



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

Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

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

Table of Contents

	Page
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis (Unaudited)	3 – 9
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statements of Net Assets (Deficit)	10
Statements of Activities	11
Governmental Funds Financial Statements:	
Governmental Funds Balance Sheets	12 – 13
Reconciliation of the Governmental Funds Balance Sheets to the Statements of Net Assets (Deficit)	14
Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances	15 – 16
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statements of Activities	17
Notes to Financial Statements	18 – 25



KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund of Sales Tax Asset Receivable Corporation (the Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2012 and 2011, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation, as of June 30, 2012 and 2011, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2012 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



U.S. generally accepted accounting principles 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 the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis 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.

KPMG LLP

September 27, 2012

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(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, 2012 and 2011 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 fund financial statements; and (4) the notes to the financial statements.

The government-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the Corporation as a whole, in accordance with Governmental Accounting Standards Board (GASB) standards. This is to provide the reader with a broad overview of STAR's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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

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

Financial Highlights and Overall Analysis – Government-Wide Financial Statements

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

On June 30, 2012, June 30, 2011 and June 30, 2010, STAR used: \$57 million, \$54 million and \$52 million of available resources on-hand, respectively, to defease bonds, as permitted by the Trust Indenture dated October 1, 2004 (the Indenture). The fiscal year 2012 and 2011 loss on defeasance resulted from market interest rates at the time of defeasance being lower than interest rates at time of bond issuance. When the defeasance investments were purchased to fund the related debt service, it caused an accounting loss.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(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, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 v 2011</u> <u>Change</u>	<u>2011 v 2010</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ —	\$ —
Other income	1,164	3,837	984	(2,673)	2,853
Total revenues	<u>171,164</u>	<u>173,837</u>	<u>170,984</u>	<u>(2,673)</u>	<u>2,853</u>
Expenses:					
Bond interest	99,976	102,690	105,435	(2,714)	(2,745)
Other	5,968	5,751	5,513	217	238
Total expenses	<u>105,944</u>	<u>108,441</u>	<u>110,948</u>	<u>(2,497)</u>	<u>(2,507)</u>
Change in net assets	65,220	65,396	60,036	(176)	5,360
Net (deficit) – beginning of year	<u>(1,911,662)</u>	<u>(1,977,058)</u>	<u>(2,037,094)</u>	65,396	60,036
Net (deficit) – end of year	<u><u>\$ (1,846,442)</u></u>	<u><u>\$ (1,911,662)</u></u>	<u><u>\$ (1,977,058)</u></u>	<u><u>\$ 65,220</u></u>	<u><u>\$ 65,396</u></u>

STAR's LGAC revenues for fiscal years 2012, 2011 and 2010 are composed of the annual LGAC payments and composed of investment income. The decrease in investment earnings in fiscal year 2012 compared to investment earnings in fiscal year 2011 resulted from a decline in interest rates. Expenses for fiscal year 2012 were lower than fiscal year 2011, and fiscal year 2011 expenses were lower than fiscal year 2010, because the declining bond principal outstanding resulted in reduced bond interest costs each year.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(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 assets as of June 30, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 v 2011</u> <u>Change</u>	<u>2011 v 2010</u> <u>Change</u>
Assets:					
Non-capital	\$ 299,549	\$ 302,977	\$ 304,846	\$ (3,428)	\$ (1,869)
Total assets	<u>299,549</u>	<u>302,977</u>	<u>304,846</u>	<u>(3,428)</u>	<u>(1,869)</u>
Liabilities:					
Current liabilities	32,767	32,927	34,224	(160)	(1,297)
Long-term liabilities	<u>2,113,224</u>	<u>2,181,712</u>	<u>2,247,680</u>	<u>(68,488)</u>	<u>(65,968)</u>
Total liabilities	<u>2,145,991</u>	<u>2,214,639</u>	<u>2,281,904</u>	<u>(68,648)</u>	<u>(67,265)</u>
Net assets:					
Unrestricted	<u>(1,846,442)</u>	<u>(1,911,662)</u>	<u>(1,977,058)</u>	65,220	65,396
Total net (deficit)	<u>\$ (1,846,442)</u>	<u>\$ (1,911,662)</u>	<u>\$ (1,977,058)</u>	<u>\$ 65,220</u>	<u>\$ 65,396</u>

At June 30, 2012, 2011 and 2010, STAR's assets consisted mainly of cash equivalents and investments restricted for debt service payments and required debt service reserves. The reduction of assets between years is the offset of excess resources used to defease debt. The declining liabilities are almost entirely composed of the bonds payable and unamortized original issue premium and accrued interest payable thereon. The declining net deficits are primarily the result of the November 4, 2004 bond issue which is being, and will continue to be, repaid from LGAC revenues.

