2,037,094)</u>	<u>\$ 65,396</u>	<u>\$ 60,036</u>

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Government-Wide Financial Statements, continued

At June 30, 2011, 2010, and 2009, STAR's assets consisted mainly of cash equivalents and investments restricted for debt service payments and required debt service reserves. The declining liabilities are almost entirely composed of the bonds payable and unamortized original issue premium and accrued interest payable thereon. The declining 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.

Financial Highlights and Overall Analysis – Governmental Funds Financial Statements

STAR reports governmental activity using two funds: (1) a general fund (GF) and (2) a debt service fund (DSF). In fiscal year 2011, STAR implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 resulted in the creation of a general fund and the restatement of those activities that were formerly presented in the debt service fund that are now reported in a general fund. As such, STAR reports in the GF its administrative and operating expenditures and the portion of the LGAC revenue used to pay for those expenditures, in accordance with the Indenture.

The following summarizes the changes in the GF fund balances for the years ended June 30, 2011, 2010, and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Revenues:					
LGAC revenue	\$ 373	\$ 308	\$ 415	\$ 65	\$ (107)
Other income	—	1	6	(1)	(5)
Total revenues	<u>373</u>	<u>309</u>	<u>421</u>	<u>64</u>	<u>(112)</u>
Expenditures:					
General and administrative	<u>323</u>	<u>347</u>	<u>302</u>	<u>(24)</u>	<u>45</u>
Total expenditures	<u>323</u>	<u>347</u>	<u>302</u>	<u>(24)</u>	<u>45</u>
Net change in fund balances	50	(38)	119	88	(157)
Fund balances – beginning of year	<u>534</u>	<u>572</u>	<u>453</u>	<u>(38)</u>	<u>119</u>
Fund balances – end of year	<u>\$ 584</u>	<u>\$ 534</u>	<u>\$ 572</u>	<u>\$ 50</u>	<u>\$ (38)</u>

LGAC revenues fluctuate each year for the GF, as the amount deposited in the GF is based on projected general and administrative expenditures for the following year. STAR interest income between fiscal year 2011 and 2010 decreased by \$1 thousand and between fiscal years 2010 and 2009 it decreased by \$5 thousand as interest rates have significantly declined. Operating expenditures between fiscal year 2011 and 2010 decreased by \$24 thousand, and between fiscal years 2010 and 2009 they increased by \$45 thousand, as retroactive management fee adjustments were paid in fiscal year 2010.

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(Unaudited)

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued

The following summarizes the changes in the fund balance of STAR's DSF for the years ended June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Revenues:					
LGAC revenue	\$ 169,627	\$ 169,692	\$ 169,585	\$ (65)	\$ 107
Other income	3,837	983	5,466	2,854	(4,483)
Total revenues	<u>173,464</u>	<u>170,675</u>	<u>175,051</u>	<u>2,789</u>	<u>(4,376)</u>
Expenditures:					
Bond interest	108,042	110,899	113,784	(2,857)	(2,885)
Principal amount of bonds retired	11,640	26,450	51,520	(14,810)	(25,070)
Advance refunding escrow	54,176	52,451	36,900	1,725	15,551
Total expenditures	<u>173,858</u>	<u>189,800</u>	<u>202,204</u>	<u>(15,942)</u>	<u>(12,404)</u>
Net change in fund balances	(394)	(19,125)	(27,153)	18,731	8,028
Fund balances – beginning of year	<u>288,243</u>	<u>307,368</u>	<u>334,521</u>	<u>(19,125)</u>	<u>(27,153)</u>
Fund balances – end of year	<u>\$ 287,849</u>	<u>\$ 288,243</u>	<u>\$ 307,368</u>	<u>\$ (394)</u>	<u>\$ (19,125)</u>

The revenue of STAR's debt service fund for fiscal years 2011, 2010 and 2009 is primarily composed of the annual LGAC revenue and investment income. Fiscal year 2011 and fiscal year 2010 expenditures were lower than those in fiscal year 2009, because defeasances lowered the amount of principal payments due during those fiscal years. In addition, during fiscal year 2011 and fiscal year 2010, STAR defeased a larger amount of outstanding bond principal than in fiscal year 2009. The sizing of the defeasance transactions is based on available resources.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Assets:					
Cash equivalents and investments	\$ 472	\$ 422	\$ 433	\$ 50	\$ (11)
Other assets	138	138	153	—	(15)
Total assets	<u>\$ 610</u>	<u>\$ 560</u>	<u>\$ 586</u>	<u>\$ 50</u>	<u>\$ (26)</u>
Liabilities:					
Accounts payable	\$ 26	\$ 26	\$ 14	\$ —	\$ 12
Total liabilities	<u>26</u>	<u>26</u>	<u>14</u>	<u>—</u>	<u>12</u>
Fund Balances:					
Nonspendable prepaid expenditures	138	138	153	—	(15)
Unassigned	446	396	419	50	(23)
Total fund balances	<u>584</u>	<u>534</u>	<u>572</u>	<u>50</u>	<u>(38)</u>
Total liabilities and fund balances	<u>\$ 610</u>	<u>\$ 560</u>	<u>\$ 586</u>	<u>\$ 50</u>	<u>\$ (26)</u>

