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# **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, 2017 and 2016

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**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, 2017 AND 2016**

**CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis (Unaudited).....	3-9
<b>Basic Financial Statements as of and for the Years Ended June 30, 2017 and 2016:</b>	
<b>Government-wide Financial Statements</b>	
Statements of Net Position (Deficit).....	10
Statements of Activities.....	11
<b>Governmental Funds Financial Statements</b>	
Governmental Funds Balance Sheets .....	12-13
Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Position (Deficit) .....	14
Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances .....	15-16
Reconciliations of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities .....	17
<b>Notes to Financial Statements.....</b>	<b>18-24</b>

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Sales Tax Asset Receivable Corporation  
City of New York, New York:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the 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, 2017 and 2016 and the related notes to financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### 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.

### Auditor's Responsibility

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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation'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 Corporation'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 opinions.

### 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 Sales Tax Asset Receivable Corporation, a component unit of the City of New York, as of June 30, 2017 and 2016, and the respective changes in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Toski & Co., CPAs, P.C.

Williamsville, New York  
September 13, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2017 AND 2016**  
(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, 2017 and 2016 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 \$2.6 billion of bonds ("2005 Series A and B Bonds") to provide for the payment of 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.

On October 15, 2014, STAR issued \$2 billion of bonds ("2015 Series A Bonds") and released its debt service reserve, which along with the refunding bond proceeds allowed STAR to refund all of its outstanding 2005 Series A and B Bonds and make a payment to the New York City Transitional Finance Authority ("NYC TFA") to defease a portion of its debt, which is intended to confer savings to the City over a period of four years.

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

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

**JUNE 30, 2017 AND 2016**  
(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, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
<b>Revenues:</b>					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ -	\$ -
Investment income	405	(84)	263	489	(347)
Total revenues	<u>170,405</u>	<u>169,916</u>	<u>170,263</u>	<u>489</u>	<u>(347)</u>
<b>Expenses:</b>					
Payment to NYC Transitional Finance Authority	-	-	636,708	-	(636,708)
Bond interest	58,119	59,604	68,262	(1,485)	(8,658)
Cost of issuance	-	-	10,342	-	(10,342)
Other	248	272	426	(24)	(154)
Total expenses	<u>58,367</u>	<u>59,876</u>	<u>715,738</u>	<u>(1,509)</u>	<u>(655,862)</u>
Change in net position	112,038	110,040	(545,475)	1,998	655,515
Net position (deficit) - beginning of year	<u>(2,150,697)</u>	<u>(2,260,737)</u>	<u>(1,715,262)</u>	<u>110,040</u>	<u>(545,475)</u>
Net position (deficit) - end of year	<u>\$ (2,038,659)</u>	<u>\$ (2,150,697)</u>	<u>\$ (2,260,737)</u>	<u>\$ 112,038</u>	<u>\$ 110,040</u>

STAR's revenues for fiscal years 2017, 2016 and 2015 were composed of annual payments from LGAC and investment income. The negative investment income reported in fiscal year 2016, resulted from the offset of accrued interest paid on a US Treasury note purchased on June 29, 2016, as well as a negative mark to market valuation on such investment. The accrued interest paid in fiscal year 2016, was collected in fiscal year 2017, upon maturity of the note. All investments held by STAR are expected to be held to maturity and, as such, will not realize losses on market valuations.

Bond interest between fiscal years 2017 and 2016, decreased by \$1.5 million, as declining bond principal outstanding will result in reduced bond interest costs each year. Total expenses for fiscal year 2016 compared to 2015 decreased by approximately \$656 million due to the fiscal year 2015 bond restructuring transaction.