Financial Highlights and Overall Analysis – Governmental Funds Financial Statements

STAR reports governmental activity using two funds: (1) a general fund (GF) and (2) a debt service fund (DSF). In fiscal year 2012, STAR implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 resulted in the creation of a general fund and the restatement of those activities that were formerly presented in the debt service fund that are now reported in a general fund. As such, STAR reports in the GF its administrative and operating expenditures and the portion of the LGAC revenue used to pay for those expenditures, in accordance with the Indenture.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(Unaudited)

(Amounts in thousands, except as noted)

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

The following summarizes the changes in the GF fund balances for the years ended June 30, 2012, 2011, and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 v 2011</u> <u>Change</u>	<u>2011 v 2010</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 453	\$ 373	\$ 308	\$ 80	\$ 65
Other income	—	—	1	—	(1)
Total revenues	<u>453</u>	<u>373</u>	<u>309</u>	<u>80</u>	<u>64</u>
Expenditures:					
General and administrative	<u>325</u>	<u>323</u>	<u>347</u>	<u>2</u>	<u>(24)</u>
Total expenditures	<u>325</u>	<u>323</u>	<u>347</u>	<u>2</u>	<u>(24)</u>
Net change in fund balances	128	50	(38)	78	88
Fund balances – beginning of year	<u>584</u>	<u>534</u>	<u>572</u>	<u>50</u>	<u>(38)</u>
Fund balances – end of year	<u>\$ 712</u>	<u>\$ 584</u>	<u>\$ 534</u>	<u>\$ 128</u>	<u>\$ 50</u>

LGAC revenues fluctuate each year for the GF, as the amount deposited in the GF is based on projected general and administrative expenditures for the following year. STAR other income, which is comprised of interest income generated from cash in its operating account earned less than \$500 in fiscal year 2012 and 2011, and decreased by approximately \$1 thousand between fiscal year 2011 and 2010, as interest rates had significantly declined.

Operating expenditures between fiscal year 2012 and 2011 decreased slightly by \$2 thousand, and between fiscal years 2011 and 2010 they increased by \$24 thousand as a result of a retroactive management fee adjustment paid in 2010.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(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, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 v 2011 Change</u>	<u>2011 v 2010 Change</u>
Revenues:					
LGAC revenue	\$ 169,547	\$ 169,627	\$ 169,692	\$ (80)	\$ (65)
Other income	1,164	3,837	983	(2,673)	2,854
Total revenues	<u>170,711</u>	<u>173,464</u>	<u>170,675</u>	<u>(2,753)</u>	<u>2,789</u>
Expenditures:					
Bond interest	105,326	108,042	110,899	(2,716)	(2,857)
Principal amount of bonds retired	10,910	11,640	26,450	(730)	(14,810)
Advance refunding escrow	56,647	54,176	52,451	2,471	1,725
Total expenditures	<u>172,883</u>	<u>173,858</u>	<u>189,800</u>	<u>(975)</u>	<u>(15,942)</u>
Net change in fund balances	(2,172)	(394)	(19,125)	(1,778)	18,731
Fund balances – beginning of year	<u>287,849</u>	<u>288,243</u>	<u>307,368</u>	<u>(394)</u>	<u>(19,125)</u>
Fund balances – end of year	<u><u>\$ 285,677</u></u>	<u><u>\$ 287,849</u></u>	<u><u>\$ 288,243</u></u>	<u><u>\$ (2,172)</u></u>	<u><u>\$ (394)</u></u>

The revenue of STAR's DSF for fiscal years 2012, 2011 and 2010 is 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 decrease in investment earnings in fiscal year 2012 when compared to fiscal year 2011, resulted from a decline in interest rates.

