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# **SALES TAX ASSET RECEIVABLE CORPORATION**

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

Financial Statements  
(Together with Independent Auditors' Report)

Years Ended June 30, 2016 and 2015

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

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

**YEARS ENDED JUNE 30, 2016 AND 2015**

**CONTENTS**

	<b><u>Page</u></b>
Independent Auditors' Report.....	1-2
Management's Discussion and Analysis (Unaudited).....	3-9
<b>Basic Financial Statements as of and for the Years Ended June 30, 2016 and 2015:</b>	
<b>Government-wide Financial Statements</b>	
Statements of Net Position (Deficit).....	10
Statements of Activities.....	11
<b>Governmental Funds Financial Statements</b>	
Governmental Funds Balance Sheets .....	12-13
Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Position (Deficit) .....	14
Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances .....	15-16
Reconciliations of the Governmental Funds Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities .....	17
<b>Notes to Financial Statements</b> .....	18-24

## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Sales Tax Asset Receivable Corporation:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Sales Tax Asset Receivable Corporation (the Corporation), a component unit of the City of New York, as of and for the year ended June 30, 2016 and the related notes to financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

### Managements Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit 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 from material misstatement.

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund, as of June 30, 2016 and the respective changes in financial position, in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

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

Prior Period Financial Statements

The financial statements of the Corporation as of June 30, 2015, were audited by other auditors whose report dated September 14, 2015, expressed an unmodified opinion on those statements.

Toski & Co., CPAs, P.C.

Williamsville, New York  
September 19, 2016

# **SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

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

**JUNE 30, 2016 AND 2015**

(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, 2016 and 2015 and for the years then ended. It should be read in conjunction with STAR's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements; and (4) the notes to the financial statements.

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

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

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

## **FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS – GOVERNMENT-WIDE FINANCIAL STATEMENTS**

On November 4, 2004, STAR issued \$2.6 billion of bonds ("2005 Series A and B Bonds") to provide for the payment of principal and interest and redemption premium, if any, on all outstanding bonds of the Municipal Assistance Corporation For The City of New York ("MAC") and all outstanding bonds of The City of New York (the "City") held by MAC, and to reimburse the City for amounts retained by MAC since July 1, 2003 for debt service. Principal and interest on the STAR bonds are paid from the \$170 million in annual payments required to be made by the New York State Local Government Assistance Corporation ("LGAC"), a public benefit corporation of the State of New York (the "State") pursuant to Section 3238-a of the New York State Public Authorities Law, which the City has irrevocably assigned to STAR. The payment of the outstanding MAC bonds resulted in the receipt by the City of tax revenues that would otherwise have been paid to MAC for the payment of debt service on MAC's bonds.

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

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

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

**JUNE 30, 2016 AND 2015**  
(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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v 2015</u> Change	<u>2015 v 2014</u> Change
<b>Revenues:</b>					
LGAC revenue	\$ 170,000	\$ 170,000	\$ 170,000	\$ -	\$ -
Investment income	(84)	263	326	(347)	(63)
Total revenues	<u>169,916</u>	<u>170,263</u>	<u>170,326</u>	<u>(347)</u>	<u>(63)</u>
<b>Expenses:</b>					
Payment to NYC Transitional Finance Authority	-	636,708	-	(636,708)	636,708
Bond interest	59,604	68,262	93,907	(8,658)	(25,645)
Cost of issuance	-	10,342	-	(10,342)	10,342
Other	272	426	370	(154)	56
Total expenses	<u>59,876</u>	<u>715,738</u>	<u>94,277</u>	<u>(655,862)</u>	<u>621,461</u>
Change in net position	110,040	(545,475)	76,049	655,515	(621,524)
Net position (deficit) - beginning 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>
Net position (deficit) - end of year	<u>\$ (2,150,697)</u>	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</u>	<u>\$ 110,040</u>	<u>\$ (545,475)</u>

STAR's revenues for fiscal years 2016, 2015 and 2014 were composed of annual payments from LGAC and investment income. The decrease in investment income between fiscal years 2015 and 2016 was attributable to the release of the reserves in connection with the refunding transaction which reduced asset balances that could generate investment earnings. The negative investment income reported in fiscal year 2016, resulted from the offset of accrued interest paid on a US Treasury note purchased on June 29, 2016, as well as a negative mark to market valuation on such investment. The accrued interest paid in fiscal year 2016, will be collected in fiscal year 2017, upon maturity of the note. All investments held by STAR are expected to be held to maturity and, as such, will not realize losses on market valuations.