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

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

**JUNE 30, 2017 AND 2016**  
(Unaudited)

(Amounts in thousands, except as noted)

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

The following summarizes STAR's assets, liabilities, and net position as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Assets:					
Non-capital	\$ 173,021	\$ 171,423	\$ 170,520	\$ 1,598	\$ 903
Total assets	<u>173,021</u>	<u>171,423</u>	<u>170,520</u>	<u>1,598</u>	<u>903</u>
Liabilities:					
Current liabilities	98,638	96,247	94,186	2,391	2,061
Long-term liabilities	<u>2,061,694</u>	<u>2,171,505</u>	<u>2,279,682</u>	<u>(109,811)</u>	<u>(108,177)</u>
Total liabilities	<u>2,160,332</u>	<u>2,267,752</u>	<u>2,373,868</u>	<u>(107,420)</u>	<u>(106,116)</u>
Deferred Inflows of Resources:	<u>51,348</u>	<u>54,368</u>	<u>57,389</u>	<u>(3,020)</u>	<u>(3,021)</u>
Net Position:					
Unrestricted	<u>(2,038,659)</u>	<u>(2,150,697)</u>	<u>(2,260,737)</u>	<u>112,038</u>	<u>110,040</u>
Total net position (deficit)	<u>\$ (2,038,659)</u>	<u>\$ (2,150,697)</u>	<u>\$ (2,260,737)</u>	<u>\$ 112,038</u>	<u>\$ 110,040</u>

At June 30, 2017, 2016 and 2015, STAR's assets consisted primarily of cash equivalents and investments restricted for debt service payments.

STAR's liabilities are almost entirely composed of the bonds payable, unamortized original issue premium and accrued interest payable thereon and the decline each year resulted primarily from the bond principal payments, as previously discussed.

The reported deferred inflows of resources resulted from the bond refunding transaction and represents the difference between removing the carrying amount of the 2005 Series A and B bonds and recording the 2015 Series A bond transaction and declines each year as the amount is amortized over the life of the bonds.

# SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2017 AND 2016

(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, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 211	\$ 397	\$ 375	\$ (186)	\$ 22
Other income	2	-	-	2	-
Total revenues	<u>213</u>	<u>397</u>	<u>375</u>	<u>(184)</u>	<u>22</u>
Expenditures:					
General and administrative	<u>248</u>	<u>272</u>	<u>426</u>	<u>(24)</u>	<u>(154)</u>
Total expenditures	<u>248</u>	<u>272</u>	<u>426</u>	<u>(24)</u>	<u>(154)</u>
Net change in fund balances	(35)	125	(51)	(160)	176
Fund balances - beginning of year	<u>757</u>	<u>632</u>	<u>683</u>	<u>125</u>	<u>(51)</u>
Fund balances - end of year	<u>\$ 722</u>	<u>\$ 757</u>	<u>\$ 632</u>	<u>\$ (35)</u>	<u>\$ 125</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 in fiscal year 2015 were greater than fiscal years 2017 and fiscal year 2016 due to increased allocated costs associated with management's time spent on the refunding transaction.



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

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

**JUNE 30, 2017 AND 2016**  
(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 balances of STAR's DSF for the years ended June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 169,789	\$ 169,603	\$ 169,625	\$ 186	\$ (22)
Other income	403	(84)	263	487	(347)
Total revenues	<u>170,192</u>	<u>169,519</u>	<u>169,888</u>	<u>673</u>	<u>(369)</u>
Expenditures:					
Payment to NYC Transitional Finance Authority	-	-	636,708	-	(636,708)
Bond interest	91,675	94,677	104,263	(3,002)	(9,586)
Principal amount of bonds retired	76,895	73,935	1,974,530	2,960	(1,900,595)
Cost of issuance	-	-	10,342	-	(10,342)
Total expenditures	<u>168,570</u>	<u>168,612</u>	<u>2,725,843</u>	<u>(42)</u>	<u>(2,557,231)</u>
Other financing sources	<u>-</u>	<u>-</u>	<u>2,386,079</u>	<u>-</u>	<u>(2,386,079)</u>
Net change in fund balances	1,622	907	(169,876)	715	170,783
Fund balances - beginning of year	<u>170,653</u>	<u>169,746</u>	<u>339,622</u>	<u>907</u>	<u>(169,876)</u>
Fund balances - end of year	<u>\$ 172,275</u>	<u>\$ 170,653</u>	<u>\$ 169,746</u>	<u>\$ 1,622</u>	<u>\$ 907</u>

