

The City of New York

Comprehensive  
Annual Financial Report  
of the  
Comptroller

BASIC  
FINANCIAL STATEMENTS

Part II-A

Fiscal Year Ended June 30, 2001

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### ***Overview of the Financial Statements***

The following is a narrative overview and analysis of the financial activities of The City of New York (City) for the fiscal years ended June 30, 2001 and 2000. This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which have the following components: (1) management's discussion and analysis (MD&A), (2) government-wide financial statements, (3) fund financial statements, and (4) notes to the financial statements.

### ***Government-wide financial statements***

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in *net assets* may serve as a useful indicator of whether the financial position of The City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during each fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (for example, uncollected taxes, and earned, but unused vacation leave).

The government-wide financial statements present information about the City as a primary government, which includes the City's blended component units. All of the activities of the primary government are considered to be governmental activities. This information is presented separately from the City's discretely presented component units.

### ***Fund financial statements***

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, including the Financial Emergency Act.

### ***Governmental funds***

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of a fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds and governmental activities*.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

### ***Fiduciary funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The fiduciary funds include the Pension and Other Employee Benefit Trust Funds and the Agency Fund.

*Notes to the financial statements*

The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the government-wide and fund financial statements. The notes also present certain required supplementary information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

***Financial Reporting Entity***

The financial reporting entity consists of the primary government, including the Board of Education of The City of New York and the community colleges of the City University of New York, other organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the financial statements to be misleading or incomplete.

The definition of the reporting entity is based on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and it is able to either impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

***Blended Component Units***

Certain component units, despite being legally separate from the primary government, are blended with the primary government. These component units all provide services exclusively to the City and thus are reported as if they were part of the primary government. The blended component units, which are all reported as nonmajor governmental funds, are the following:

- Municipal Assistance Corporation for the City of New York (MAC)
- New York City Transitional Finance Authority (TFA)
- New York City Samurai Funding Corporation (SFC)
- TSASC Inc. (TSASC)
- New York City Educational Construction Fund (ECF)
- City University Construction Fund (CUCF)
- New York City School Construction Authority (SCA).

***Discretely Presented Component Units***

Discretely presented component units are legally separate from the primary government and are reported as discretely presented component units because the City appoints a majority of these organizations' boards, is able to impose its will on them, or a financial benefit/burden situation exists.

The following entities are presented discretely in the City's financial statements as major component units:

- New York City Health and Hospitals Corporation (HHC)
- New York City Off -Track Betting Corporation (OTB)
- New York City Housing Development Corporation (HDC)
- New York City Housing Authority (HA)
- New York City Economic Development Corporation (EDC)
- New York City Water and Sewer System (NYW).

The following entities are presented discretely in the City's financial statements as nonmajor component units:

- New York City Industrial Development Agency (IDA)
- Business Relocation Assistance Corporation (BRAC)
- Brooklyn Navy Yard Development Corporation (BNYDC)
- Jay Street Development Corporation (JSDC).

**Financial Analysis of the  
Government-wide  
Financial statements**

In the government-wide financial statements, all of the activities of the City, aside from its discretely presented component units, are considered governmental activities. Governmental activities decreased the City's net assets by \$1.148 billion during fiscal year 2001 and increased the City's net assets by \$1.455 billion during fiscal year 2000. Key elements of these changes are as follows:

	<b>Governmental Activities</b>	
	<b>For the fiscal year ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(in thousands)</b>	
Revenues:		
Program revenues:		
Charges for services . . . . .	\$ 2,868,605	\$ 2,620,702
Operating grants and contributions . . . . .	12,773,015	11,907,550
Capital grants and contributions . . . . .	572,514	378,807
General revenues:		
Taxes . . . . .	23,712,065	22,157,704
Investment income . . . . .	391,902	346,857
Other Federal and State aid . . . . .	928,184	920,547
Other . . . . .	633,579	347,937
Total revenues . . . . .	<u>41,879,864</u>	<u>38,680,104</u>
Expenses:		
General government . . . . .	1,881,812	1,578,356
Public safety and judicial . . . . .	8,661,411	7,772,048
Education . . . . .	12,248,775	11,533,688
City University . . . . .	668,954	652,576
Social services . . . . .	9,166,149	8,783,221
Environmental protection . . . . .	2,350,867	2,058,606
Transportation services . . . . .	1,654,344	1,401,725
Parks, recreation and cultural activities . . . . .	488,865	574,024
Housing . . . . .	1,000,300	847,358
Health (including payments to HHC) . . . . .	2,329,191	1,976,975
Libraries . . . . .	362,034	268,931
Debt service interest . . . . .	2,214,717	2,114,285
Total expenses . . . . .	<u>43,027,419</u>	<u>39,561,793</u>
	(1,147,555)	(881,689)
Decrease in accrued pension liability . . . . .	<u>—</u>	<u>2,336,230</u>
Change in net assets . . . . .	(1,147,555)	1,454,541
Net Assets—Beginning . . . . .	<u>(18,699,604)</u>	<u>(20,154,145)</u>
Net Assets—Ending . . . . .	<u><u>\$(19,847,159)</u></u>	<u><u>\$(18,699,604)</u></u>

In fiscal year 2001, the government-wide revenues increased from fiscal year 2000 levels by approximately \$3.2 billion, while the Government-wide expenses grew by approximately \$3.5 billion. In addition, a one-time gain from the elimination of a pension liability occurred in fiscal year 2000.