The GF assets at June 30, 2011, 2010 and 2009 totaled approximately \$610 thousand, \$560 thousand, and \$585 thousand, respectively. They are composed mainly of unrestricted investments used to pay administrative and operating expenditures. Other assets are prepaid insurance. Accounts payable for fiscal year 2011 and 2010 was \$26 thousand compared to fiscal year 2009 where it was \$14 thousand, as the costs of defeasance were accrued from the GF in fiscal years 2011 and 2010.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued

The following summarizes STAR's DSF assets, liabilities, and fund balances as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Assets:					
Cash equivalents and investments	\$ 287,849	\$ 288,243	\$ 307,368	\$ (394)	\$ (19,125)
Other assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 287,849</u>	<u>\$ 288,243</u>	<u>\$ 307,368</u>	<u>\$ (394)</u>	<u>\$ (19,125)</u>
Liabilities	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>
Fund Balances:					
Restricted for debt service	<u>287,849</u>	<u>288,243</u>	<u>307,368</u>	<u>(394)</u>	<u>(19,125)</u>
Total fund balances	<u>287,849</u>	<u>288,243</u>	<u>307,368</u>	<u>(394)</u>	<u>(19,125)</u>
Total liabilities and fund balances	<u>\$ 287,849</u>	<u>\$ 288,243</u>	<u>\$ 307,368</u>	<u>\$ (394)</u>	<u>\$ (19,125)</u>

At June 30, 2011, 2010 and 2009 STAR's DSF assets consisted of cash equivalents and investments restricted for debt service payments and required debt service reserves. The restricted resources held for debt service at each year-end reflect the amount of bond principal and interest due during the subsequent fiscal year and the amount of required reserve set by the Indenture.

This financial report is designed to provide a general overview of STAR's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Raymond Orlando, Manager of Investor Relations, Sales Tax Asset Receivable Corporation, 75 Park Place, New York, NY 10007.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Statements of Net Assets (Deficit)

June 30, 2011 and 2010

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
Assets:		
Unrestricted cash equivalents	\$ 472	\$ 422
Restricted cash equivalents	1,838	226
Restricted investments	286,011	288,017
Prepaid expenses	138	138
Unamortized bond issuance costs	14,518	16,043
Total assets	<u>302,977</u>	<u>304,846</u>
Liabilities:		
Accounts payable	26	26
Accrued interest payable	21,991	22,558
Bonds payable:		
Portion due within one year	10,910	11,640
Portion due after one year	2,105,545	2,166,260
Unamortized bond premium	76,167	81,420
Total liabilities	<u>2,214,639</u>	<u>2,281,904</u>
Net assets (deficit):		
Unrestricted	<u>(1,911,662)</u>	<u>(1,977,058)</u>
Total net (deficit)	<u>\$ (1,911,662)</u>	<u>\$ (1,977,058)</u>

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, 2011 and 2010

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
Revenues:		
New York State Local Government Assistance		
Corporation Revenue	\$ 170,000	\$ 170,000
Investment income	3,837	946
Other revenue	—	38
Total revenues	<u>173,837</u>	<u>170,984</u>
Expenses:		
Bond interest	102,690	105,435
Loss on defeasance	4,178	3,809
Amortization of bond issuance costs	1,250	1,357
General and administrative	323	347
Total expenses	<u>108,441</u>	<u>110,948</u>
Change in net assets (deficit)	<u>65,396</u>	<u>60,036</u>
Net (deficit) – beginning of year	<u>(1,977,058)</u>	<u>(2,037,094)</u>
Net (deficit) – end of year	<u>\$ (1,911,662)</u>	<u>\$ (1,977,058)</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Governmental Funds Balance Sheet