The revenues of STAR's DSF for fiscal years 2017, 2016 and 2015 were primarily composed of the annual LGAC revenue, which fluctuates only by the amount of LGAC revenue deposited into the GF for STAR's operating and administrative expenditures. The negative investment income reported in fiscal year 2016, resulted from the offset of accrued interest paid on a US Treasury note purchased on June 29, 2016, as well as a negative mark to market valuation on such investment. The accrued interest paid in fiscal year 2016, was collected in fiscal year 2017, upon maturity of the note. All investments held by STAR are expected to be held to maturity and, as such, will not realize losses on market valuations, as previously discussed.

As a result of the refunding issue in fiscal year 2015 total expenditures decreased in fiscal year 2016 by \$2.6 billion of which \$637 million was a payment to the NYC TFA and \$2.0 billion was bond principal and cost of issuance payments. Also due to the refunding, other financing sources decreased by approximately \$2.4 billion of which \$2.0 billion was bond principal and \$351 million was bond premium.

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

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

**JUNE 30, 2017 AND 2016**  
(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, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
<b>Assets:</b>					
Cash equivalents and investments	\$ 746	\$ 633	\$ 505	\$ 113	\$ 128
Other assets	-	137	139	(137)	(2)
Total assets	<u>\$ 746</u>	<u>\$ 770</u>	<u>\$ 644</u>	<u>\$ (24)</u>	<u>\$ 126</u>
<b>Liabilities:</b>					
Accounts payable	\$ 24	\$ 13	\$ 12	\$ 11	\$ 1
Total liabilities	<u>24</u>	<u>13</u>	<u>12</u>	<u>11</u>	<u>1</u>
<b>Fund Balances:</b>					
Nonspendable prepaid expenditures	-	137	139	(137)	(2)
Unassigned	722	620	493	102	127
Total fund balances	<u>722</u>	<u>757</u>	<u>632</u>	<u>(35)</u>	<u>125</u>
Total liabilities and fund balances	<u>\$ 746</u>	<u>\$ 770</u>	<u>\$ 644</u>	<u>\$ (24)</u>	<u>\$ 126</u>

The GF assets at June 30, 2017, 2016 and 2015 totaled approximately \$746 thousand, \$770 thousand, and \$644 thousand, respectively. They were composed mainly of unrestricted cash equivalents 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, 2017 AND 2016**  
(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, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
<b>Assets:</b>					
Cash equivalents and investments	\$ 172,275	\$ 170,653	\$ 169,876	\$ 1,622	\$ 777
Total assets	<u>\$ 172,275</u>	<u>\$ 170,653</u>	<u>\$ 169,876</u>	<u>\$ 1,622</u>	<u>\$ 777</u>
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ -	\$ 130	\$ -	\$ (130)
Total liabilities	<u>-</u>	<u>-</u>	<u>130</u>	<u>-</u>	<u>(130)</u>
<b>Fund Balances:</b>					
Restricted for debt service	<u>172,275</u>	<u>170,653</u>	<u>169,746</u>	<u>1,622</u>	<u>907</u>
Total fund balances	<u>172,275</u>	<u>170,653</u>	<u>169,746</u>	<u>1,622</u>	<u>907</u>
Total liabilities and fund balances	<u>\$ 172,275</u>	<u>\$ 170,653</u>	<u>\$ 169,876</u>	<u>\$ 1,622</u>	<u>\$ 777</u>

At June 30, 2017, 2016 and 2015, STAR's DSF assets consisted of cash equivalents and investments restricted for debt service payments. 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.

