

STAR Sales Tax Asset Receivable Corporation



**SALES TAX ASSET
RECEIVABLE CORPORATION**

A COMPONENT UNIT OF THE CITY OF NEW YORK

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2015 and 2014

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ACCOUNTANTS & ADVISORS

SALES TAX ASSET RECEIVABLE CORPORATION

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

YEARS ENDED JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of Sales Tax Asset Receivable Corporation ("STAR"), a component unit of The City of New York, as of and for the years ended June 30, 2015 and 2014, which collectively comprise STAR's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of Sales Tax Asset Receivable Corporation as of June 30, 2015 and 2014, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

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



New York, NY
September 14, 2015

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ACCOUNTANTS & ADVISORS

SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015 AND 2014

(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, 2015 and 2014 and for the years then ended. It should be read in conjunction with STAR's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the financial statements.

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

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

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

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS

On November 4, 2004, STAR issued \$2.55 billion of bonds ("2005 Series A and B Bonds") to provide for the payment of the principal and interest and redemption premium, if any, on all outstanding bonds of the Municipal Assistance Corporation For The City of New York ("MAC") and all outstanding bonds of The City of New York (the "City") held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. Principal and interest on the STAR bonds are paid from the \$170 million in annual payments required to be made by the New York State Local Government Assistance Corporation ("LGAC"), a public benefit corporation of the State of New York (the "State") pursuant to Section 3238-a of the New York State Public Authorities Law, which the City has irrevocably assigned to STAR. The payment of the outstanding MAC bonds resulted in the receipt by the City of tax revenues that would otherwise have been paid to MAC for the payment of debt service on MAC's bonds.

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 the following four years.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 v 2014</u> <u>Change</u>	<u>2014 v 2013</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ -	\$ -
Investment income	263	326	306	(63)	20
Total revenues	<u>170,263</u>	<u>170,326</u>	<u>170,306</u>	<u>(63)</u>	<u>20</u>
Expenses:					
Payment to NYC Transitional Finance Authority	636,708	-	-	636,708	-
Bond interest	68,262	93,907	97,088	(25,645)	(3,181)
Cost of issuance	10,342	-	-	10,342	-
Other	426	370	4,954	56	(4,584)
Total expenses	<u>715,738</u>	<u>94,277</u>	<u>102,042</u>	<u>621,461</u>	<u>(7,765)</u>
Change in net position	(545,475)	76,049	68,264	(621,524)	7,785
Net position (deficit) - beginning of year	<u>(1,715,262)</u>	<u>(1,791,311)</u>	<u>(1,859,575)</u>	<u>76,049</u>	<u>68,264</u>
Net position (deficit) - end of year	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</u>	<u>\$ (1,791,311)</u>	<u>\$ (545,475)</u>	<u>\$ 76,049</u>

STAR's revenues for fiscal years 2015, 2014 and 2013 were composed of the annual LGAC payments from LGAC and investment income. The investment income resulted primarily from the change in the market value of the long term, fixed return securities held during the year. The decrease in investment income between fiscal years 2015 and 2014 was because of the release of the restricted investments in connection with the refunding transaction.

Total expenses for fiscal year 2015 compared to 2014 differed by \$621 million due to a one-time payment of \$637 million to the NYC TFA and \$10.3 million of issuance costs offset by \$25.6 million less in interest payments as a result of the bond refunding transaction.

The \$4.6 million decrease of other expenses between fiscal years 2014 and 2013 was because STAR did not defease bonds in fiscal year 2014, thereby not having to report a loss on defeasance. Bond interest expenses for fiscal years 2014 and 2013 were lower each year primarily 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 (continued)

