

*STAR* Sales Tax Asset Receivable Corporation



**SALES TAX ASSET  
RECEIVABLE CORPORATION**

**A COMPONENT UNIT OF THE CITY OF NEW YORK**

Financial Statements  
(Together with Independent Auditors' Report)

Years Ended June 30, 2014 and 2013

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**SALES TAX ASSET RECEIVABLE CORPORATION**

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

**YEARS ENDED JUNE 30, 2014 AND 2013**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of the  
Sales Tax Asset Receivable Corporation

We have audited the accompanying financial statements of the governmental activities of Sales Tax Asset Receivable Corporation ("STAR"), a component unit of The City of New York, as of and for the years ended June 30, 2014 and 2013, which collectively comprise STAR's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Sales Tax Asset Receivable Corporation as of June 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Marks Paneth LLP*

New York, NY  
September 2, 2014

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

# **SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2014 AND 2013**

(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, 2014 and 2013 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 four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the financial statements.

The government-wide financial statements, which include the statements of net position (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 position (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 governmental funds 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 (the "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 resulted in the receipt by the City of tax revenues that would otherwise have been paid to MAC for the payment of debt service on MAC's bonds.

In fiscal years 2013 and 2012, STAR used \$62 million and \$57 million of available resources on-hand, respectively, to defease bonds, as permitted by the Trust Indenture dated October 1, 2004 (the "Indenture"). Fiscal years' 2013 and 2012 losses on defeasances resulted from market interest rates at the time of defeasances being lower than interest rates at the time of bond issuance. When the defeasance investments were purchased to fund the related debt service, it caused an accounting loss. In fiscal year 2014, STAR did not defease any bonds.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)**

**JUNE 30, 2014 AND 2013**

(Unaudited)

(Amounts in thousands, except as noted)

**FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS, continued**

In fiscal year 2013, STAR implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”) and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”). GASB 63 renamed the Statement of Net Assets to the Statement of Net Position, as well as renaming reported Net Assets, and components thereof, as Net Position. GASB 65 resulted in the restatement of STAR’s fiscal year 2012 government-wide financial statements to reflect the recognition of bond issuance costs as an expense in the period they were incurred as required by GASB 65. Prior to GASB 65, bond issuance costs were carried on the Statement of Net Assets and amortized over the life of the bonds. Since GASB 65 requires retroactive treatment, all carrying costs and amortization thereof have been excluded pursuant to the requirement and reported as a restatement of beginning net position in fiscal year 2012 (see Note 2 for details of GASB 65 adjustments).

The following summarizes the activities of STAR for the fiscal years ended June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>(restated) 2012</u>	<u>2014 v 2013 Change</u>	<u>2013 v 2012 Change</u>
Revenues:					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ -	\$ -
Investment income	326	306	1,164	20	(858)
	<u>170,326</u>	<u>170,306</u>	<u>171,164</u>	<u>20</u>	<u>(858)</u>
Total revenues					
Expenses:					
Bond interest	93,907	97,088	99,976	(3,181)	(2,888)
Other	370	4,954	4,583	(4,584)	371
	<u>94,277</u>	<u>102,042</u>	<u>104,559</u>	<u>(7,765)</u>	<u>(2,517)</u>
Total expenses					
Change in net position	76,049	68,264	66,605	7,785	1,659
Net position (deficit) - beginning of year	(1,791,311)	(1,859,575)	(1,911,662)	68,264	52,087
Restatement of beginning net position (deficit)	<u>-</u>	<u>-</u>	<u>(14,518)</u>	<u>-</u>	<u>14,518</u>
Net position (deficit) - end of year	<u>\$ (1,715,262)</u>	<u>\$ (1,791,311)</u>	<u>\$ (1,859,575)</u>	<u>\$ 76,049</u>	<u>\$ 68,264</u>

STAR’s LGAC revenues for fiscal years 2014, 2013 and 2012 were composed of the annual LGAC payments and investment income. The investment income resulted primarily from the change in the market value of the long term, fixed return securities held during the year.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**JUNE 30, 2014 AND 2013**  
(Unaudited)

(Amounts in thousands, except as noted)

**FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS, continued**

The \$4.6 million decrease of other expenses between fiscal years 2014 and 2013 was because STAR did not defease bonds in fiscal year 2014, thereby not having to report a loss on defeasance. Bond interest expenses for fiscal years 2014, 2013 and 2012 were lower each year primarily because the declining bond principal outstanding resulted in reduced bond interest costs each year.