Total expenses for fiscal year 2016 compared to 2015 decreased by approximately \$656 million due to the fiscal year 2015 bond restructuring transaction. Total expenses for fiscal year 2015 compared to 2014 differed by approximately \$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.

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

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

**JUNE 30, 2016 AND 2015**  
(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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v 2015</u> <u>Change</u>	<u>2015 v 2014</u> <u>Change</u>
Assets:					
Non-capital	\$ 171,423	\$ 170,520	\$ 340,317	\$ 903	\$ (169,797)
Total assets	<u>171,423</u>	<u>170,520</u>	<u>340,317</u>	<u>903</u>	<u>(169,797)</u>
Liabilities:					
Current liabilities	96,247	94,186	31,521	2,061	62,665
Long-term liabilities	<u>2,171,505</u>	<u>2,279,682</u>	<u>2,024,058</u>	<u>(108,177)</u>	<u>255,624</u>
Total liabilities	<u>2,267,752</u>	<u>2,373,868</u>	<u>2,055,579</u>	<u>(106,116)</u>	<u>318,289</u>
Deferred Inflows of Resources:	<u>54,368</u>	<u>57,389</u>	<u>-</u>	<u>(3,021)</u>	<u>57,389</u>
Net Position:					
Unrestricted	<u>(2,150,697)</u>	<u>(2,260,737)</u>	<u>(1,715,262)</u>	<u>110,040</u>	<u>(545,475)</u>
Total net position (deficit)	<u>\$ (2,150,697)</u>	<u>\$ (2,260,737)</u>	<u>\$ (1,715,262)</u>	<u>\$ 110,040</u>	<u>\$ (545,475)</u>

At June 30, 2016 and 2015, STAR's assets consisted primarily of cash equivalents and investments restricted for debt service payments. The \$170 million decrease of assets between fiscal years 2015 and 2014 resulted from the release of the debt service reserve in connection with the fiscal year 2015 refunding transaction.

STAR's liabilities are almost entirely composed of the bonds payable, 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 years 2016 and 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, 2016 AND 2015**  
(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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v 2015</u> <u>Change</u>	<u>2015 v 2014</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 397	\$ 375	\$ 364	\$ 22	\$ 11
Total revenues	<u>397</u>	<u>375</u>	<u>364</u>	<u>22</u>	<u>11</u>
Expenditures:					
General and administrative	272	426	370	(154)	56
Total expenditures	<u>272</u>	<u>426</u>	<u>370</u>	<u>(154)</u>	<u>56</u>
Net change in fund balances	125	(51)	(6)	176	(45)
Fund balances - beginning of year	<u>632</u>	<u>683</u>	<u>689</u>	<u>(51)</u>	<u>(6)</u>
Fund balances - end of year	<u>\$ 757</u>	<u>\$ 632</u>	<u>\$ 683</u>	<u>\$ 125</u>	<u>\$ (51)</u>

LGAC revenues fluctuate each year for the GF, as the amount deposited in the GF is based on projected general and administrative expenditures for the following year. Operating expenditures in fiscal year 2015 were greater than fiscal years 2016 and 2014 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, 2016 AND 2015**  
(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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v 2015</u> <u>Change</u>	<u>2015 v 2014</u> <u>Change</u>
Revenues:					
LGAC revenue	\$ 169,603	\$ 169,625	\$ 169,636	\$ (22)	\$ (11)
Other income	(84)	263	326	(347)	(63)
Total revenues	<u>169,519</u>	<u>169,888</u>	<u>169,962</u>	<u>(369)</u>	<u>(74)</u>
Expenditures:					
Payment to NYC Transitional Finance Authority	-	636,708	-	(636,708)	636,708
Bond interest	94,677	104,263	99,263	(9,586)	5,000
Principal amount of bonds retired	73,935	1,974,530	10,885	(1,900,595)	1,963,645
Cost of issuance	-	10,342	-	(10,342)	10,342
Total expenditures	<u>168,612</u>	<u>2,725,843</u>	<u>110,148</u>	<u>(2,557,231)</u>	<u>2,615,695</u>
Other financing sources	<u>-</u>	<u>2,386,079</u>	<u>-</u>	<u>(2,386,079)</u>	<u>2,386,079</u>
Net change in fund balances	907	(169,876)	59,814	170,783	(229,690)
Fund balances - beginning of year	<u>169,746</u>	<u>339,622</u>	<u>279,808</u>	<u>(169,876)</u>	<u>59,814</u>
Fund balances - end of year	<u>\$ 170,653</u>	<u>\$ 169,746</u>	<u>\$ 339,622</u>	<u>\$ 907</u>	<u>\$ (169,876)</u>

The revenue of STAR's DSF for fiscal years 2016, 2015 and 2014 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 as previously discussed. The decrease in investment income between fiscal years 2016 and 2015 was primarily because of the release of the reserve in connection with the fiscal year 2015 refunding transaction and the payment of accrued interest on the purchase of a U.S. Treasury Note on June 29, 2016, as previously discussed.