June 30, 2011

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Unrestricted cash equivalents	\$ 472	\$ —	\$ 472
Restricted cash equivalents	—	1,838	1,838
Restricted investments	—	286,011	286,011
Prepaid expenditures	138	—	138
Total assets	<u>\$ 610</u>	<u>\$ 287,849</u>	<u>\$ 288,459</u>
Liabilities:			
Accounts payable	\$ 26	\$ —	\$ 26
Total liabilities	<u>26</u>	<u>—</u>	<u>26</u>
Fund Balances:			
Nonspendable prepaid expenditures	138	—	138
Restricted for debt service	—	287,849	287,849
Unassigned	446	—	446
Total fund balances	<u>584</u>	<u>287,849</u>	<u>288,433</u>
Total liabilities and fund balances	<u>\$ 610</u>	<u>\$ 287,849</u>	<u>\$ 288,459</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Governmental Funds Balance Sheet

June 30, 2010

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Unrestricted cash equivalents	\$ 422	\$ —	\$ 422
Restricted cash equivalents	—	226	226
Restricted investments	—	288,017	288,017
Prepaid expenditures	138	—	138
Total assets	<u>\$ 560</u>	<u>\$ 288,243</u>	<u>\$ 288,803</u>
Liabilities:			
Accounts payable	\$ 26	\$ —	\$ 26
Total liabilities	<u>26</u>	<u>—</u>	<u>26</u>
Fund Balances:			
Nonspendable prepaid expenditures	138	—	138
Restricted for debt service	—	288,243	288,243
Unassigned	396	—	396
Total fund balances	<u>534</u>	<u>288,243</u>	<u>288,777</u>
Total liabilities and fund balances	<u>\$ 560</u>	<u>\$ 288,243</u>	<u>\$ 288,803</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Reconciliation of the Governmental Funds Balance Sheets to the
Statements of Net Assets

June 30, 2011 and 2010

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
Total fund balances – governmental funds	\$ 288,433	\$ 288,777
Amounts reported in the statements of net assets are different because:		
Costs of bond issuance are reported as expenditures in the governmental 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.	14,518	16,043
Bond premiums are reported as other financing sources in the governmental 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.	(76,167)	(81,420)
Some liabilities are not due and payable from currently available financial resources at year end and are therefore not reported in the governmental fund financial statements, but are reported in the statement of net assets (deficit). Those liabilities consist of:		
Bonds payable	(2,116,455)	(2,177,900)
Accrued interest payable	(21,991)	(22,558)
Net (deficit) of governmental activities	\$ <u>(1,911,662)</u>	\$ <u>(1,977,058)</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances

For the year ended June 30, 2011

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
New York State Local Government Assistance Corporation Revenue	\$ 373	\$ 169,627	\$ 170,000
Investment income	—	3,837	3,837
Total revenues	<u>373</u>	<u>173,464</u>	<u>173,837</u>
Expenditures:			
Bond interest	—	108,042	108,042
Principal amount of bonds retired	—	11,640	11,640
Advance refunding escrow	—	54,176	54,176
General and administrative expenditures	323	—	323
Total expenditures	<u>323</u>	<u>173,858</u>	<u>174,181</u>
Net change in fund balances	50	(394)	(344)
Fund balances – beginning of year	<u>534</u>	<u>288,243</u>	<u>288,777</u>
Fund balances – end of year	<u>\$ 584</u>	<u>\$ 287,849</u>	<u>\$ 288,433</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances

For the year ended June 30, 2010

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenues:			
New York State Local Government Assistance Corporation Revenue	\$ 308	\$ 169,692	\$ 170,000
Investment income	1	945	946
Other revenue	—	38	38
Total revenues	<u>309</u>	<u>170,675</u>	<u>170,984</u>
Expenditures:			
Bond interest	—	110,899	110,899
Principal amount of bonds retired	—	26,450	26,450
Advance refunding escrow	—	52,451	52,451
General and administrative expenditures	347	—	347
Total expenditures	<u>347</u>	<u>189,800</u>	<u>190,147</u>
Net change in fund balances	(38)	(19,125)	(19,163)
Fund balances – beginning of year	<u>572</u>	<u>307,368</u>	<u>307,940</u>
Fund balances – end of year	<u>\$ 534</u>	<u>\$ 288,243</u>	<u>\$ 288,777</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Reconciliation of the Governmental Funds Statements of Revenues, Expenditures, and
Changes in Fund Balances to the Statements of Activities

For the years ended June 30, 2011 and 2010

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
Net change in fund balances – total governmental funds	\$ (344)	\$ (19,163)
Amount reported 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 bonds payable on the statements of net assets.	11,640	26,450
Governmental funds financial statements report costs of bond issuance as expenditures. However, on the statements of activities, the costs of debt issuance are amortized over the life of the bonds.	(1,250)	(1,357)
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	5,252
Payments to defease bonds prior to maturity are reported as expenditures in the governmental fund financial statements, however, in the statements of net assets, only the difference between the carrying value of the defeased bonds and the amount paid to defease the bonds are reported as period revenue or expenses.	49,998	48,643
Interest expense is reported in the statements of activities on the accrual basis. However, interest is reported as an expenditure in governmental fund financial statements when the payment is due.	99	211
Change in net assets – governmental activities	<u>\$ 65,396</u>	<u>\$ 60,036</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(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) standards.