The major components of the government-wide revenue increase were:

A one-time payment from the Metropolitan Transportation Authority resulting from the sale of the New York Coliseum;

An increase in State aid for the City's Board of Education; and

An increase in personal income and property tax revenues, resulting from the strength of the economy and increased property values which are phased into the property tax levy.

The major components of the government-wide expense increases were:

A substantial increase in spending by the City's Board of Education, including a reserve for collective bargaining and the increased State funding as previously mentioned;

An increase in pension expense, resulting from pension benefit enhancements and the phase-in of cost of living adjustments, as required by changes in State law;

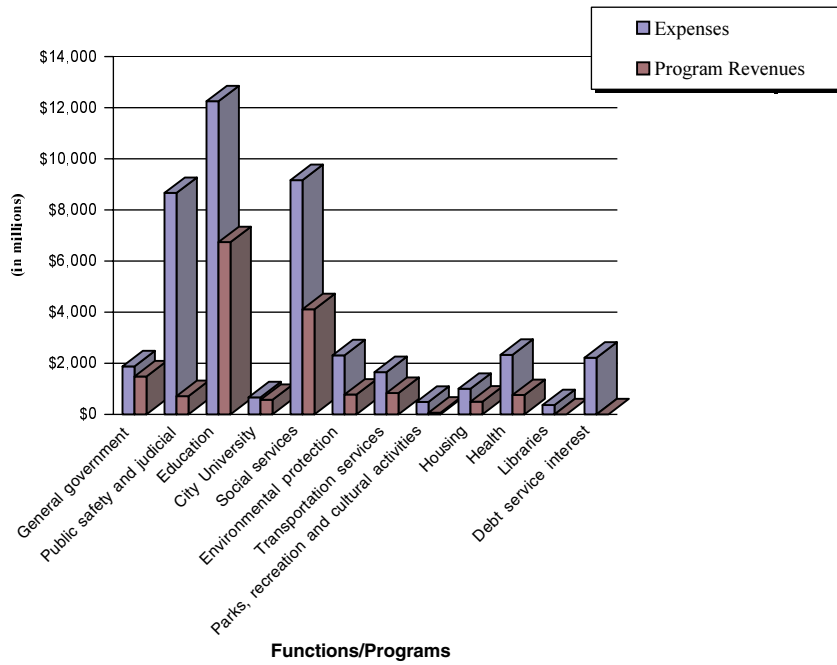
An increase in social services spending, primarily related to increased spending on Medicaid and day care.

Wage and salary increases for City employees related to collective bargaining; and

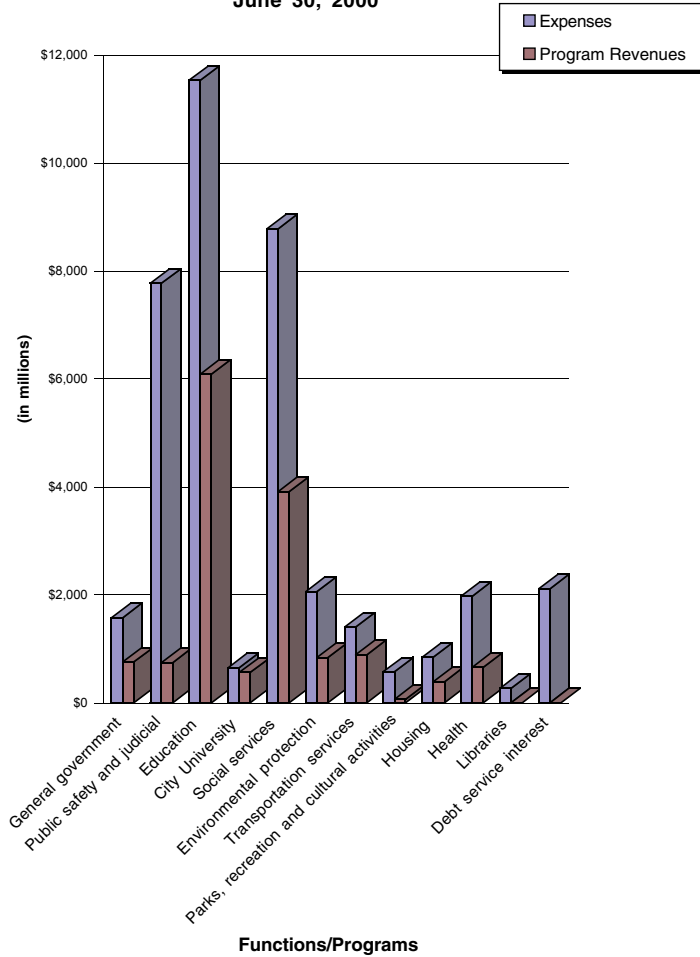
Increased expenses for environmental protection, primarily additional costs for waste exportation and Fresh Kills landfill closure and post-closure care.

The following two charts compare the expenses for each of the City's programs with the revenues that are derived from each program for fiscal years 2001 and 2000. The excess of program expenses over revenues represents the net cost of each program that must be financed from the City's general revenues.