JUNE 30, 2015 AND 2014
(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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 v 2014</u> Change	<u>2014 v 2013</u> Change
Assets:					
Non-capital	\$ 170,520	\$ 340,317	\$ 280,518	\$ (169,797)	\$ 59,799
Total assets	<u>170,520</u>	<u>340,317</u>	<u>280,518</u>	<u>(169,797)</u>	<u>59,799</u>
Liabilities:					
Current liabilities	94,186	31,521	31,638	62,665	(117)
Long-term liabilities	<u>2,279,682</u>	<u>2,024,058</u>	<u>2,040,191</u>	<u>255,624</u>	<u>(16,133)</u>
Total liabilities	<u>2,373,868</u>	<u>2,055,579</u>	<u>2,071,829</u>	<u>318,289</u>	<u>(16,250)</u>
Deferred Inflows of Resources:	<u>57,389</u>	<u>-</u>	<u>-</u>	<u>57,389</u>	<u>-</u>
Net Position:					
Unrestricted	<u>(2,260,737)</u>	<u>(1,715,262)</u>	<u>(1,791,311)</u>	<u>(545,475)</u>	<u>76,049</u>
Total net position (deficit)	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</u>	<u>\$ (1,791,311)</u>	<u>\$ (545,475)</u>	<u>\$ 76,049</u>

At June 30, 2015, STAR's assets consisted primarily of cash equivalents restricted for debt service payments. The \$170 million decrease of assets between fiscal years 2015 and 2014 resulted from amendments permitting the release of the debt service reserve in connection with the refunding transaction. At June 30, 2014 and 2013, STAR's assets consisted mainly of cash equivalents and investments restricted for debt service payments and required debt service reserves. The \$59.8 million increase of assets between fiscal years 2014 and 2013 was because STAR did not defease bonds in fiscal year 2014.

STAR's liabilities are almost entirely composed of the bonds payable and unamortized original issue premium and accrued interest payable thereon. The increase in current liabilities in fiscal year 2015 was primarily due to a \$63.1 million increase of bonds payable due within one year. The increase of long-term liabilities in fiscal year 2015 was due to an increase of \$258 million of unamortized original issue discount from the refunding transaction.

The deferred inflows of resources reported in fiscal year 2015 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.

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

MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 v 2014</u> <u>Change</u>	<u>2014 v 2013</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 375	\$ 364	\$ 324	\$ 11	\$ 40
Total revenues	<u>375</u>	<u>364</u>	<u>324</u>	<u>11</u>	<u>40</u>
Expenditures:					
General and administrative	426	370	347	56	23
Total expenditures	<u>426</u>	<u>370</u>	<u>347</u>	<u>56</u>	<u>23</u>
Net change in fund balances	(51)	(6)	(23)	(45)	17
Fund balances - beginning of year	<u>683</u>	<u>689</u>	<u>712</u>	<u>(6)</u>	<u>(23)</u>
Fund balances - end of year	<u>\$ 632</u>	<u>\$ 683</u>	<u>\$ 689</u>	<u>\$ (51)</u>	<u>\$ (6)</u>

LGAC revenues fluctuate each year for the GF, as the amount deposited in the GF is based on projected general and administrative expenditures for the following year. Operating expenditures between fiscal years 2015 and 2014 increased by \$56 thousand and increased by \$23 thousand between fiscal years 2014 and 2013 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, 2015 AND 2014
(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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 v 2014</u> Change	<u>2014 v 2013</u> Change
Revenues:					
LGAC revenue	\$ 169,625	\$ 169,636	\$ 169,676	\$ (11)	\$ (40)
Other income	263	326	306	(63)	20
Total revenues	<u>169,888</u>	<u>169,962</u>	<u>169,982</u>	<u>(74)</u>	<u>(20)</u>
Expenditures:					
Payment to NYC Transitional Finance Authority	636,708	-	-	636,708	-
Bond interest	104,263	99,263	102,445	5,000	(3,182)
Principal amount of bonds retired	1,974,530	10,885	11,345	1,963,645	(460)
Advance refunding escrow	-	-	62,061	-	(62,061)
Cost of issuance	10,342	-	-	10,342	-
Total expenditures	<u>2,725,843</u>	<u>110,148</u>	<u>175,851</u>	<u>2,615,695</u>	<u>(65,703)</u>
Other financing sources	<u>2,386,079</u>	<u>-</u>	<u>-</u>	<u>2,386,079</u>	<u>-</u>
Net change in fund balances	(169,876)	59,814	(5,869)	(229,690)	65,683
Fund balances - beginning of year	<u>339,622</u>	<u>279,808</u>	<u>285,677</u>	<u>59,814</u>	<u>(5,869)</u>
Fund balances - end of year	<u>\$ 169,746</u>	<u>\$ 339,622</u>	<u>\$ 279,808</u>	<u>\$ (169,876)</u>	<u>\$ 59,814</u>