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, which has an inverse effect in fiscal year 2016. Also due to the refunding issue, other financing sources increased by approximately \$2.4 billion of which \$2.0 billion was bond principal and \$351 million was bond premium.

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

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

**JUNE 30, 2016 AND 2015**  
(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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v 2015</u> <u>Change</u>	<u>2015 v 2014</u> <u>Change</u>
<b>Assets:</b>					
Cash equivalents and investments	\$ 633	\$ 505	\$ 556	\$ 128	\$ (51)
Other assets	137	139	139	(2)	-
Total assets	<u>\$ 770</u>	<u>\$ 644</u>	<u>\$ 695</u>	<u>\$ 126</u>	<u>\$ (51)</u>
<b>Liabilities:</b>					
Accounts payable	\$ 13	\$ 12	\$ 12	\$ 1	\$ -
Total liabilities	<u>13</u>	<u>12</u>	<u>12</u>	<u>1</u>	<u>-</u>
<b>Fund Balances:</b>					
Nonspendable prepaid expenditures	137	139	139	(2)	-
Unassigned	<u>620</u>	<u>493</u>	<u>544</u>	<u>127</u>	<u>(51)</u>
Total fund balances	<u>757</u>	<u>632</u>	<u>683</u>	<u>125</u>	<u>(51)</u>
Total liabilities and fund balances	<u>\$ 770</u>	<u>\$ 644</u>	<u>\$ 695</u>	<u>\$ 126</u>	<u>\$ (51)</u>

The GF assets at June 30, 2016, 2015 and 2014 totaled approximately \$770 thousand, \$644 thousand, and \$695 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, 2016 AND 2015**  
(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, 2016, 2015 and 2014:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016 v 2015</u> <u>Change</u>	<u>2015 v 2014</u> <u>Change</u>
<b>Assets:</b>					
Cash equivalents and investments	\$ 170,653	\$ 169,876	\$ 339,622	\$ 777	\$ (169,746)
Total assets	<u>\$ 170,653</u>	<u>\$ 169,876</u>	<u>\$ 339,622</u>	<u>\$ 777</u>	<u>\$ (169,746)</u>
<b>Liabilities:</b>					
Accounts payable	\$ -	\$ 130	\$ -	\$ (130)	\$ 130
Total liabilities	<u>-</u>	<u>130</u>	<u>-</u>	<u>(130)</u>	<u>130</u>
<b>Fund Balances:</b>					
Restricted for debt service	<u>170,653</u>	<u>169,746</u>	<u>339,622</u>	<u>907</u>	<u>(169,876)</u>
Total fund balances	<u>170,653</u>	<u>169,746</u>	<u>339,622</u>	<u>907</u>	<u>(169,876)</u>
Total liabilities and fund balances	<u>\$ 170,653</u>	<u>\$ 169,876</u>	<u>\$ 339,622</u>	<u>\$ 777</u>	<u>\$ (169,746)</u>

At June 30, 2016, STAR's DSF assets consisted of cash equivalents and investments restricted for debt service payments. The restricted resources held for debt service at each year-end reflect the amount of bond principal and interest due during the subsequent fiscal year. 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 fiscal year 2015 refunding transaction.

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

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

**STATEMENTS OF NET POSITION (DEFICIT)**

**JUNE 30, 2016 AND 2015**

(Amounts in thousands)

	2016	2015
<b>ASSETS:</b>		
Unrestricted cash equivalents	\$ 633	\$ 505
Restricted cash equivalents	125,646	169,876
Restricted investments	45,005	-
Restricted interest receivable	2	-
Prepaid expenses	137	139
Total assets	171,423	170,520
<b>LIABILITIES:</b>		
Accounts payable	13	142
Accrued interest payable	19,339	20,109
Bonds payable:		
Portion due within one year	76,895	73,935
Portion due after one year	2,171,505	2,279,682
Total liabilities	2,267,752	2,373,868
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Unamortized deferred refunding costs	54,368	57,389
Total deferred inflows of resources	54,368	57,389
<b>NET POSITION (DEFICIT):</b>		
Unrestricted (deficit)	(2,150,697)	(2,260,737)
Total net position (deficit)	\$ (2,150,697)	\$ (2,260,737)