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 and overhead 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 (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The government-wide 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.

STAR's governmental funds 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 principal and interest on bonds payable, which is recognized when due.

SALES TAX ASSET RECEIVABLE CORPORATION

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Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

STAR uses two governmental funds for reporting its activities: a debt service fund (DSF), and a general fund (GF). The DSF is used to account for the accumulation of resources for payment of principal and interest on debt and the GF is used to account for all financial resources and activities not accounted for in the DSF, which relate to STAR's administrative and operating expenditures.

Fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned in accordance with GASB Statement 54.

Fund balance that cannot be spent because it is not in spendable form is defined as nonspendable. Resources constrained 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 (deficit) and the governmental funds balance sheets.

The Board of Directors of STAR (Board) constitutes STAR's highest level of decision-making authority. When resolutions are adopted by the Board that constrain fund balances for a specific purpose, such resources are accounted for and reported as committed for such purpose; unless and until a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of STAR who is duly authorized under STAR's bond indenture to direct the movement of such funds are accounted for and reported as assigned for such purpose unless and until a subsequent authorized action by the same, or another duly authorized officer, or by the Board, is taken which removes or changes the assignment.

Resources that are not constrained are reported as unassigned in the governmental funds balance sheets and unrestricted in the statements of net assets (deficit).

When both restricted and unrestricted resources are available for use for a specific purpose, it is STAR's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is STAR's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

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, 2011 and 2010 were \$76,167 and \$81,420, respectively, which were net of accumulated amortization of \$35,020 and \$29,767, respectively. The amounts of unamortized issuance costs at June 30, 2011 and 2010 were \$14,518 and \$16,043, respectively, which are net of accumulated amortization and amounts written-off related to defeased debt of \$12,210 and \$10,685, 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

SALES TAX ASSET RECEIVABLE CORPORATION

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Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

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 debt service expenditures. Principal payments and payments into defeasance escrow accounts are reported as expenditures in the period made.

Interest expense is recognized as it is incurred on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when due in the governmental fund financial statements.

The preparation of financial statements in accordance with U.S. generally accepted accounting principles 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.

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 standards requiring implementation in the current year and standards which will or may impact STAR in the future years.

- In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), effective for periods beginning after June 15, 2010. In fiscal year 2011, STAR implemented GASB 54. GASB 54 changed the terminology and classification of fund balances to reflect spending constraints on the reported resources. It also changed the definitions of governmental fund types. The Statement changes the display of fund balances in the governmental fund financial statements and requires that governments disclose certain fund balance classifications and policies in the notes to the financial statements. As a result of STAR implementing GASB 54, it established a general fund to report its administrative expenses and restated prior period financial statements in accordance with the Statement. The impact of the implementation of GASB 54 reduced the beginning fiscal year 2010 DSF fund balance by \$572 thousand and increased the GF fund balance by the same amount. GASB 54 did not have any impact on STAR's reported levels of total governmental fund balances or net assets (deficit).
- In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus* (GASB 59). The Statement clarifies the accounting for a number of financial instruments including allocated and unallocated insurance contracts. The Statement is effective for the financial statements beginning for periods beginning after June 15, 2010. GASB 59 does not have an impact on STAR's financial statements.
- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* (GASB 60). The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011, but is not expected to have an impact on STAR.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34* (GASB 61). The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity.

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June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

The Statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on STAR or its status as a blended component unit of The City.

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements* (GASB 62). The Statement incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The Statement is effective for financial statement periods beginning after December 15, 2011. STAR has not completed the process of evaluating GASB 62, but does not expect it to have an impact on its financial statements.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The Statement establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. The Statement is effective for financial statements for periods beginning after December 15, 2011. STAR has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of STAR's statement of position and components thereof, with no overall financial impact.
- In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* (GASB 64). The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. The Statement is effective for financial statements for periods beginning after June 15, 2011. STAR has not completed the process of evaluating GASB 64, but does not expect it to have an impact on its financial statements.