The following summarizes STAR's assets, liabilities, and net position as of June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>(restated) 2012</u>	<u>2014 v 2013 Change</u>	<u>2013 v 2012 Change</u>
Assets:					
Non-capital	\$ 340,317	\$ 280,518	\$ 286,416	\$ 59,799	\$ (5,898)
Total assets	<u>340,317</u>	<u>280,518</u>	<u>286,416</u>	<u>59,799</u>	<u>(5,898)</u>
Liabilities:					
Current liabilities	31,521	31,638	32,767	(117)	(1,129)
Long-term liabilities	<u>2,024,058</u>	<u>2,040,191</u>	<u>2,113,224</u>	<u>(16,133)</u>	<u>(73,033)</u>
Total liabilities	<u>2,055,579</u>	<u>2,071,829</u>	<u>2,145,991</u>	<u>(16,250)</u>	<u>(74,162)</u>
Net Position:					
Unrestricted	<u>(1,715,262)</u>	<u>(1,791,311)</u>	<u>(1,859,575)</u>	<u>76,049</u>	<u>68,264</u>
Total net position (deficit)	<u>\$ (1,715,262)</u>	<u>\$ (1,791,311)</u>	<u>\$ (1,859,575)</u>	<u>\$ 76,049</u>	<u>\$ 68,264</u>

At June 30, 2014, 2013 and 2012, STAR's assets consisted mainly of cash equivalents and investments restricted for debt service payments and required debt service reserves. The large increase of assets between fiscal years 2014 and 2013 was because STAR did not defease bonds in fiscal year 2014.

The Corporation liabilities are almost entirely composed of the bonds payable and unamortized original issue premium and accrued interest payable thereon and the decline each year resulted primarily from bond principal payments and defeasances made accordingly in each fiscal year. The improvements in net position (deficits) are primarily the result of the November 4, 2004 bond issue which is being, and will continue to be, repaid from LGAC revenues.

# SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2014 AND 2013

(Unaudited)

(Amounts in thousands, except as noted)

### 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").

The following summarizes the changes in the GF fund balances for the years ended June 30, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v 2013</u> <u>Change</u>	<u>2013 v 2012</u> <u>Change</u>
Revenues:					
LGAC revenue	<u>\$ 364</u>	<u>\$ 324</u>	<u>\$ 453</u>	<u>\$ 40</u>	<u>\$ (129)</u>
Total revenues	<u>364</u>	<u>324</u>	<u>453</u>	<u>40</u>	<u>(129)</u>
Expenditures:					
General and administrative	<u>370</u>	<u>347</u>	<u>325</u>	<u>23</u>	<u>22</u>
Total expenditures	<u>370</u>	<u>347</u>	<u>325</u>	<u>23</u>	<u>22</u>
Net change in fund balances	<u>(6)</u>	<u>(23)</u>	<u>128</u>	<u>17</u>	<u>(151)</u>
Fund balances - beginning of year	<u>689</u>	<u>712</u>	<u>584</u>	<u>(23)</u>	<u>128</u>
Fund balances - end of year	<u>\$ 683</u>	<u>\$ 689</u>	<u>\$ 712</u>	<u>\$ (6)</u>	<u>\$ (23)</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. Operating expenditures between fiscal years 2014 and 2013 slightly increased by \$23 thousand due to increased allocated costs associated with management's time spent on conducting STAR's operations.