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 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, 2017 AND 2016**

(Amounts in thousands)

	<b>2017</b>	<b>2016</b>
<b>ASSETS:</b>		
Unrestricted cash equivalents	\$ 746	\$ 633
Restricted cash equivalents	172,261	125,646
Restricted investments	-	45,005
Restricted interest receivable	14	2
Prepaid expenses	-	137
	<b>173,021</b>	<b>171,423</b>
<b>LIABILITIES:</b>		
Accounts payable	24	13
Accrued interest payable	18,859	19,339
Bonds payable:		
Portion due within one year	79,755	76,895
Portion due after one year	2,061,694	2,171,505
	<b>2,160,332</b>	<b>2,267,752</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Unamortized deferred refunding costs	51,348	54,368
	<b>51,348</b>	<b>54,368</b>
<b>NET POSITION (DEFICIT):</b>		
Unrestricted (deficit)	(2,038,659)	(2,150,697)
	<b>\$ (2,038,659)</b>	<b>\$ (2,150,697)</b>

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, 2017 and 2016**

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
REVENUES:		
New York State Local Government Assistance Corporation Revenue	\$ 170,000	\$ 170,000
Investment income	405	(84)
Total revenues	<u>170,405</u>	<u>169,916</u>
EXPENSES:		
Bond interest	58,119	59,604
General and administrative	248	272
Total expenses	<u>58,367</u>	<u>59,876</u>
Change in net position (deficit)	<u>112,038</u>	<u>110,040</u>
NET POSITION (DEFICIT) - Beginning of year	(2,150,697)	(2,260,737)
NET POSITION (DEFICIT) - End of year	<u>\$ (2,038,659)</u>	<u>\$ (2,150,697)</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, 2017**

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Unrestricted cash equivalents	\$ 746	\$ -	\$ 746
Restricted cash equivalents	-	172,261	172,261
Restricted interest receivable	-	14	14
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 746</u>	<u>\$ 172,275</u>	<u>\$ 173,021</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 24	\$ -	\$ 24
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>24</u>	<u>-</u>	<u>24</u>
<b>FUND BALANCES:</b>			
Restricted for debt service	-	172,275	172,275
Unassigned	722	-	722
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>722</u>	<u>172,275</u>	<u>172,997</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 746</u>	<u>\$ 172,275</u>	<u>\$ 173,021</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, 2016**

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Unrestricted cash equivalents	\$ 633	\$ -	\$ 633
Restricted cash equivalents	-	125,646	125,646
Restricted investments	-	45,005	45,005
Restricted interest receivable	-	2	2
Prepaid expenditures	137	-	137
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 770</u>	<u>\$ 170,653</u>	<u>\$ 171,423</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 13	\$ -	\$ 13
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>13</u>	<u>-</u>	<u>13</u>
<b>FUND BALANCES:</b>			
Nonspendable prepaid expenditures	137	-	137
Restricted for debt service	-	170,653	170,653
Unassigned	620	-	620
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>757</u>	<u>170,653</u>	<u>171,410</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 770</u>	<u>\$ 170,653</u>	<u>\$ 171,423</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, 2017 AND 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Total fund balances - governmental funds	\$ 172,997	\$ 171,410
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 (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(256,949)	(287,005)
Costs of bond refundings are reported as expenditures in governmental funds financial statements. However, in the statements of net position (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	(51,348)	(54,368)
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	(1,884,500)	(1,961,395)
Accrued bond interest payable	(18,859)	(19,339)
Net position (deficit) of governmental activities	<u>\$ (2,038,659)</u>	<u>\$ (2,150,697)</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, 2017**

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
New York State Local Government Assistance Corporation Revenue	\$ 211	\$ 169,789	\$ 170,000
Investment income	2	403	405
Total revenues	<u>213</u>	<u>170,192</u>	<u>170,405</u>
<b>EXPENDITURES:</b>			
Bond interest	-	91,675	91,675
Principal amount of bonds retired	-	76,895	76,895
General and administrative	248	-	248
Total expenditures	<u>248</u>	<u>168,570</u>	<u>168,818</u>
Net change in fund balances	(35)	1,622	1,587
FUND BALANCES - beginning of year	<u>757</u>	<u>170,653</u>	<u>171,410</u>
FUND BALANCES - end of year	<u>\$ 722</u>	<u>\$ 172,275</u>	<u>\$ 172,997</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, 2016**