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, 2016 and 2015**

(Amounts in thousands)

	2016	2015
<b>REVENUES:</b>		
New York State Local Government Assistance Corporation Revenue	\$ 170,000	\$ 170,000
Investment income	(84)	226
Other revenue	-	37
Total revenues	169,916	170,263
<b>EXPENSES:</b>		
Payment to NYC Transitional Finance Authority	-	636,708
Bond interest	59,604	68,262
Cost of issuance	-	10,342
General and administrative	272	426
Total expenses	59,876	715,738
Change in net position (deficit)	110,040	(545,475)
NET POSITION (DEFICIT) - Beginning of year	(2,260,737)	(1,715,262)
NET POSITION (DEFICIT) - End of year	\$ (2,150,697)	\$ (2,260,737)

See accompanying notes to financial statements.

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

**GOVERNMENTAL FUNDS BALANCE SHEETS**

**JUNE 30, 2016**

(Amounts in thousands)

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

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>
<b>ASSETS:</b>			
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>
<b>LIABILITIES:</b>			
Accounts payable	\$ 12	\$ 130	\$ 142
	<hr/>	<hr/>	<hr/>
Total liabilities	<u>12</u>	<u>130</u>	<u>142</u>
<b>FUND BALANCES:</b>			
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)

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

JUNE 30, 2016 AND 2015

(Amounts in thousands)

	<u>2016</u>	<u>2015</u>
Total fund balances - governmental funds	\$ 171,410	\$ 170,378
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.	(287,005)	(318,287)
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.	(54,368)	(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	(1,961,395)	(2,035,330)
Accrued interest payable	(19,339)	(20,109)
Net position (deficit) of governmental activities	<u>\$ (2,150,697)</u>	<u>\$ (2,260,737)</u>

See accompanying notes to financial statements.



**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES**

**FOR THE YEAR ENDED JUNE 30, 2016**

(Amounts in thousands)

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

See accompanying notes to financial statements.

**SALES TAX ASSET RECEIVABLE CORPORATION**

(A Component Unit of The City of New York)

**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>
<b>REVENUES:</b>			
New York State Local Government Assistance			
Corporation Revenue	\$ 375	\$ 169,625	\$ 170,000
Investment income	-	226	226
Other revenue	-	37	37
	<hr/>	<hr/>	<hr/>
Total revenues	375	169,888	170,263
	<hr/>	<hr/>	<hr/>
<b>EXPENDITURES:</b>			
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
	<hr/>	<hr/>	<hr/>
Total expenditures	426	2,725,843	2,726,269
	<hr/>	<hr/>	<hr/>
<b>OTHER FINANCING SOURCES:</b>			
Principal amount of bonds issued	-	2,035,330	2,035,330
Bond premium	-	350,749	350,749
	<hr/>	<hr/>	<hr/>
Total other financing sources	-	2,386,079	2,386,079
	<hr/>	<hr/>	<hr/>
Net change in fund balances	(51)	(169,876)	(169,927)
	<hr/>	<hr/>	<hr/>
FUND BALANCES - beginning of year	683	339,622	340,305
	<hr/>	<hr/>	<hr/>
FUND BALANCES - end of year	\$ 632	\$ 169,746	\$ 170,378
	<hr/>	<hr/>	<hr/>

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, 2016 AND 2015**

(Amounts in thousands)

	2016	2015
Net change in fund balances - total governmental funds	\$ 1,032	\$ (169,927)
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, 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).	73,935	1,974,530
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.	3,021	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.	31,282	32,462
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.	770	519
Change in net position (deficit) - governmental activities	\$ 110,040	\$ (545,475)

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, 2016 AND 2015**

(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, which was intended to confer savings to the City over a period of four years.

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

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

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

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

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2016 AND 2015**

(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, 2016 and 2015 were \$287million and \$318 million, respectively, which were net of accumulated amortization of \$63.7 million and \$32.5, respectively.

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

The governmental funds financial statements recognize bond premiums and discounts during the period of the related bond issuance. The face amount of debt issued is reported as another financing source, as is the premium on debt issued. Principal payments are reported as expenditures in the period made.

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

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2016 AND 2015**

(Amounts in thousands, except as noted)

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

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

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") requires STAR's management to make estimates and assumptions in determining the reported amounts of assets, deferred inflows of resources, liabilities, and deferred outflows of resources as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

- In June 2015, GASB issued Statement No. 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. The adoption of GASB 73 did not have an impact on STAR's financial statements.
- 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.
- 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 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. The adoption of GASB 76 did not have an impact on STAR's financial statements.
- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of GASB 77 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 77 did not have an impact on STAR's financial statements as it does not enter into any such agreements.