The revenue of STAR's DSF for fiscal years 2015, 2014 and 2013 was 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 variance in investment earnings is due to the market valuation of the long-term, fixed income securities, as discussed previously. The decrease in investment income between fiscal years 2015 and 2014 was because of the release of the restricted investments in connection with the refunding transaction.

As a result of the refunding issue in fiscal year 2015 total expenditures increased 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.

As a result of the refunding issue in fiscal year 2015 other financing sources increased by \$2.4 billion, of which \$2.0 billion was bond principal and \$351 million was bond premium.

In fiscal year 2014, there was no money transferred to advance refunding escrow as STAR did not defease any bonds.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2015 AND 2014
(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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 v 2014</u> <u>Change</u>	<u>2014 v 2013</u> <u>Change</u>
Assets:					
Cash equivalents and investments	\$ 505	\$ 556	\$ 571	\$ (51)	\$ (15)
Other assets	139	139	139	-	-
Total assets	<u>\$ 644</u>	<u>\$ 695</u>	<u>\$ 710</u>	<u>\$ (51)</u>	<u>\$ (15)</u>
Liabilities:					
Accounts payable	\$ 12	\$ 12	\$ 21	\$ -	\$ (9)
Total liabilities	<u>12</u>	<u>12</u>	<u>21</u>	<u>-</u>	<u>(9)</u>
Fund Balances:					
Nonspendable prepaid expenditures	139	139	139	-	-
Unassigned	493	544	550	(51)	(6)
Total fund balances	<u>632</u>	<u>683</u>	<u>689</u>	<u>(51)</u>	<u>(6)</u>
Total liabilities and fund balances	<u>\$ 644</u>	<u>\$ 695</u>	<u>\$ 710</u>	<u>\$ (51)</u>	<u>\$ (15)</u>

The GF assets at June 30, 2015, 2014 and 2013 totaled approximately \$644 thousand, \$695 thousand, and \$710 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, 2015 AND 2014
(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, 2015, 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2015 v 2014</u> <u>Change</u>	<u>2014 v 2013</u> <u>Change</u>
Assets:					
Cash equivalents and investments	\$ 169,876	\$ 339,622	\$ 279,808	\$ (169,746)	\$ 59,814
Total assets	<u>\$ 169,876</u>	<u>\$ 339,622</u>	<u>\$ 279,808</u>	<u>\$ (169,746)</u>	<u>\$ 59,814</u>
Liabilities:					
Accounts payable	\$ 130	\$ -	\$ -	\$ 130	\$ -
Total liabilities	<u>130</u>	<u>-</u>	<u>-</u>	<u>130</u>	<u>-</u>
Fund Balances:					
Restricted for debt service	<u>169,746</u>	<u>339,622</u>	<u>279,808</u>	<u>(169,876)</u>	<u>59,814</u>
Total fund balances	<u>169,746</u>	<u>339,622</u>	<u>279,808</u>	<u>(169,876)</u>	<u>59,814</u>
Total liabilities and fund balances	<u>\$ 169,876</u>	<u>\$ 339,622</u>	<u>\$ 279,808</u>	<u>\$ (169,746)</u>	<u>\$ 59,814</u>

At June 30, 2015, STAR's DSF assets consisted of cash equivalents restricted for debt service payments. The \$170 million decrease of assets between fiscal years 2015 and 2014 was due to the release of the debt service reserve in connection with the refunding transaction. At June 30, 2014 and 2013, STAR's DSF assets consisted of cash equivalents and investments restricted for debt service payments and required debt service reserves. The restricted resources held for debt service at each year-end reflect the amount of bond principal and interest due during the subsequent fiscal year and the amount of required reserve set by the Indenture. The \$59.8 million increase of assets between fiscal years 2014 and 2013 was because STAR did not defease bonds in fiscal year 2014.