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>REVENUES:</b>			
New York State Local Government Assistance			
Corporation Revenue	\$ 397	\$ 169,603	\$ 170,000
Investment income	-	(84)	(84)
Total revenues	<u>397</u>	<u>169,519</u>	<u>169,916</u>
<b>EXPENDITURES:</b>			
Bond interest	-	94,677	94,677
Principal amount of bonds retired	-	73,935	73,935
General and administrative	272	-	272
Total expenditures	<u>272</u>	<u>168,612</u>	<u>168,884</u>
Net change in fund balances	125	907	1,032
FUND BALANCES - beginning of year	<u>632</u>	<u>169,746</u>	<u>170,378</u>
FUND BALANCES - end of year	<u>\$ 757</u>	<u>\$ 170,653</u>	<u>\$ 171,410</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, 2017 AND 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Net change in fund balances - total governmental funds	\$ 1,587	\$ 1,032
Payment of bond principal is an expenditure in the governmental funds financial statements; however, the payment reduces bonds payable in the statements of net position (deficit).	76,895	73,935
Governmental funds financial statements report deferred costs of bond refundings as expenditures. However, in the statements of activities, the deferred costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to refund the bonds.	3,020	3,021
Governmental funds financial statements report bond premiums as other financing sources upon issuance. However, in the statements of activities, premiums are amortized and recognized as an offset of interest expense over the life of the related bonds.	30,056	31,282
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.	480	770
Change in net position (deficit) - governmental activities	<u>\$ 112,038</u>	<u>\$ 110,040</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, 2017 AND 2016**

(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 ("2005 Series A and B") 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.

On October 15, 2014, STAR issued \$2 billion of bonds ("2015 Series A Bonds") and released the debt service reserve, which along with the proceeds allowed STAR to refund all of its outstanding 2005 Series A and B bonds and make a payment to the New York City Transitional Finance Authority ("NYC TFA") to defease a portion of its debt, which was intended to confer savings to the City over a period of four years.

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, 2017 AND 2016**

(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, as amended and restated as of October 1, 2014 (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. The amounts of unamortized bond premium at June 30, 2017 and 2016 were \$257 million and \$287 million, respectively, which were net of accumulated amortization of \$93.8 million and \$63.7, respectively.

Bond issuance costs are recognized as an expense/expenditure in the period incurred on both government-wide and governmental funds financial statements.

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 another financing source, as is the premium on debt issued. Principal payments are reported as expenditures in the period made.

Deferred bond refunding costs represent the accounting gain or loss incurred on a refunding of outstanding bonds and are reported as a deferred inflows of resources on the government-wide financial statements. The deferred bond refunding costs are amortized over the shorter of the remaining life of the old debt or the life of the new debt. In the debt service funds, costs of the bond refunding are reported as expenditures when incurred.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2017 AND 2016**

(Amounts in thousands, except as noted)

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

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.

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") 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 June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"). GASB 74 establishes financial reporting standards for state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 74 did not have an impact on STAR's financial statements, as STAR is not an OPEB Plan.
- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employees. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 75 did not have an impact on STAR's financial statements, as it has no employees.
- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018. STAR has not completed the process of evaluating GASB 83, but does not expect it to have an impact on STAR's financial statements.
- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, ("GASB 84"). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. STAR has not completed the process of evaluating GASB 84, but does not expect it to have an impact on STAR's financial statements, as it does not enter in fiduciary activities.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, ("GASB 85"). The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB statements. The requirements of GASB 85 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 85 did not have an impact on STAR's financial statements.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2017 AND 2016**

(Amounts in thousands, except as noted)

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

- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, ("GASB 86"). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. STAR has not completed the process of evaluating GASB 86, but does not expect it to have an impact on STAR's financial statements.
- In June 2017, GASB issued Statement No. 87, *Leases*, ("GASB 87"). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. STAR has not completed the process of evaluating GASB 87, but does not expect it to have an impact on STAR's financial statements, as it does not enter into any lease agreements.

**(3) Bonds Payable**

In connection with the assignment of the City's right to an interest in the LGAC revenue to STAR, the Corporation issued \$2.0 billion of refunding bonds, which \$1.88 billion was outstanding as of June 30, 2017. Outstanding bonds payable bear interest at fixed rates ranging from 3% to 5%.