**Expenses and Program Revenues - Governmental Activities  
June 30, 2001**

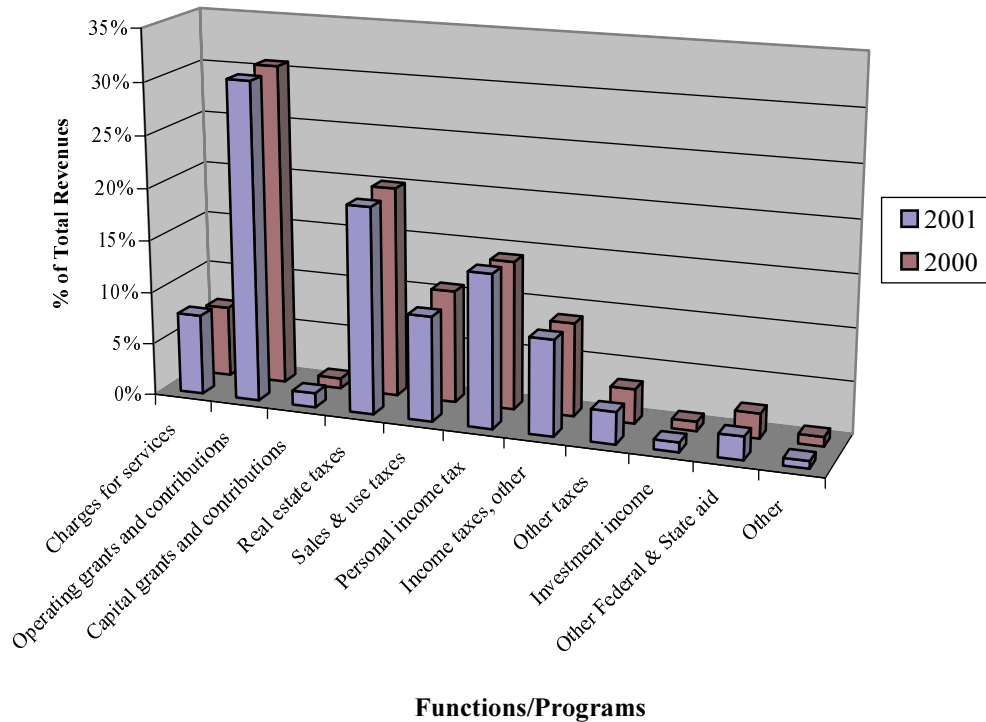


**Expenses and Program Revenues - Governmental Activities  
June 30, 2000**



The following chart compares the amounts of program and general revenues for fiscal years 2001 and 2000:

**Revenues by Source - Governmental Activities  
For the Years Ended June 30, 2001 and 2000**



As noted earlier, increases and decreases of net assets may serve over time as a useful indicator of changes in government's financial position. In the case of the City, liabilities exceeded assets by \$19.847 billion at the close of the most recent fiscal year.

	<b>Governmental Activities</b>	
	<b>2001</b>	<b>2000</b>
	(in thousands)	
Current and other assets . . . . .	\$ 17,876,159	\$ 19,299,094
Capital assets . . . . .	24,497,361	22,538,547
Total assets . . . . .	<u>42,373,520</u>	<u>41,837,641</u>
Long-term liabilities outstanding . . . . .	50,065,513	48,839,966
Other liabilities . . . . .	12,155,166	11,697,279
Total liabilities . . . . .	<u>62,220,679</u>	<u>60,537,245</u>
Net assets:		
Invested in capital assets, net of related debt . . . . .	(8,135,503)	(8,379,336)
Restricted . . . . .	3,814,045	4,189,167
Unrestricted . . . . .	<u>(15,525,701)</u>	<u>(14,509,435)</u>
Total net assets . . . . .	<u>\$ (19,847,159)</u>	<u>\$ (18,699,604)</u>

The excess of liabilities over assets reported on the government-wide statement of net assets is a result of several factors. The largest component of the net deficit is the result of the City having long-term debt with no corresponding capital assets. The following summarizes the main components of the negative net asset value as of June 30, 2001:

	<u>Billions</u>
MAC issued debt during the 1970's which funded some City operating expenses. The remaining MAC net debt outstanding is approximately. . . . .	\$ (3.0)
The City has issued debt for the acquisition and construction of public purpose capital assets which are not reported as City-owned assets on the Statement of Net Assets. This includes assets of the New York City Transit Authority, NYW, HHC and certain public libraries and cultural institutions. The debt outstanding for such non-City owned assets is approximately. . . . .	(9.1)
For some City-owned assets, the depreciable life used for financial reporting is longer or shorter than the period over which the related debt principal is being repaid. Schools and related education assets are the largest component of this difference. The net amount by which the outstanding debt principal exceeds the depreciated value of the related City-owned assets is approximately. . . . .	(3.8)
Certain long-term obligations, such as employee vacation and sick leave, judgments and claims, and landfill closure and post-closure costs do not require current funding. . . . .	(7.9)
All non-capital assets exceed the total of the City's other liabilities by approximately. . . . .	<u>4.0</u>
Governmental Activities Net Deficit . . . . .	<u>\$ (19.8)</u>

**Financial Analysis of the Governmental Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The table below summarizes the changes in the fund balances of the City's governmental funds.