Fiscal year 2012 and fiscal year 2011 expenditures were lower than those in fiscal year 2010, because previous years' defeasances lowered the amount of principal and interest payments due during those fiscal years. In addition, during fiscal year 2012 and fiscal year 2011, STAR defeased a larger amount of outstanding bond principal than in fiscal year 2010. The sizing of the defeasance transactions is based on available resources.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(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, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 v 2011</u> <u>Change</u>	<u>2011 v 2010</u> <u>Change</u>
Assets:					
Cash equivalents and investments	\$ 601	\$ 472	\$ 422	\$ 129	\$ 50
Other assets	<u>138</u>	<u>138</u>	<u>138</u>	<u>—</u>	<u>—</u>
Total assets	<u>\$ 739</u>	<u>\$ 610</u>	<u>\$ 560</u>	<u>\$ 129</u>	<u>\$ 50</u>
Liabilities:					
Accounts payable	\$ <u>27</u>	\$ <u>26</u>	\$ <u>26</u>	\$ <u>1</u>	\$ <u>—</u>
Total liabilities	<u>27</u>	<u>26</u>	<u>26</u>	<u>1</u>	<u>—</u>
Fund balances:					
Nonspendable prepaid expenditures	138	138	138	—	—
Unassigned	<u>574</u>	<u>446</u>	<u>396</u>	<u>128</u>	<u>50</u>
Total fund balances	<u>712</u>	<u>584</u>	<u>534</u>	<u>128</u>	<u>50</u>
Total liabilities and fund balances	<u>\$ 739</u>	<u>\$ 610</u>	<u>\$ 560</u>	<u>\$ 129</u>	<u>\$ 50</u>

The GF assets at June 30, 2012, 2011 and 2010 totaled approximately \$739 thousand, \$610 thousand, and \$560 thousand, respectively. They are composed mainly of unrestricted investments used to pay administrative and operating expenditures and variances are based on resources needed to pay projected expenditures. Other assets are comprised of prepaid insurance.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2012 and 2011

(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, 2012, 2011 and 2010:

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2012 v 2011</u> <u>Change</u>	<u>2011 v 2010</u> <u>Change</u>
Assets:					
Cash equivalents and investments	\$ <u>285,677</u>	\$ <u>287,849</u>	\$ <u>288,243</u>	\$ <u>(2,172)</u>	\$ <u>(394)</u>
Total assets	\$ <u>285,677</u>	\$ <u>287,849</u>	\$ <u>288,243</u>	\$ <u>(2,172)</u>	\$ <u>(394)</u>
Liabilities	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>	\$ <u>—</u>
Fund balances:					
Restricted for debt service	<u>285,677</u>	<u>287,849</u>	<u>288,243</u>	<u>(2,172)</u>	<u>(394)</u>
Total fund balances	<u>285,677</u>	<u>287,849</u>	<u>288,243</u>	<u>(2,172)</u>	<u>(394)</u>
Total liabilities and fund balances	\$ <u>285,677</u>	\$ <u>287,849</u>	\$ <u>288,243</u>	\$ <u>(2,172)</u>	\$ <u>(394)</u>

At June 30, 2012, 2011 and 2010 STAR's DSF assets consisted of cash equivalents and investments restricted for debt service payments and required debt service reserves. The restricted resources held for debt service at each year-end reflect the amount of bond principal and interest due during the subsequent fiscal year and the amount of required reserve set by the Indenture.

This financial report is designed to provide a general overview of STAR's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Raymond Orlando, Manager of Investor Relations, Sales Tax Asset Receivable Corporation, 255 Greenwich Street, New York, NY 10007.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Statements of Net Assets (Deficit)

June 30, 2012 and 2011

(Amounts in thousands)

	<u>2012</u>	<u>2011</u>
Assets:		
Unrestricted cash equivalents	\$ 601	\$ 472
Restricted cash equivalents	14,195	1,838
Restricted investments	271,482	286,011
Prepaid expenses	138	138
Unamortized bond issuance costs	13,133	14,518
Total assets	<u>299,549</u>	<u>302,977</u>
Liabilities:		
Accounts payable	27	26
Accrued interest payable	21,395	21,991
Bonds payable:		
Portion due within one year	11,345	10,910
Portion due after one year	2,042,310	2,105,545
Unamortized bond premium	70,914	76,167
Total liabilities	<u>2,145,991</u>	<u>2,214,639</u>
Net (deficit):		
Unrestricted	<u>(1,846,442)</u>	<u>(1,911,662)</u>
Total net (deficit)	<u>\$ (1,846,442)</u>	<u>\$ (1,911,662)</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Statements of Activities