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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**JUNE 30, 2014 AND 2013**  
(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, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v 2013</u> Change	<u>2013 v 2012</u> Change
Revenues:					
LGAC revenue	\$ 169,636	\$ 169,676	\$ 169,547	\$ (40)	\$ 129
Other income	326	306	1,164	20	(858)
Total revenues	<u>169,962</u>	<u>169,982</u>	<u>170,711</u>	<u>(20)</u>	<u>(729)</u>
Expenditures:					
Bond interest	99,263	102,445	105,326	(3,182)	(2,881)
Principal amount of bonds retired	10,885	11,345	10,910	(460)	435
Advance refunding escrow	-	62,061	56,647	(62,061)	5,414
Total expenditures	<u>110,148</u>	<u>175,851</u>	<u>172,883</u>	<u>(65,703)</u>	<u>2,968</u>
Net change in fund balances	59,814	(5,869)	(2,172)	65,683	(3,697)
Fund balances - beginning of year	<u>279,808</u>	<u>285,677</u>	<u>287,849</u>	<u>(5,869)</u>	<u>(2,172)</u>
Fund balances - end of year	<u>\$ 339,622</u>	<u>\$ 279,808</u>	<u>\$ 285,677</u>	<u>\$ 59,814</u>	<u>\$ (5,869)</u>

The revenue of STAR's DSF for fiscal years 2014, 2013 and 2012 was primarily composed of the annual LGAC revenue, which slightly fluctuates only by the amount of LGAC revenue deposited into the GF for STAR's operating and administrative expenditures. The variance in investment earnings is due to the market valuation of the long-term, fixed income securities, as discussed previously.

In fiscal year 2014, there was no money transferred to advance refunding escrow as STAR did not defease any bonds, as discussed previously. Bond interest expenditures were lower each year because the declining amount of bond principal outstanding and previous years' defeasances decreased the amount of interest payments due during those years.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)****JUNE 30, 2014 AND 2013**

(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, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v 2013</u> <u>Change</u>	<u>2013 v 2012</u> <u>Change</u>
Assets:					
Cash equivalents and investments	\$ 556	\$ 571	\$ 601	\$ (15)	\$ (30)
Other assets	<u>139</u>	<u>139</u>	<u>138</u>	<u>-</u>	<u>1</u>
Total assets	<u>\$ 695</u>	<u>\$ 710</u>	<u>\$ 739</u>	<u>\$ (15)</u>	<u>\$ (29)</u>
Liabilities:					
Accounts payable	<u>\$ 12</u>	<u>\$ 21</u>	<u>\$ 27</u>	<u>\$ (9)</u>	<u>\$ (6)</u>
Total liabilities	<u>12</u>	<u>21</u>	<u>27</u>	<u>(9)</u>	<u>(6)</u>
Fund Balances:					
Nonspendable prepaid expenditures	139	139	138	-	1
Unassigned	<u>544</u>	<u>550</u>	<u>574</u>	<u>(6)</u>	<u>(24)</u>
Total fund balances	<u>683</u>	<u>689</u>	<u>712</u>	<u>(6)</u>	<u>(23)</u>
Total liabilities and fund balances	<u>\$ 695</u>	<u>\$ 710</u>	<u>\$ 739</u>	<u>\$ (15)</u>	<u>\$ (29)</u>

The GF assets at June 30, 2014, 2013 and 2012 totaled approximately \$695 thousand, \$710 thousand, and \$739 thousand, respectively. They were composed mainly of unrestricted investments used to pay administrative and operating expenditures and variances were based on resources needed to pay projected expenditures. Other assets were comprised of prepaid insurance.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**JUNE 30, 2014 AND 2013**  
(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, 2014, 2013 and 2012:

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2014 v 2013</u> <u>Change</u>	<u>2013 v 2012</u> <u>Change</u>
Assets:					
Cash equivalents and investments	\$ 339,622	\$ 279,808	\$ 285,677	\$ 59,814	\$ (5,869)
Total assets	<u>\$ 339,622</u>	<u>\$ 279,808</u>	<u>\$ 285,677</u>	<u>\$ 59,814</u>	<u>\$ (5,869)</u>
Fund Balances:					
Restricted for debt service	<u>339,622</u>	<u>279,808</u>	<u>285,677</u>	<u>59,814</u>	<u>(5,869)</u>
Total fund balances	<u>339,622</u>	<u>279,808</u>	<u>285,677</u>	<u>59,814</u>	<u>(5,869)</u>
Total liabilities and fund balances	<u>\$ 339,622</u>	<u>\$ 279,808</u>	<u>\$ 285,677</u>	<u>\$ 59,814</u>	<u>\$ (5,869)</u>

At June 30, 2014, 2013 and 2012, 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. The large increase of assets between fiscal years 2014 and 2013 was because STAR did not defease bonds in fiscal year 2014, as previously stated.

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 Manager of Investor Relations, Sales Tax Asset Receivable Corporation, 255 Greenwich Street, New York, NY 10007.

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**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**STATEMENTS OF NET POSITION (DEFICIT)****JUNE 30, 2014 AND 2013**

(Amounts in thousands)

	<u>2014</u>	<u>2013</u>
<b>ASSETS:</b>		
Unrestricted cash equivalents	\$ 556	\$ 571
Restricted cash equivalents	289,585	119,657
Restricted investments	50,036	160,150
Restricted interest receivable	1	1
Prepaid expenses	139	139
	<hr/>	<hr/>
Total assets	340,317	280,518
	<hr/>	<hr/>
<b>LIABILITIES:</b>		
Accounts payable	12	21
Accrued interest payable	20,629	20,732
Bonds payable:		
Portion due within one year	10,880	10,885
Portion due after one year	1,963,650	1,974,530
Unamortized bond premium	60,408	65,661
	<hr/>	<hr/>
Total liabilities	2,055,579	2,071,829
	<hr/>	<hr/>
<b>NET POSITION (DEFICIT):</b>		
Unrestricted (deficit)	(1,715,262)	(1,791,311)
	<hr/>	<hr/>
Total net position (deficit)	\$ (1,715,262)	\$ (1,791,311)
	<hr/> <hr/>	<hr/> <hr/>

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, 2014 and 2013**

(Amounts in thousands)

	<u>2014</u>	<u>2013</u>
REVENUES:		
New York State Local Government Assistance Corporation Revenue	\$ 170,000	\$ 170,000
Investment income	326	306
Total revenues	<u>170,326</u>	<u>170,306</u>
EXPENSES:		
Bond interest	93,907	97,088
Loss on defeasance	-	4,607
General and administrative	370	347
Total expenses	<u>94,277</u>	<u>102,042</u>
Change in net position (deficit)	<u>76,049</u>	<u>68,264</u>
NET POSITION (DEFICIT) - Beginning of year	(1,791,311)	(1,859,575)
NET POSITION (DEFICIT) - End of year	<u>\$ (1,715,262)</u>	<u>\$ (1,791,311)</u>

See accompanying notes to financial statements.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS BALANCE SHEETS****JUNE 30, 2014**

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Unrestricted cash equivalents	\$ 556	\$ -	\$ 556
Restricted cash equivalents	-	289,585	289,585
Restricted investments	-	50,036	50,036
Restricted interest receivable	-	1	1
Prepaid expenditures	139	-	139
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 695</u>	<u>\$ 339,622</u>	<u>\$ 340,317</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 12	\$ -	\$ 12
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>12</u>	<u>-</u>	<u>12</u>
<b>FUND BALANCES:</b>			
Nonspendable prepaid expenditures	139	-	139
Restricted for debt service	-	339,622	339,622
Unassigned	544	-	544
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>683</u>	<u>339,622</u>	<u>340,305</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 695</u>	<u>\$ 339,622</u>	<u>\$ 340,317</u>

See accompanying notes to financial statements.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS BALANCE SHEETS****JUNE 30, 2013**

(Amounts in thousands)