**Governmental Funds**

	General Fund	New York City Capital Projects Fund	General Debt Service Fund	Nonmajor Governmental Funds	Adjustment/ Eliminations	Total Governmental Funds
	(in thousands)					
Fund Balances (deficit), July 1, 1999 . . . . .	\$ 388,301	\$ (935,523)	\$ 2,006,162	\$ 1,396,846	\$ 96,333	\$ 2,952,119
Revenues . . . . .	37,854,893	1,114,827	12,978	1,979,766	(1,248,250)	39,714,214
Expenditures . . . . .	(33,920,869)	(4,809,483)	(2,654,432)	(2,586,766)	1,350,670	(42,620,880)
Other financing sources (uses). . . . .	(3,929,340)	3,520,854	3,148,774	781,900	(23,699)	3,498,489
Fund Balances (deficit), June 30, 2000. . . . .	392,985	(1,109,325)	2,513,482	1,571,746	175,054	3,543,942
Revenues . . . . .	40,231,872	1,412,906	35,613	2,357,531	(1,443,379)	42,594,543
Expenditures . . . . .	(37,264,424)	(5,309,954)	(2,819,070)	(2,700,519)	1,202,753	(46,891,214)
Other financing sources (uses). . . . .	(2,962,553)	2,888,706	2,390,822	602,091	(19,150)	2,899,916
Fund Balances (deficit), June 30, 2001. . . . .	<u>\$ 397,880</u>	<u>\$ (2,117,667)</u>	<u>\$ 2,120,847</u>	<u>\$ 1,830,849</u>	<u>\$ (84,722)</u>	<u>\$ 2,147,187</u>

The City's General Fund is required to adopt an annual budget prepared on a basis consistent with generally accepted accounting principles. Surpluses from any fiscal year cannot be appropriated in future fiscal years.

If the City anticipates that the General Fund will have an operating surplus, the City will make discretionary transfers to the General Debt Service Fund as well as advance payments of certain subsidies that reduce the amount of the General Fund surplus for financial reporting purposes. As detailed later, the General Fund had operating surpluses of \$2.949 billion and \$3.192 billion before certain expenditures and discretionary and other transfers for fiscal years 2001 and 2000, respectively. After these certain expenditures and discretionary and other transfers, the General Fund reported an operating surplus of \$5 million in both fiscal year 2001 and 2000, which resulted in an increase in fund balance by this amount.

The General Debt Service Fund receives transfers from the General Fund from which it pays the City's debt service requirements. Its fund balance at June 30, 2001 can be attributed principally to a discretionary transfer and other transfer (as described above) from the General Fund totaling \$2.097 billion in fiscal year 2001. Similar transfers in fiscal year 2000 of \$2.509 billion also primarily account for the General Debt Service Fund fund balance at June 30, 2000.

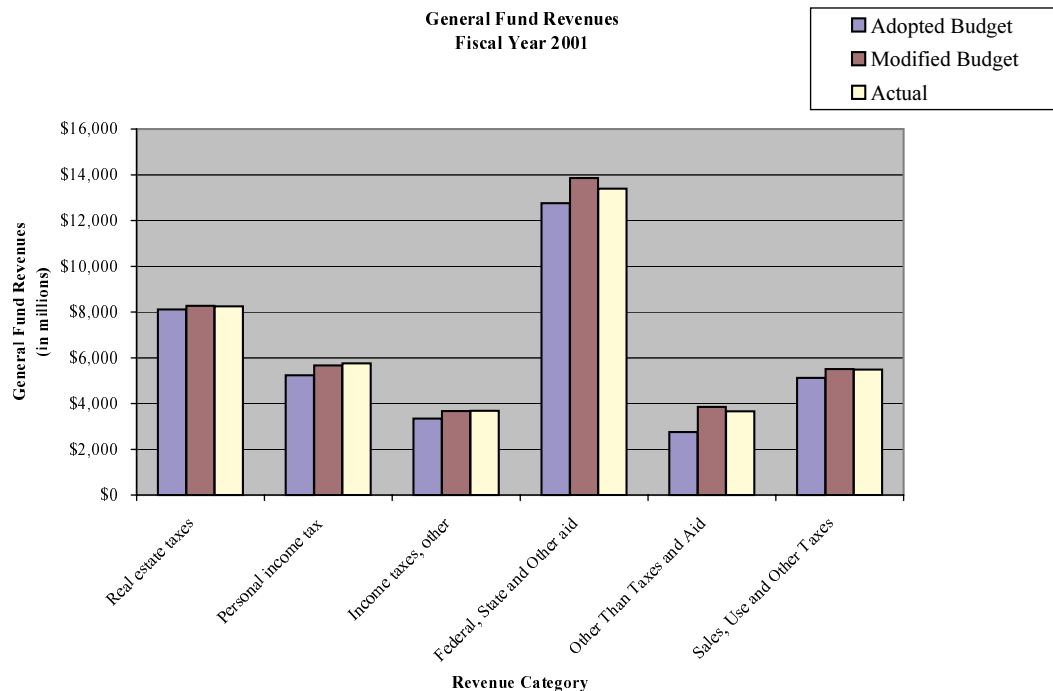
The New York City Capital Projects Fund accounts for the financing of the City's capital program. The primary resources are obtained from the issuance of City debt as well as transfers from TFA and TSASC. Capital-related expenditures are first paid from the General Fund, which is then reimbursed for these expenditures by the New York City Capital Projects Fund. To the extent that capital expenditures exceed proceeds from bond issuances, transfers from TFA and TSASC and other revenues and financing sources, this fund will have a deficit. The deficit fund balances at June 30, 2001 and 2000 are primarily attributed to amounts that are owed to the General Fund to repay that fund's advance of resources for the capital program.