Years ended June 30, 2012 and 2011

(Amounts in thousands)

	<u>2012</u>	<u>2011</u>
Revenues:		
New York State Local Government Assistance		
Corporation Revenue	\$ 170,000	\$ 170,000
Investment income	1,164	3,837
Total revenues	<u>171,164</u>	<u>173,837</u>
Expenses:		
Bond interest	99,976	102,690
Loss on defeasance	4,489	4,178
Amortization of bond issuance costs	1,154	1,250
General and administrative	325	323
Total expenses	<u>105,944</u>	<u>108,441</u>
Change in net assets (deficit)	65,220	65,396
Net (deficit) – beginning of year	<u>(1,911,662)</u>	<u>(1,977,058)</u>
Net (deficit) – end of year	<u>\$ (1,846,442)</u>	<u>\$ (1,911,662)</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Governmental Funds Balance Sheet

June 30, 2012

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Assets:			
Unrestricted cash equivalents	\$ 601	\$ —	\$ 601
Restricted cash equivalents	—	14,195	14,195
Restricted investments	—	271,482	271,482
Prepaid expenditures	138	—	138
Total assets	<u>\$ 739</u>	<u>\$ 285,677</u>	<u>\$ 286,416</u>
Liabilities:			
Accounts payable	<u>\$ 27</u>	<u>\$ —</u>	<u>\$ 27</u>
Total liabilities	<u>27</u>	<u>—</u>	<u>27</u>
Fund balances:			
Nonspendable prepaid expenditures	138	—	138
Restricted for debt service	—	285,677	285,677
Unassigned	<u>574</u>	<u>—</u>	<u>574</u>
Total fund balances	<u>712</u>	<u>285,677</u>	<u>286,389</u>
Total liabilities and fund balances	<u>\$ 739</u>	<u>\$ 285,677</u>	<u>\$ 286,416</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Governmental Funds Balance Sheet

June 30, 2011

(Amounts in thousands)

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

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Reconciliation of the Governmental Funds Balance Sheets to the
Statements of Net Assets (Deficit)

June 30, 2012 and 2011

(Amounts in thousands)

	<u>2012</u>	<u>2011</u>
Total fund balances – governmental funds	\$ 286,389	\$ 288,433
Amounts reported in the statements of net assets (deficit) are different because:		
Costs of bond issuance are reported as expenditures in the governmental fund financial statements upon issuance. However, in the statements of net assets, the costs of bond issuance are reported as capitalized assets and amortized over the life of the bonds.	13,133	14,518
Bond premiums are reported as other financing sources in the governmental fund financial statements. However, in the statements of net assets, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(70,914)	(76,167)
Some liabilities are not due and payable from currently available financial resources at year end and are therefore not reported in the governmental fund financial statements, but are reported in the statement of net assets (deficit). Those liabilities consist of:		
Bonds payable	(2,053,655)	(2,116,455)
Accrued interest payable	(21,395)	(21,991)
Net (deficit) of governmental activities	\$ <u>(1,846,442)</u>	\$ <u>(1,911,662)</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

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

For the year ended June 30, 2012

(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	\$ 453	\$ 169,547	\$ 170,000
Investment income	—	1,164	1,164
Total revenues	<u>453</u>	<u>170,711</u>	<u>171,164</u>
Expenditures:			
Bond interest	—	105,326	105,326
Principal amount of bonds retired	—	10,910	10,910
Advance refunding escrow	—	56,647	56,647
General and administrative expenditures	325	—	325
Total expenditures	<u>325</u>	<u>172,883</u>	<u>173,208</u>
Net change in fund balances	128	(2,172)	(2,044)
Fund balances – beginning of year	<u>584</u>	<u>287,849</u>	<u>288,433</u>
Fund balances – end of year	<u>\$ 712</u>	<u>\$ 285,677</u>	<u>\$ 286,389</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

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

For the year ended June 30, 2011

(Amounts in thousands)