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.

SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

STATEMENTS OF NET POSITION (DEFICIT)**JUNE 30, 2015 AND 2014**

(Amounts in thousands)

	<u>2015</u>	<u>2014</u>
ASSETS:		
Unrestricted cash equivalents	\$ 505	\$ 556
Restricted cash equivalents	169,876	289,585
Restricted investments	-	50,036
Restricted interest receivable	-	1
Prepaid expenses	139	139
	<u>170,520</u>	<u>340,317</u>
Total assets	<u>170,520</u>	<u>340,317</u>
LIABILITIES:		
Accounts payable	142	12
Accrued interest payable	20,109	20,629
Bonds payable:		
Portion due within one year	73,935	10,880
Portion due after one year	2,279,682	2,024,058
	<u>2,373,868</u>	<u>2,055,579</u>
Total liabilities	<u>2,373,868</u>	<u>2,055,579</u>
DEFERRED INFLOWS OF RESOURCES:		
Unamortized deferred refunding costs	57,389	-
	<u>57,389</u>	<u>-</u>
Total deferred inflows of resources	<u>57,389</u>	<u>-</u>
NET POSITION (DEFICIT):		
Unrestricted (deficit)	<u>(2,260,737)</u>	<u>(1,715,262)</u>
Total net position (deficit)	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</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, 2015 and 2014**

(Amounts in thousands)

	<u>2015</u>	<u>2014</u>
REVENUES:		
New York State Local Government Assistance Corporation Revenue	\$ 170,000	\$ 170,000
Investment income	226	326
Other revenue	37	-
Total revenues	<u>170,263</u>	<u>170,326</u>
EXPENSES:		
Payment to NYC Transitional Finance Authority	636,708	-
Bond interest	68,262	93,907
Cost of issuance	10,342	-
General and administrative	426	370
Total expenses	<u>715,738</u>	<u>94,277</u>
Change in net position (deficit)	<u>(545,475)</u>	<u>76,049</u>
NET POSITION (DEFICIT) - Beginning of year	(1,715,262)	(1,791,311)
NET POSITION (DEFICIT) - End of year	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</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, 2015**

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
ASSETS:			
Unrestricted cash equivalents	\$ 505	\$ -	\$ 505
Restricted cash equivalents	-	169,876	169,876
Prepaid expenditures	139	-	139
	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 644</u>	<u>\$ 169,876</u>	<u>\$ 170,520</u>
LIABILITIES:			
Accounts payable	\$ 12	\$ 130	\$ 142
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>12</u>	<u>130</u>	<u>142</u>
FUND BALANCES:			
Nonspendable prepaid expenditures	139	-	139
Restricted for debt service	-	169,746	169,746
Unassigned	493	-	493
	<hr/>	<hr/>	<hr/>
Total fund balances	<u>632</u>	<u>169,746</u>	<u>170,378</u>
	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 644</u>	<u>\$ 169,876</u>	<u>\$ 170,520</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

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

(Amounts in thousands)

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

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

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

JUNE 30, 2015 AND 2014

(Amounts in thousands)

	<u>2015</u>	<u>2014</u>
Total fund balances - governmental funds	\$ 170,378	\$ 340,305
Amounts reported in the statements of net position (deficit) are different because:		
Bond premiums are reported as other financing sources in the governmental funds financial statements when received. However, in the statements of net position, bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(318,287)	(60,408)
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.	(57,389)	-
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	(2,035,330)	(1,974,530)
Accrued interest payable	(20,109)	(20,629)
Net position (deficit) of governmental activities	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</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, 2015**