**General Fund  
Budgetary Highlights**

The following information is presented to assist the reader in comparing the original budget (Adopted Budget), and the final amended budget (Modified Budget) and how actual results compared with these budgeted amounts. The Modified Budget can be modified subsequent to the end of the fiscal year.

**General Fund Revenues**

The following chart and table summarize actual revenues by category for fiscal year 2001 and compare revenues to the current fiscal year's Adopted Budget and Modified Budget.



## General Fund Revenues

**Fiscal Year 2001**

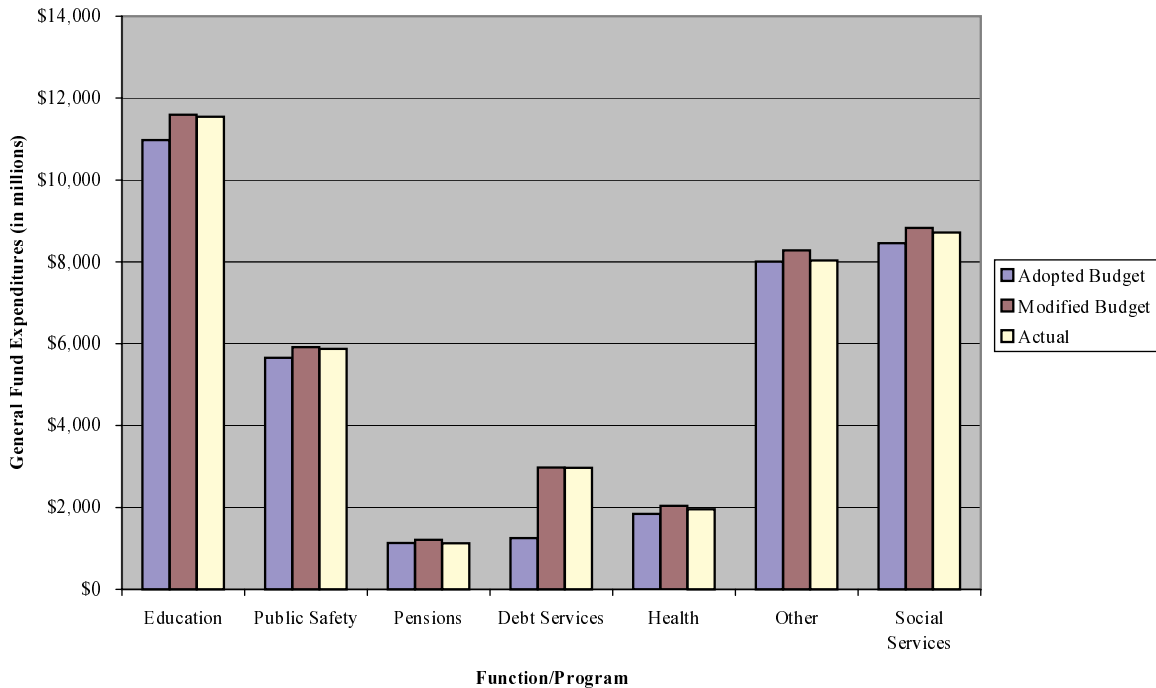
(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
<b>Taxes (net of refunds):</b>			
Real estate taxes . . . . .	\$ 8,111	\$ 8,277	\$ 8,246
Sales and use taxes . . . . .	3,946	4,265	4,196
Personal income tax . . . . .	5,240	5,670	5,757
Income taxes, other . . . . .	3,342	3,672	3,685
Other taxes . . . . .	1,176	1,238	1,294
<b>Taxes (net of refunds) . . . . .</b>	<b><u>21,815</u></b>	<b><u>23,122</u></b>	<b><u>23,178</u></b>
<b>Federal, State and Other aid:</b>			
Categorical . . . . .	12,193	13,264	12,764
Unrestricted . . . . .	564	593	634
<b>Federal, State and Other aid . . . . .</b>	<b><u>12,757</u></b>	<b><u>13,857</u></b>	<b><u>13,398</u></b>
<b>Other Than Taxes and Aid:</b>			
Charges for services . . . . .	1,375	1,434	1,461
Other revenues . . . . .	1,343	2,390	2,162
OTB Transfers . . . . .	34	34	33
<b>Other Than Taxes and Aid . . . . .</b>	<b><u>2,752</u></b>	<b><u>3,858</u></b>	<b><u>3,656</u></b>
<b>Total Revenues . . . . .</b>	<b><u>\$37,324</u></b>	<b><u>\$40,837</u></b>	<b><u>\$40,232</u></b>

### General Fund Expenditures

The following chart and table summarize actual expenditures by function/program for fiscal year 2001 and compare expenditures to the current fiscal year's Adopted Budget and Modified Budget

**General Fund Expenditures Fiscal Year 2001**



**General Fund Expenditures**

**Fiscal Year 2001**

(in millions)