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>ASSETS:</b>			
Unrestricted cash equivalents	\$ 571	\$ -	\$ 571
Restricted cash equivalents	-	119,657	119,657
Restricted investments	-	160,150	160,150
Restricted interest receivable	-	1	1
Prepaid expenditures	139	-	139
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 710</u>	<u>\$ 279,808</u>	<u>\$ 280,518</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 21	\$ -	\$ 21
	<hr/>	<hr/>	<hr/>
Total liabilities	21	-	21
<b>FUND BALANCES:</b>			
Nonspendable prepaid expenditures	139	-	139
Restricted for debt service	-	279,808	279,808
Unassigned	550	-	550
	<hr/>	<hr/>	<hr/>
Total fund balances	689	279,808	280,497
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 710</u>	<u>\$ 279,808</u>	<u>\$ 280,518</u>

See accompanying notes to financial statements.

# SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

## RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET POSITION (DEFICIT)

JUNE 30, 2014 AND 2013

(Amounts in thousands)

	<u>2014</u>	<u>2013</u>
Total fund balances - governmental funds	\$ 340,305	\$ 280,497
Amounts reported in the statements of net position (deficit) are different because:		
Bond premiums are reported as other financing sources in the governmental funds financial statements when received. However, in the statements of net position, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.		
	(60,408)	(65,661)
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 statements of net position (deficit). Those liabilities consist of:		
Bonds payable	(1,974,530)	(1,985,415)
Accrued interest payable	<u>(20,629)</u>	<u>(20,732)</u>
Net position (deficit) of governmental activities	<u>\$ (1,715,262)</u>	<u>\$ (1,791,311)</u>

See accompanying notes to financial statements.



**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES****FOR THE YEAR ENDED JUNE 30, 2014**

(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	\$ 364	\$ 169,636	\$ 170,000
Investment income	-	326	326
	<hr/>	<hr/>	<hr/>
Total revenues	364	169,962	170,326
	<hr/>	<hr/>	<hr/>
EXPENDITURES:			
Bond interest	-	99,263	99,263
Principal amount of bonds retired	-	10,885	10,885
General and administrative	370	-	370
	<hr/>	<hr/>	<hr/>
Total expenditures	370	110,148	110,518
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(6)	59,814	59,808
	<hr/>	<hr/>	<hr/>
FUND BALANCES - beginning of year	689	279,808	280,497
	<hr/>	<hr/>	<hr/>
FUND BALANCES - end of year	<u>\$ 683</u>	<u>\$ 339,622</u>	<u>\$ 340,305</u>

See accompanying notes to financial statements.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES****FOR THE YEAR ENDED JUNE 30, 2013**

(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	\$ 324	\$ 169,676	\$ 170,000
Investment income	-	306	306
	<u>324</u>	<u>169,982</u>	<u>170,306</u>
Total revenues			
EXPENDITURES:			
Bond interest	-	102,445	102,445
Principal amount of bonds retired	-	11,345	11,345
Advance refunding escrow	-	62,061	62,061
General and administrative	347	-	347
	<u>347</u>	<u>175,851</u>	<u>176,198</u>
Total expenditures			
Net changes in fund balances	(23)	(5,869)	(5,892)
FUND BALANCES - beginning of year	<u>712</u>	<u>285,677</u>	<u>286,389</u>
FUND BALANCES - end of year	<u>\$ 689</u>	<u>\$ 279,808</u>	<u>\$ 280,497</u>

See accompanying notes to financial statements.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
TO THE STATEMENTS OF ACTIVITIES****FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

(Amounts in thousands)

	<u>2014</u>	<u>2013</u>
Net change in fund balances - total governmental funds	\$ 59,808	\$ (5,892)
Amounts reported in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the governmental funds financial statements, but the repayment reduces bonds payable on the statements of net position.	10,885	11,345
Governmental funds 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 governmental funds financial statements. However, in the statements of net position, only the difference between the carrying value of the defeased bonds and the amount paid to defease the bonds are reported as period revenues or expenses.	-	57,454
Interest expense is reported in the statements of activities on the accrual basis. However, interest is reported as an expenditure in governmental funds financial statements when the payment is due.	103	104
Change in net position - governmental activities	<u>\$ 76,049</u>	<u>\$ 68,264</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, 2014 AND 2013**

(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 ("Law"), which terminates on July 1, 2034, requires that \$170 million be paid annually by The New York State Local Government Assistance Corporation ("LGAC") 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 resulted in the receipt by the City of tax revenues that would otherwise have been 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 position (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**  
(A Component Unit of The City of New York)

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2014 AND 2013**

(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 are STAR's administrative and operating expenditures.