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

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

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

For the years ended June 30, 2012 and 2011

(Amounts in thousands)

	<u>2012</u>	<u>2011</u>
Net change in fund balances – total governmental funds	\$ (2,044)	\$ (344)
Amounts reported in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces bonds payable on the statements of net assets.	10,910	11,640
Governmental funds financial statements report costs of bond issuance as expenditures. However, on the statements of activities, the costs of debt issuance are amortized over the life of the bonds.	(1,154)	(1,250)
Governmental fund financial statements report bond premiums as other financing sources upon issuance. However, on the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	5,253	5,253
Payments to defease bonds prior to maturity are reported as expenditures in the governmental fund financial statements, however, in the statements of net assets, only the difference between the carrying value of the defeased bonds and the amount paid to defease the bonds are reported as period revenue or expenses.	52,158	49,998
Interest expense is reported in the statements of activities on the accrual basis. However, interest is reported as an expenditure in governmental fund financial statements when the payment is due.	97	99
Change in net assets – governmental activities	\$ <u>65,220</u>	\$ <u>65,396</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, 2012 and 2011

(Amounts in thousands, except as noted)

(1) Organization

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

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

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

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

(2) Summary of Significant Accounting Policies

The government-wide financial statements of STAR, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

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

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

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

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

Fund balance that cannot be spent because it is not in spendable form is defined as nonspendable. Resources constrained for debt service or redemption in accordance with STAR's Trust Indenture, dated October 1, 2004 (the Indenture) are classified as restricted on the statements of net assets (deficit) and the governmental funds balance sheets.

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

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

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

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

Investments are reported at fair value as of the reporting date.

Bond premium and issuance costs are capitalized and amortized over the life of the related debt using the effective interest method in the government-wide financial statements. The amounts of unamortized bond premium at June 30, 2012 and 2011 were \$70,914 and \$76,167, respectively, which were net of accumulated amortization of \$40,273 and \$35,020, respectively. The amounts of unamortized issuance costs at June 30, 2012 and 2011 were \$13,133 and \$14,518, respectively, which are net of accumulated amortization and amounts written-off related to defeased debt of \$13,595 and \$12,210, respectively.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the period of the related bond issuance. The face amount of debt issued is reported

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

as an other financing source, as is the premium on debt issued. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. Principal payments and payments into defeasance escrow accounts are reported as expenditures in the period made.

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

The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires STAR's management to make estimates and assumptions in determining the reported amounts of assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

As a component unit of The City, STAR implements new GASB standards in the same fiscal year as they are implemented by The City. The following are discussions of the standards requiring implementation in the current year and standards which will or may impact STAR in the future years.

- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for service Concession Agreements* (GASB 60). GASB 60 establishes the financial reporting for service concession agreements, which are a type of public-private or public-public partnership. GASB 60 is effective for financial statement periods beginning after December 15, 2011. As STAR has not entered into any service concession agreements, GASB 60 is not expected to have an impact on STAR's financial statements.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34* (GASB 61). GASB 61 amends existing standards relating to the composition and reporting of the governmental financial reporting entity. GASB 61 is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on STAR or its status as a blended component unit of The City.
- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements* (GASB 62). GASB 62 incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for US state and local governments. GASB 62 is effective for financial statement periods beginning after December 15, 2011. STAR has not completed the process of evaluating GASB 62, but does not expect it to have an impact on its financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). GASB 63 establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. GASB 63 is effective for financial statements for periods beginning after December 15, 2011. STAR has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and renaming of STAR's financial statements to Net Position and components thereof, with no overall financial impact.
- In June 2011, GASB issued Statement No. 64, *Derivate Instrument: Application of Hedge Accounting Termination Provision* (GASB 64). GASB 64 clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. GASB 64 is effective for financial statements for periods beginning after June 15, 2011. As STAR has not entered into any such agreements, GASB 64 does not have an impact on its financial statements.
- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). GASB 65 establishes accounting and reporting standards that reclassify certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and that recognizes certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB 65 are effective for financial statement for periods beginning after December 15, 2012. STAR has not completed the process of evaluating GASB 65, but it expects that the required accounting change will have an effect to debt issuance cost recognition and reporting in the government wide financial statements upon implementation.
- In March 2012, GASB issued Statement No. 66, *Technical Correction-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 statements for periods beginning after December 15, 2012. STAR has not completed the process of evaluating GASB 66, but does not expect it to have an impact on its financial statements.
- 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, 2012. STAR has not completed the process of evaluating GASB 68, but does not expect it to have an impact on its financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(3) Bonds Payable