	<u>Adopted Budget</u>	<u>Modified Budget</u>	<u>Actual</u>
General Government . . . . .	\$ 1,054	\$ 1,109	\$ 1,078
Public Safety and Judicial. . . . .	5,659	5,915	5,875
Education. . . . .	10,973	11,594	11,545
City University. . . . .	426	428	393
Social Services. . . . .	8,459	8,829	8,717
Environmental Protection . . . . .	1,599	1,552	1,528
Transportation Services . . . . .	617	791	750
Parks, Recreation, and Cultural Activities . . . . .	287	318	317
Housing . . . . .	461	517	478
Health (including HHC) . . . . .	1,843	2,039	1,959
Libraries . . . . .	242	383	383
Pensions. . . . .	1,132	1,209	1,127
Judgments and Claims . . . . .	442	498	595
Fringe Benefits and Other Benefit Payments . . . . .	2,161	2,172	2,200
Other . . . . .	715	510	315
Transfers and Other Payments for Debt Service . . . . .	1,254	2,973	2,967
<b>Total Expenditures . . . . .</b>	<b><u>\$37,324</u></b>	<b><u>\$40,837</u></b>	<b><u>\$40,227</u></b>

**General Fund Surplus**

The City had a General Fund operating surplus of \$2.949 billion and \$3.192 billion before certain expenditures and transfers (discretionary and other) for fiscal years 2001 and 2000, respectively. The General Fund surplus was \$5 million after expenditures and discretionary transfers.

The expenditures and transfers (discretionary and other) made by the City after the adoption of its fiscal year 2001 and fiscal year 2000 budgets follow:

	<u>2001</u>	<u>2000</u>
	<u>(in millions)</u>	
Transfer, as required by law, to the General Debt Service Fund of real estate taxes collected in excess of the amount needed to finance debt service. . . . .	\$ 917	\$ 414
Discretionary transfers to the General Debt Service Fund. . . . .	1,180	2,095
Net equity contribution in bond refunding that accrued to future years debt service savings . . . . .	46	17
Debt-service prepayments for lease purchase debt service due in the fiscal year . . . . .	56	73
Prepayment of debt service for the Municipal Assistance Corporation . . . . .	458	451
Advance cash subsidies to the Public Library system . . . . .	131	—
Advance cash subsidies to the Transit Authority . . . . .	151	137
Advance cash subsidies to the Housing Authority . . . . .	5	—
<b>Total expenditures and transfers (discretionary and other) . . . . .</b>	<b><u>2,944</u></b>	<b><u>3,187</u></b>
<b>Reported Operating Surplus. . . . .</b>	<b><u>5</u></b>	<b><u>5</u></b>
<b>Total Operating Surplus . . . . .</b>	<b><u>\$2,949</u></b>	<b><u>\$3,192</u></b>

Final results for any given fiscal year may differ greatly from that year's Adopted Budget. The following table shows the variance between actuals and fiscal years 2001 Adopted Budget:

	<u>2001</u>
	(in millions)
Additional Resources:	
Federal categorical aid . . . . .	\$ 228
State categorical aid . . . . .	236
Net State and other revenue sharing . . . . .	71
Net tax-revenue collections excluding tax lien sales and stock transfer tax . . . . .	1,785
Sale of tax liens . . . . .	106
Interest income . . . . .	78
Tobacco settlement revenue from lower TSASC debt service . . . . .	15
Surplus from the City's Health Insurance Stabilization Fund . . . . .	120
FICA refunds . . . . .	51
Sale of City-owned assets . . . . .	68
Other miscellaneous revenues . . . . .	61
Non-grant revenue . . . . .	138
Collections for general government services . . . . .	23
Collections from charges for housing . . . . .	25
Licenses, permits and privileges . . . . .	43
Rental income for JFK and LaGuardia Airports . . . . .	10
Rental income - other . . . . .	28
Net savings from administrative costs for supplies, equipment and other than personal services . . . . .	656
Savings from fixed and miscellaneous charges . . . . .	99
Public assistance . . . . .	47
Debt Service and interest on Short-term Notes . . . . .	45
Social Services, excluding public assistance and medicaid . . . . .	9
Fines and Forfeitures . . . . .	4
General Reserve . . . . .	200
Total . . . . .	<u>\$ 4,146</u>
Enabled the City to:	
Provide for future General Obligation debt-service costs net of appropriations in the FY 2002 Adopted Budget . . . . .	\$ 1,192
Provide for equity contributions in conjunction with bond refundings . . . . .	46
Provide for lease purchase debt service due in FY 2002 . . . . .	56
Provide future debt-service costs for the Municipal Assistance Corporation . . . . .	458
Provide for funding of the library system for future years . . . . .	131
Provide for higher than anticipated overtime costs . . . . .	260
Provide for higher than anticipated judgment and claims costs . . . . .	153
Provide for increased pension costs . . . . .	1
Provide for increased personal-services costs, excluding pensions and overtime . . . . .	681
Provide for increased contractual-services costs . . . . .	293
Provide for prepayment of certain fiscal year 2002 subsidy payments to the Transit Authority . . . . .	153
Provide for prepayment of certain fiscal year 2002 subsidy payments to the Housing Authority . . . . .	5
Provide for increased Disallowance Reserve of Federal and State Aid . . . . .	31
Provide for increased costs for heat, light, power and fuel . . . . .	48
Provide for increased funding to the Health and Hospitals Corporation . . . . .	111
Provide for the loss of State appropriations for the stock transfer tax . . . . .	114
Withstand increased Medical-Assistance costs . . . . .	259
Withstand all other net overspending and revenues below budget . . . . .	149
Total . . . . .	<u>4,141</u>
Report a Surplus . . . . .	<u>\$ 5</u>