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2016 AND 2015**

(Amounts in thousands, except as noted)

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

- In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"). GASB 78 amends the scope and applicability of Statement 68 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide define benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (3) has not predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plan). The requirements of GASB 78 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 78 did not have an impact on STAR's financial statements as it has no employees.
- In December 2015, GASB issued Statement No 79, *Certain External Investment Pools and Poll Participants* ("GASB 79"). GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes. That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The requirements of GASB 79 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 79 did not have an impact on STAR's financial statements as it has no such investments.
- In January 2016, GASB issued Statement No 80, *Blending Requirements for Certain Component Units* ("GASB 80"). GASB 80 provides clarity on how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The requirements of GASB 80 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 80 did not have an impact on STAR's financial statements.
- In March 2016, GASB issued Statement No 81, *Irrevocable Split Interest Agreements* ("GASB 81"). GASB 81 addresses the situations under which irrevocable split-interest agreement constitute an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for fiscal years beginning after December 15, 2016. The adoption of GASB 81 did not have an impact on STAR's financial statements as it does not enter in such arrangements.
- In March 2016, GASB issued Statement No 82, *Pension Issues* ("GASB 82"). GASB 82 addresses practice issues raised during implementation of the GASB's pension accounting and financial reporting standards for state and local governments. The requirements of GASB 82 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 82 did not 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, 2016 AND 2015**

(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, the Corporation refunded its 2005 Series A and B bonds by issuing \$2.0 billion 2015 Series A bonds. In accordance with the Indenture, LGAC revenue was used to fund operating expenses and debt service payments. 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, 2016 is as follows:

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

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	<u>\$ 2,034,938</u>			<u>\$ 2,353,617</u>
Due within one year				<u>\$ 73,935</u>



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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2016 AND 2015**

(Amounts in thousands, except as noted)

**(3) Bonds Payable, continued**

Debt service requirements, including principal and interest, at June 30, 2016, are as follows:

<u>Year ended June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	92,010	76,383	168,393
2022 to 2026	532,745	308,469	841,214
2027 to 2031	680,200	159,617	839,817
2032 to 2034	328,635	14,403	343,038
<b>Totals</b>	<b>\$ 1,961,395</b>	<b>\$ 905,092</b>	<b>\$ 2,866,487</b>

**(4) Cash and Cash Equivalents**

As of June 30, 2016 and 2015, STAR did not have any cash deposits on hand. Cash equivalents were comprised of Money Market Funds which were primarily restricted for debt service (see Note 5). STAR's cash equivalents consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Cash	\$ -	\$ -
Cash Equivalents (see Note 5)	126,279	170,381
<b>Total Cash and Cash Equivalents</b>	<b>\$ 126,279</b>	<b>\$ 170,381</b>

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

**NOTES TO FINANCIAL STATEMENTS (continued)**

**JUNE 30, 2016 AND 2015**

(Amounts in thousands, except as noted)

**(5) Investments**

STAR's investments consisted of the following at June 30, 2016 and 2015:

	<b>2016</b>	<b>2015</b>
Unrestricted:		
Money Market Funds	\$ 633	\$ 505
Total Unrestricted	633	505
Restricted for Debt Service and Debt Retirement:		
Money Market Funds	125,646	169,876
U.S. Treasury Note (maturing within one year)	45,005	-
Total Restricted	170,651	169,876
Total investments including cash equivalents	171,284	170,381
Less amounts reported as cash equivalents (see Note 4)	(126,279)	(170,381)
Total Investments	\$ 45,005	\$ -

STAR categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure 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, 2016 and 2015, and a U.S. Treasury investment as of June 30, 2016, are valued based on various market and industry inputs (Level 2 inputs).

Each account of STAR is held pursuant to the Indenture and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture. STAR values those investments at fair value as of the statement of net position date.

*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, 2016 were invested in money market funds which were rated Aaa-mf by Moody's, and AAAM by Standard & Poor's ("S&P"), as well as an United States Treasury note rated AAA by Moody's, AA+ by S&P, and AAA by Fitch.

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

*Concentration of Credit Risk* – Concentration of credit risk is the risk of loss attributed to the magnitude of STAR's investment in a single issuer (5% or more). STAR's investment policy places no limit on the amount STAR may invest in any one issuer of eligible government obligations as defined in the Indenture. As of June 30, 2016, 74% of STAR's investments were in the Money Market Funds and 26% in US Treasury Securities.

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