In connection with the assignment of The City's right to an interest in the LGAC revenue to STAR, STAR has issued \$2.55 billion of bonds of which \$2.05 billion is outstanding as of June 30, 2012. 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, 2012 is as follows:

	Balance June 30, 2011	Period ended June 30, 2012		Balance June 30, 2012
		Bonds issued	Bonds retired and defeased	
2005 Series A	\$ 1,869,010	\$ —	\$ —	\$ 1,869,010
2005 Series B	247,445	—	62,800	184,645
Totals	<u>\$ 2,116,455</u>	<u>\$ —</u>	<u>\$ 62,800</u>	<u>\$ 2,053,655</u>

A summary of changes in outstanding bonds during the year ended June 30, 2011 is as follows:

	Balance June 30, 2010	Period ended June 30, 2011		Balance June 30, 2011
		Bonds issued	Bonds retired and defeased	
2005 Series A	\$ 1,869,010	\$ —	\$ —	\$ 1,869,010
2005 Series B	308,890	—	61,445	247,445
Totals	<u>\$ 2,177,900</u>	<u>\$ —</u>	<u>\$ 61,445</u>	<u>\$ 2,116,455</u>

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(3) Bonds Payable, continued

Debt service requirements, including principal and interest, at June 30, 2012, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ended June 30:			
2013	\$ 11,345	\$ 102,446	\$ 113,791
2014	10,885	101,947	112,832
2015	34,880	100,886	135,766
2016	70,070	98,405	168,475
2017	72,795	95,013	167,808
2018 to 2022	428,215	413,974	842,189
2023 to 2027	549,380	291,561	840,941
2028 to 2032	705,385	134,116	839,501
2033 to 2034	170,700	4,560	175,260
Totals	<u>\$ 2,053,655</u>	<u>\$ 1,342,908</u>	<u>\$ 3,396,563</u>

As of June 30, 2012 and 2011, STAR had defeased, with defeasance collateral, bonds with principal amounts totaling \$286,845 and \$234,955, respectively, of which \$134,166 remains to be paid as of June 30, 2012 from defeasance collateral held in escrow accounts on deposit with STAR's escrow trustee.

(4) Cash and Cash Equivalents

As of June 30, 2012, 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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Cash	\$ —	\$ —
Cash equivalents (see note 5)	<u>14,796</u>	<u>2,310</u>
Total cash and cash equivalents	<u>\$ 14,796</u>	<u>\$ 2,310</u>

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(5) Investments

STAR's investments consisted of the following at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unrestricted:		
Treasury money market funds	\$ 601	\$ 472
Total unrestricted	<u>601</u>	<u>472</u>
Restricted for Debt Service:		
Treasury money market funds	14,195	1,838
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	99,974	116,151
Federal National Mortgage Association discount notes (maturing within one year)	—	11,996
Federal National Mortgage Association medium term note (maturing after one year)	<u>171,508</u>	<u>157,864</u>
Total restricted	<u>285,677</u>	<u>287,849</u>
Total investments including cash equivalents	286,278	288,321
Less amounts reported as cash equivalents (see note 4)	<u>(14,796)</u>	<u>(2,310)</u>
Total investments	<u>\$ 271,482</u>	<u>\$ 286,011</u>

SALES TAX ASSET RECEIVABLE CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2012 and 2011

(Amounts in thousands, except as noted)

(5) Investments, continued

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 asset 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, 2012 and 2011 are invested in Federal National Mortgage Association securities are rated by S&P AA+, Moodys Aaa, and Fitch AAA; a Federal Home Loan Mortgage Corporation security, which is rated by S&P A-1+, Moodys P-1, and Fitch F1+; and in money market funds which is rated by S&P AAA 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.

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, 2012, more than 5% of STAR’s investments are in the Federal National Mortgage Association and Federal Home Loan Mortgage Corporation. These investments are 60% and 34% of STAR’s total investments, respectively.

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