A summary of changes in outstanding bonds during the year ended June 30, 2017 is as follows:

	Year Ended June 30, 2017			Balance 6/30/2017
	Balance 6/30/2016	Bonds Issued	Bonds Retired	
2015 Series A	\$ 1,961,395	\$ -	\$ 76,895	\$ 1,884,500
Total before premium	1,961,395	-	76,895	1,884,500
Premium	287,005			256,949
Total Bonds Payable and Premium	<u>\$ 2,248,400</u>			<u>\$ 2,141,449</u>
Due within one year	<u>\$ 76,895</u>			<u>\$ 79,755</u>

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2017 AND 2016**

(Amounts in thousands, except as noted)

**(3) Bonds Payable, continued**

A summary of changes in outstanding bonds during the year ended June 30, 2016 is as follows:

	Balance 6/30/2015	Year Ended June 30, 2016		Balance 6/30/2016
		Bonds Issued	Bonds Retired	
2015 Series A	\$ 2,035,330	\$ -	\$ 73,935	\$ 1,961,395
Total before premium	2,035,330	-	73,935	1,961,395
Premium	318,287			287,005
Total Bonds Payable and Premium	<u>\$ 2,353,617</u>			<u>\$ 2,248,400</u>
Due within one year	<u>\$ 73,935</u>			<u>\$ 76,895</u>

Debt service requirements, including principal and interest, at June 30, 2017, are as follows:

<u>Year ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 79,755	\$ 88,774	\$ 168,529
2019	83,505	84,982	168,487
2020	87,650	80,789	168,439
2021	92,010	76,383	168,393
2022	96,595	71,750	168,345
2023 to 2027	559,215	281,736	840,951
2028 to 2032	714,170	125,343	839,513
2033 to 2034	171,600	3,659	175,259
Totals	<u>\$ 1,884,500</u>	<u>\$ 813,416</u>	<u>\$ 2,697,916</u>



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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2017 AND 2016**

(Amounts in thousands, except as noted)

**(4) Cash and Cash Equivalents**

As of June 30, 2017 and 2016, STAR did not have any cash deposits on hand. Cash equivalents were comprised of Money Market Funds which were primarily restricted for debt service (see Note 5). STAR's cash equivalents consisted of the following at June 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Cash	\$ -	\$ -
Cash Equivalents (see Note 5)	173,007	126,279
Total Cash and Cash Equivalents	\$ 173,007	\$ 126,279

**(5) Investments**

STAR's investments consisted of the following at June 30, 2017 and 2016:

	<b>2017</b>	<b>2016</b>
Unrestricted:		
Money Market Funds	\$ 746	\$ 633
Total Unrestricted	746	633
Restricted for Debt Service and Debt Retirement:		
Money Market Funds	172,261	125,646
U.S. Treasury Note (maturing within one year)	-	45,005
Total Restricted	172,261	170,651
Total investments including cash equivalents	173,007	171,284
Less amounts reported as cash equivalents (see Note 4)	(173,007)	(126,279)
Total Investments	\$ -	\$ 45,005

STAR categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. STAR held Money Market Funds as of June 30, 2017 and 2016, and a U.S. Treasury investment as of June 30, 2016, and are valued based on various market and industry inputs (Level 2 inputs).

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.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2017 AND 2016**

(Amounts in thousands, except as noted)

**(5) Investments, continued**

*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, 2017 were invested in money market funds which were rated Aaa-mf by Moody's, and AAAm by Standard & Poor's ("S&P"). All investments held by STAR at June 30, 2016 were invested in money market funds which were rated Aaa-mf by Moody's, and AAAm by Standards & Poor's ("S&P"), as well as an United States Treasury note rated AAA by Moody's, AA+ by S&P, and AAA by Fitch.

*Interest Rate Risk* – STAR's short term maturities are subject to minimal risk of fair value decline due to changes in market interest rates.

*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, 2017, 100% of STAR's investments were in the Money Market Funds. As of June 30, 2016, 74% of STAR's investments were in the Money Market Funds and 26% in US Treasury Securities.

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