## Capital Assets

The City's investment in capital assets includes land, buildings, equipment, highways, bridges, traffic, street reconstruction, and parks, which are detailed as follows (net of accumulated depreciation):

	Governmental Activities (in millions)	
	June 30,	
	2001	2000
Land . . . . .	\$ 734	\$ 707
Buildings . . . . .	9,710	7,890
Equipment . . . . .	1,599	1,646
Infrastructure . . . . .	5,594	5,311
Construction work-in-progress . . . . .	6,860	6,985
Total . . . . .	<u>\$24,497</u>	<u>\$22,539</u>

The net increase in the City's capital assets during fiscal year 2001 was \$1.958 billion, an 8.7% increase. Capital assets additions in fiscal year 2001 were \$5.965 billion, an increase of \$2.029 billion from fiscal year 2000. Capital assets additions in the Education program totaling \$1.764 billion and total new construction work-in-progress (the majority of which are also Education programs) totaling \$2.474 billion accounted for 71.0% of the capital assets additions in fiscal year 2001.

Additional information on the City's capital assets can be found in the notes to the financial statements.

## Debt Administration

The following table summarizes the City's debt outstanding for the City, as primary government, as reported on the statement of net assets:

	Governmental Activities (in millions)	
	June 30,	
	2001	2000
General obligation bonds . . . . .	\$26,836	\$26,892
1991 general resolution bonds . . . . .	3,217	3,531
Future tax secured bonds . . . . .	7,386	5,923
Bond anticipation notes . . . . .	—	515
Tobacco Flexible amortization bonds . . . . .	703	709
Japanese Yen bonds . . . . .	80	120
Revenue bonds . . . . .	543	571
Total bonds payable . . . . .	<u>38,765</u>	<u>38,261</u>
Less treasury obligations . . . . .	168	230
Net outstanding debt . . . . .	<u>\$38,597</u>	<u>\$38,031</u>

On July 1, 2001, New York City's outstanding general obligation debt totaled \$26.8 billion. The State Constitution provides that the City may not contract indebtedness in an amount greater than 10% of the average full value of taxable real estate in the City for the most recent five years. As of July 1, 2001, the City's net general obligation debt limit was \$32.8 billion (compared with \$30.6 billion as of July 1, 2000). Because the City was approaching its debt limit, which threatened to halt the City's capital program by early fiscal year 1998, the State legislature created the New York City Transitional Finance Authority (TFA), a separate legal entity, in fiscal year 1997. Initially authorized to issue up to \$7.5 billion of debt, the TFA makes its bond proceeds available to the City, enabling the City to continue its planned capital investment. Recently enacted legislation increased the debt incurring capacity of TFA by an additional \$4 billion for a total of \$11.5 billion. As of July 1, 2001, the remaining City and TFA debt incurring power totaled \$10.1 billion, after providing for capital contract liabilities.

In September, 2001, the New York State Legislature increased the financing capacity of TFA by \$2.5 billion to fund New York City's costs related to or arising from the events of September 11, 2001 at the World Trade Center and authorized the TFA to issue debt without limit as to principal amount that is payable solely from

State or Federal aid received on account of the disaster. In October 2001, the TFA issued \$1 billion of TFA New York City recovery notes.

To provide for the City's capital program, in addition to TFA, TSASC and JSDC were created, the debt of which is not subject to the general debt limit of the City. The debt-incurring power of TFA, TSASC and JSDC has permitted the City to continue to enter new contractual commitments.

Moody's Investors Service Inc. (Moody's) had revised its rating of the City's long-term general obligation debt upward to A2 from A3 in August 2000. Standard & Poor's (S&P) revised its rating upward to A from A- in September, 2000 Fitch IBCA revised its rating upward to A+ from A in September 2000.

During fiscal year 2001, the City issued approximately \$2.379 billion of general obligation bonds of which approximately \$1.139 million were issued to refund certain outstanding bonds and \$1.240 billion were issued for capital purposes. The proceeds of the refunding issues were placed in irrevocable escrow accounts in amounts sufficient to pay when due all principal, interest, and applicable redemption premium, if any, on the refunded bonds. Adhering to a policy set by the Comptroller's Office that refundings may not increase debt service payments in future years, these refundings provided the City approximately \$60 million in debt service savings in fiscal year 2001.

The City satisfied all of its seasonal needs in the public credit market with a competitive sale in fiscal year 2001 of \$750 million of short-term Revenue Anticipation Notes (RANs) that were secured by State aid. The RANs carried the highest ratings from Moody's (MIG-1), Fitch (F-1+), and S&P (SP-1+). These ratings together with favorable market conditions enabled the City to achieve a true interest cost of borrowing of 4.22% on the RANs.

Subsequent to June 30, 2001, the City completed the following long-term financing:

On July 10, 2001, the TFA sold \$150 million of bonds for various municipal capital purposes.