(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	\$ 375	\$ 169,625	\$ 170,000
Investment income	-	226	226
Other revenue	-	37	37
Total revenues	<u>375</u>	<u>169,888</u>	<u>170,263</u>
EXPENDITURES:			
Payment to NYC Transitional Finance Authority	-	636,708	636,708
Bond interest	-	104,263	104,263
Cost of issuance	-	10,342	10,342
Principal amount of bonds retired	-	1,974,530	1,974,530
General and administrative	426	-	426
Total expenditures	<u>426</u>	<u>2,725,843</u>	<u>2,726,269</u>
OTHER FINANCING SOURCES:			
Principal amount of bonds issued	-	2,035,330	2,035,330
Bond premium	-	350,749	350,749
Total other financing sources	<u>-</u>	<u>2,386,079</u>	<u>2,386,079</u>
Net change in fund balances	(51)	(169,876)	(169,927)
FUND BALANCES - beginning of year	<u>683</u>	<u>339,622</u>	<u>340,305</u>
FUND BALANCES - end of year	<u>\$ 632</u>	<u>\$ 169,746</u>	<u>\$ 170,378</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

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

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUES:			
New York State Local Government Assistance Corporation Revenue	\$ 364	\$ 169,636	\$ 170,000
Investment income	-	326	326
Total revenues	<u>364</u>	<u>169,962</u>	<u>170,326</u>
EXPENDITURES:			
Bond interest	-	99,263	99,263
Principal amount of bonds retired	-	10,885	10,885
General and administrative	370	-	370
Total expenditures	<u>370</u>	<u>110,148</u>	<u>110,518</u>
Net changes in fund balances	(6)	59,814	59,808
FUND BALANCES - beginning of year	<u>689</u>	<u>279,808</u>	<u>280,497</u>
FUND BALANCES - end of year	<u>\$ 683</u>	<u>\$ 339,622</u>	<u>\$ 340,305</u>

See accompanying notes to financial statements.

SALES TAX ASSET RECEIVABLE CORPORATION

(A Component Unit of The City of New York)

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, 2015 AND 2014

(Amounts in thousands)

	<u>2015</u>	<u>2014</u>
Net change in fund balances - total governmental funds	\$ (169,927)	\$ 59,808
Amounts reported in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but bonds issued increase long-term liabilities in the statements of net position (deficit).	(2,035,330)	-
Governmental funds report bond premiums as other financing sources. However, in the statement of activities, and premiums are amortized over the life of the debt.	(350,749)	-
Repayment of bond principal is an expenditure in the governmental funds financial statements, but the repayment reduces bonds payable in the statements of net position (deficit).	1,974,530	10,885
Governmental funds financial statements report costs of bond refundings as expenditures. However, in the statements of activities, the 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	-
Governmental funds financial statements report bond premiums as other financing sources upon issuance. However, in the statements of activities, premiums are recognized as an offset of interest expense over the life of the bonds.	32,462	5,253
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.	519	103
Change in net position (deficit) - governmental activities	<u>\$ (545,475)</u>	<u>\$ 76,049</u>

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

(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 its debt and which is intended to confer savings to the City over the following 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, 2015 AND 2014

(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, 2015 and 2014, were \$318,287 and \$60,408, respectively, which were net of accumulated amortization of \$32,462 and \$50,779, 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 an other 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 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, 2015 AND 2014

(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 February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). GASB 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015; however, STAR has early adopted the standard during fiscal year 2015. Pursuant to the standard, STAR has disclosed the hierarchy of valuation inputs and valuation techniques in its notes the financial statements.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. STAR has not completed the process of evaluating GASB 73, but does not expect it to have an impact on STAR's financial statements as it has no employees.
- 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 to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. STAR has not completed the process of evaluating GASB 74, but does not expect it to have an impact on STAR's financial statements as it has no employees.
- 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. STAR has not completed the process of evaluating GASB 75, but does not expect it to have an impact on STAR's financial statements as it has no employees.

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

(Amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies, continued

- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 reduces the GAAP hierarchy to two categories of authoritative Generally Accepted Accounting Principles ("GAAP") and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. STAR has not completed the process of evaluating GASB 76, but does not expect it to have an impact on STAR's financial statements.