Fund balances of the governmental funds are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned.

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 position (deficit) and the governmental funds balance sheets.

The Board of Directors of STAR ("Board") constitutes STAR's highest level of decision-making authority. If and 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 position (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 premiums are capitalized and amortized over the life of the related debt using the effective interest method in the government-wide financial statements. With the implementation of GASB 65 (discussed below), bond issuance costs are recognized as expenses in the period incurred. The amounts of unamortized bond premium at June 30, 2014 and 2013 were \$60,408 and \$65,661, respectively, which were net of accumulated amortization of \$50,779 and \$45,526, respectively.

The governmental funds financial statements recognize bond premiums and discounts 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. 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 funds financial statements.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2014 AND 2013**

(Amounts in thousands, except as noted)

**(2) Summary of Significant Accounting Policies, continued**

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America requires STAR's management to make estimates and assumptions in determining the reported amounts of assets, deferred inflows of resources, liabilities, and deferred outflows of resources 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 may impact STAR in future years.

- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 65 established accounting and reporting standards that reclassified certain items that were previously reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognize certain items previously reported as assets and liabilities as outflows and inflows of resources. In addition, it limits the use of the term "deferred" in the financial statement presentation. In fiscal year 2013, STAR implemented GASB 65, which caused STAR to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 government-wide financial statements by eliminating any carrying amounts of bond issuance costs and related amortization of such costs. As a result, STAR reduced its fiscal year 2012 beginning balance by \$14.5 million as follows: 1) excluding the previously reported fiscal year 2012 carrying value of \$13.1 million of unamortized bond issuance costs on its Statements of Net Position, 2) excluding the \$1.1 million of previously reported amortization of bond issuance costs in fiscal year 2012 on its Statement of Activities, and 3) decreasing its previously reported fiscal year 2012 loss on defeasance by \$231 thousand on its Statement of Activities.
- In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62* ("GASB 66"). GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62 *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for financial statement periods beginning after December 15, 2012. The adoption of GASB 66 does not have an impact on STAR's financial statements.
- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* ("GASB 67"). GASB 67 establishes financial reporting standards for defined benefit pensions and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013. The adoption of GASB 67 did not have an impact on STAR's financial statements as it is not an applicable pension-administered entity.
- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB 68 are effective for fiscal years beginning after June 15, 2014 but was adopted by STAR in the current year. The adoption of GASB 68 did not have an impact on STAR's financial statements as it has no employees or pension system.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2014 AND 2013**

(Amounts in thousands, except as noted)

**(2) Summary of Significant Accounting Policies, continued**

- In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB 69"). GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 is effective for financial statement periods beginning after December 15, 2013 but was adopted by STAR in the current year. The adoption GASB 69 did not have an impact on STAR's financial statements as it has no disposals of operations.
- In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 is effective for financial statement periods beginning after June 15, 2013. The adoption of GASB 70 did not have an impact on STAR's financial statements as it has no nonexchange transactions.
- In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* ("GASB 71"). GASB 71 eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014 but was adopted by STAR in the current year. The adoption of GASB 71 did not have an impact on STAR's financial statements as it has no employees or pension system.