(3) Bonds Payable

In connection with the assignment of The City's right to an interest in the LGAC revenue to STAR, STAR has issued \$2.55 billion of bonds of which \$2.12 billion is outstanding as of June 30, 2011. STAR has pledged the LGAC revenue to secure the bonds.

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Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(3) Bonds Payable, continued

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, 2011 is as follows:

	<u>Balance June 30, 2010</u>	<u>Period Ended June 30, 2011</u>		<u>Balance June 30, 2011</u>
		<u>Bonds Issued</u>	<u>Bonds Retired & Defeased</u>	
2005 Series A	\$ 1,869,010	\$ —	\$ —	\$ 1,869,010
2005 Series B	308,890	—	61,445	247,445
Totals	<u>\$ 2,177,900</u>	<u>\$ —</u>	<u>\$ 61,445</u>	<u>\$ 2,116,455</u>

A summary of changes in outstanding bonds during the period ended June 30, 2010 is as follows:

	<u>Balance June 30, 2009</u>	<u>Period ended June 30, 2010</u>		<u>Balance June 30, 2010</u>
		<u>Bonds Issued</u>	<u>Bonds Retired & Defeased</u>	
2005 Series A	\$ 1,869,010	\$ —	\$ —	\$ 1,869,010
2005 Series B	383,810	—	74,920	308,890
Totals	<u>\$ 2,252,820</u>	<u>\$ —</u>	<u>\$ 74,920</u>	<u>\$ 2,177,900</u>

Debt service requirements, including principal and interest, at June 30, 2011, are as follows:

<u>Year ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 10,910	\$ 105,326	\$ 116,236
2013	11,345	104,844	116,189
2014	30,885	103,889	134,774
2015	66,770	101,629	168,399
2016	70,070	98,405	168,475
2017 to 2021	406,525	435,128	841,653
2022 to 2026	522,855	318,351	841,206
2027 to 2031	670,960	168,843	839,803
2032 to 2034	326,135	16,900	343,035
Totals	<u>\$ 2,116,455</u>	<u>\$ 1,453,315</u>	<u>\$ 3,569,770</u>

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Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(3) Bonds Payable, continued

As of June 30, 2011 and 2010, STAR had defeased, with defeasance collateral, bonds with principal amounts totaling \$234,955 and \$185,150, respectively, of which \$129,535 remains to be paid as of June 30, 2011 from defeasance collateral held in escrow accounts on deposit with STAR's escrow trustee.

(4) Cash and Cash Equivalents

As of June 30, 2011, STAR did not have any cash deposits on hand. Cash equivalents were comprised of Treasury Money Market Funds which were partially restricted for debt service (see note 5). STAR's cash equivalents consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cash	\$ —	\$ —
Cash equivalents (see note 5)	<u>2,310</u>	<u>648</u>
Total cash and cash equivalents	<u>\$ 2,310</u>	<u>\$ 648</u>

STAR's investments classified as cash equivalents have an original maturity date of three months or less from the date of purchase. STAR values those investments at fair value as of the statement of net asset date.

SALES TAX ASSET RECEIVABLE CORPORATION

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Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(5) Investments

STAR's investments consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Unrestricted:		
Treasury money market funds	\$ 472	\$ 422
Total unrestricted	<u>472</u>	<u>422</u>
Restricted for debt service:		
Treasury money market funds	1,838	226
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	116,151	—
Federal National Mortgage Association discount notes (maturing within one year)	11,996	119,597
Federal Home Loan Bank discount notes (maturing within one year)	—	11,955
Federal National Mortgage Association Medium Term Note (maturing after one year)	<u>157,864</u>	<u>156,465</u>
Total restricted	<u>287,849</u>	<u>288,243</u>
Total investments including cash equivalents	288,321	288,665
Less amounts reported as cash equivalents (see note 4)	<u>(2,310)</u>	<u>(648)</u>
Total investments	<u>\$ 286,011</u>	<u>\$ 288,017</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.

Credit Risk – All investments held by STAR at June 30, 2011 and 2010 are obligations of, or guaranteed by, the United States of America, or obligations that are rated “AAA” by S&P and “Aaa” by Moody's.

Interest Rate Risk – STAR's short term maturities are subject to minimal risk of fair value decline due to changes in market interest rates. Investments with longer terms are expected to be held until maturity thereby limiting the exposure from rising interest rates.

SALES TAX ASSET RECEIVABLE CORPORATION

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Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

(5) Investments, 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, 2011, more than 5% of STAR's investments are in the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation, these investments are 59% and 40% of STAR's total investments, respectively.