(3) Bonds Payable

In connection with the assignment of the City's right to an interest in the LGAC revenue to STAR, the Corporation refunded its 2005 Series A and B bonds by issuing \$2.0 billion 2015 Series A bonds, which was outstanding as of June 30, 2015. STAR has pledged the LGAC revenue to secure the bonds.

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, 2015 is as follows:

	Balance 6/30/2014	Year Ended June 30, 2015		Balance 6/30/2015
		Bonds Issued	Bonds Retired & Defeased	
2005 Series A	\$ 1,869,010	\$ -	\$ 1,869,010	\$ -
2005 Series B	105,520	-	105,520	-
2015 Series A	-	2,035,330	-	2,035,330
Total before premium	1,974,530	2,035,330	1,974,530	2,035,330
Premium	60,408			318,287
Total Bonds Payable and Premium	\$ 2,034,938			\$ 2,353,617
Due within one year				\$ 73,935

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

(Amounts in thousands, except as noted)

(3) Bonds Payable, continued

A summary of changes in outstanding bonds during the year ended June 30, 2014 is as follows:

	Balance 6/30/2013	Year Ended June 30, 2014		Balance 6/30/2014
		Bonds Issued	Bonds Retired & Defeased	
2005 Series A	\$ 1,869,010	\$ -	\$ -	\$ 1,869,010
2005 Series B	116,405	-	10,885	105,520
Total before premium	<u>1,985,415</u>	<u>-</u>	<u>10,885</u>	<u>1,974,530</u>
Premium	65,661			60,408
Total Bonds Payable and Premium	<u>\$ 2,051,076</u>			<u>\$ 2,034,938</u>
Due within one year				<u>\$ 10,880</u>

Debt service requirements, including principal and interest, at June 30, 2015, are as follows:

<u>Year ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 73,935	\$ 94,677	\$ 168,612
2017	76,895	91,675	168,570
2018	79,755	88,774	168,529
2019	83,505	84,982	168,487
2020	87,650	80,789	168,439
2021 to 2025	507,640	333,831	841,471
2026 to 2030	647,880	192,233	840,113
2031 to 2034	<u>478,070</u>	<u>32,808</u>	<u>510,878</u>
Totals	<u>\$ 2,035,330</u>	<u>\$ 999,769</u>	<u>\$ 3,035,099</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

(Amounts in thousands, except as noted)

(4) Cash and Cash Equivalents

As of June 30, 2015 and 2014, STAR did not have any cash deposits on hand. Cash equivalents were comprised of Money Market Funds which were partially restricted for debt service (see Note 5). STAR's cash equivalents consisted of the following at June 30, 2015 and 2014:

	2015	2014
Cash	\$ -	\$ -
Cash Equivalents (see Note 5)	170,381	290,141
Total Cash and Cash Equivalents	\$ 170,381	\$ 290,141

(5) Investments

STAR's investments consisted of the following at June 30, 2015 and 2014:

	2015	2014
Unrestricted:		
Money Market Funds	\$ 505	\$ 556
Total Unrestricted	505	556
Restricted for Debt Service and Debt Retirement:		
Money Market Funds	169,876	289,585
Federal Home Loan Mortgage Corporation medium term note (maturing after one year)	-	50,036
Total Restricted	169,876	339,621
Total investments including cash equivalents	170,381	340,177
Less amounts reported as cash equivalents (see Note 4)	(170,381)	(290,141)
Total Investments	-	\$ 50,036

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 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, 2015 and 2014 and a U.S. Agency investment as of June 30, 2014 valued based on various market and industry inputs (Level 2 inputs).

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

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2015 AND 2014

(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 position date.

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

Credit Risk – All investments held by STAR at June 30, 2014 were invested in securities in Federal Home Loan Mortgage Corporation which were all rated by S&P AA+, Moodys Aaa, and Fitch 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.

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, 2015, 100% of STAR's investments were in the Money Market Funds.