**(3) Bonds Payable**

In connection with the assignment of the City's right to an interest in the LGAC revenue to STAR, STAR issued \$2.55 billion of bonds, of which \$1.97 billion was outstanding as of June 30, 2014. 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, 2014 is as follows:

	Balance 6/30/2013	Year Ended June 30, 2014		Balance 6/30/2014
		Bonds Issued	Bonds Retired & Defeased	
2005 Series A	\$ 1,869,010	\$ -	\$ -	\$ 1,869,010
2005 Series B	116,405	-	10,885	105,520
Totals	<u>\$ 1,985,415</u>	<u>\$ -</u>	<u>\$ 10,885</u>	<u>\$ 1,974,530</u>

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2014 AND 2013**

(Amounts in thousands, except as noted)

**(3) Bonds Payable, continued**

A summary of changes in outstanding bonds during the year ended June 30, 2013 is as follows:

	Balance 6/30/2012	Year Ended June 30, 2013		Balance 6/30/2013
		Bonds Issued	Bonds Retired & Defeased	
2005 Series A	\$ 1,869,010	\$ -	\$ -	\$ 1,869,010
2005 Series B	184,645	-	68,240	116,405
<b>Totals</b>	<u>\$ 2,053,655</u>	<u>\$ -</u>	<u>\$ 68,240</u>	<u>\$ 1,985,415</u>

Debt service requirements, including principal and interest, at June 30, 2014, are as follows:

<u>Year ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 10,880	\$ 98,761	\$ 109,641
2016	37,175	97,623	134,798
2017	72,795	95,013	167,808
2018	77,155	91,372	168,527
2019	81,160	87,327	168,487
2020 to 2024	473,500	368,213	841,713
2025 to 2029	607,055	233,332	840,387
2030 to 2034	614,810	63,966	678,776
<b>Totals</b>	<u>\$ 1,974,530</u>	<u>\$ 1,135,607</u>	<u>\$ 3,110,137</u>

As of June 30, 2014 and June 30, 2013, STAR had cumulatively defeased bonds totaling \$343,740, of which \$88,785 and \$141,590, respectively, remained to be paid from defeasance collateral held in escrow accounts on deposit with STAR's escrow trustee.

**(4) Cash and Cash Equivalents**

As of June 30, 2014 and 2013, 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, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Cash	\$ -	\$ -
Cash Equivalents (see Note 5)	<u>290,141</u>	<u>120,228</u>
<b>Total Cash and Cash Equivalents</b>	<u>\$ 290,141</u>	<u>\$ 120,228</u>



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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2014 AND 2013**

(Amounts in thousands, except as noted)

**(5) Investments**

STAR's investments consisted of the following at June 30, 2014 and 2013:

	<b>2014</b>	<b>2013</b>
Unrestricted:		
Treasury Money Market Funds	\$ 556	\$ 571
Total Unrestricted	556	571
Restricted for Debt Service and Debt Retirement:		
Treasury Money Market Funds	289,585	119,657
Federal Home Loan Bank discount note (maturing within one year)	-	49,950
Federal Farm Credit Bank discount notes (maturing within one year)	-	45,036
Federal National Mortgage Association medium term note (maturing after one year)	-	14,746
Federal Home Loan Mortgage Corporation medium term note (maturing after one year)	50,036	50,418
Total Restricted	339,621	279,807
Total investments including cash equivalents	340,177	280,378
Less amounts reported as cash equivalents (see Note 4)	(290,141)	(120,228)
Total Investments	\$ 50,036	\$ 160,150

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. STAR values those investments at fair value as of the statement of net position date.

*Custodial Credit Risk* – Is the risk that, in the event of the failure of the custodian, STAR may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments are held by STAR's agent in STAR's name.

*Credit Risk* – All investments held by STAR at June 30, 2014 and 2013 are invested in securities in Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal Farm Credit Bank which are all rated by S&P AA+, Moodys Aaa, and Fitch AAA; and securities in Federal Home Loan Bank which is rated by S&P AA+ and Moodys Aaa.

*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**  
(A Component Unit of The City of New York)

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2014 AND 2013**

(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, 2014, more than 5% of STAR's investments were in the Treasury Money Market Funds and U.S. Government-sponsored entities. These investments are 85% and 15% of STAR's total investments, respectively.

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