On August 9, 2001, the TFA sold \$600 million of bond anticipation notes for municipal capital purposes.

On October 4, 2001, the TFA sold one billion of New York City Recovery Notes.

On October 23, 2001, the City sold \$1.5 billion of Revenue Anticipation Notes for seasonal cash flow needs.

### ***Commitments***

At June 30, 2001, the outstanding commitments relating to projects of the New York City Capital Projects Fund amounted to approximately \$9.5 billion.

To address the need for significant infrastructure and public facility capital investments, the City has prepared a ten-year capital spending program which contemplates expenditures of \$54.4 billion over the remaining fiscal years 2002 through 2011. To help meet its capital spending program, the City, TFA, and TSASC borrowed \$2.8 billion in the public credit market in fiscal year 2001.

### ***Economic Factors and Next Year's Budgets and Rates World Trade Center Attack***

On September 11, 2001, two hijacked passenger jetliners flew into the World Trade Center, resulting in a substantial loss of life, destruction of the World Trade Center and damage to other buildings in the vicinity. Continuing recovery, clean up and repair efforts will result in substantial expenditures. The U.S. Congress passed emergency legislation which appropriates \$40 billion for increased disaster assistance, increased security costs, rebuilding infrastructure systems and other public facilities, and disaster recovery and related activities, at least \$20 billion of which is for disaster recovery activities and assistance in New York, Pennsylvania and Virginia. In addition, the State legislature increased the financing capacity of the TFA by \$2.5 billion to fund the City's costs related to or arising from the September 11 attack, and has authorized TFA to issue debt without limit as to principal amount that is payable solely from State or Federal aid received on account of the disaster. The amount of City costs resulting from the

September 11 attack is expected to substantially exceed the amount of Federal aid and State resources which, to date, have been identified by the Federal and State governments as available for these purposes.

Prior to September 11, the national and local economies had been weakening, reflecting lower business investment, increased unemployment and, recently, a decline in consumer confidence. It is expected that the destruction of the World Trade Center will have substantial impact on the City and its economy. Reduced economic activity is expected to lower corporate profits, increase job losses and reduce consumer spending, which would result in reduced personal income and sales tax receipts and other business tax revenues for the City and could negatively affect real property values. The events of September 11 increased the risk of a recession and a delay in recovery. It is not possible to quantify at present with any certainty the short-term or long-term adverse impact of the September 11 events on the City and its economy, any offsetting economic benefits which may result from recovery and rebuilding activities and the amount of additional resources from Federal, State, City and other sources which will be required

***Request for Information***

This financial report is designed to provide a general overview of the City's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to The City of New York, Office of the Comptroller, Bureau of Accountancy, 1 Centre Street, Room 800, New York, New York 10007-2341.

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**THE CITY OF NEW YORK**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2001  
(in thousands)

	<b>Primary Government</b>	<b>Component</b>
	<b>Governmental</b>	<b>Units</b>
	<b>Activities</b>	<b>Units</b>
<b>ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 1,012,881	\$ 529,192
Investments, including accrued interest . . . . .	6,573,340	1,464,607
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$362,704) . . . . .	616,473	—
Federal, State and other aid . . . . .	5,293,312	—
Taxes other than real estate . . . . .	2,550,670	—
Other . . . . .	507,052	1,491,907
Mortgage loans and interest receivable, net . . . . .	33,437	2,739,923
Inventories . . . . .	197,593	45,017
Due from Primary Government . . . . .	—	23,458
Due from Component Units . . . . .	420,138	—
Restricted cash and investments . . . . .	251,222	2,402,046
Capital assets:		
Land and construction work-in-progress . . . . .	7,594,474	3,948,269
Other Capital assets (net of depreciation):		
Property, plant and equipment . . . . .	11,309,118	15,406,089
Infrastructure . . . . .	5,593,769	—
Other . . . . .	420,041	323,175
Total assets . . . . .	42,373,520	28,373,683
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities . . . . .	8,826,929	1,652,488
Accrued interest payable . . . . .	612,507	71,942
Deferred revenues:		
Prepaid real estate taxes . . . . .	1,451,774	—
Other . . . . .	850,368	191,083
Due to Primary Government . . . . .	—	420,138
Due to Component Units . . . . .	23,458	—
Estimated disallowance of Federal, State and other aid . . . . .	210,268	—
Payable for investment securities purchased . . . . .	179,862	—
Other . . . . .	—	121,134
Noncurrent Liabilities:		
Due within one year . . . . .	3,257,834	750,159
Due in more than one year . . . . .	46,807,679	13,307,560
Total liabilities . . . . .	62,220,679	16,514,504
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt . . . . .	(8,135,503)	8,758,968
Restricted for:		
Capital projects . . . . .	—	343,697
Debt service . . . . .	3,814,045	—
Debt retirement . . . . .	—	1,158,387
Loans . . . . .	—	91,294
Donor restrictions . . . . .	—	13,293
Unrestricted (deficit) . . . . .	(15,525,701)	1,493,540
Total net assets (deficit) . . . . .	\$ (19,847,159)	\$ 11,859,179

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**STATEMENT OF NET ASSETS**

JUNE 30, 2000  
(in thousands)

	<b>Primary Government</b>	<b>Component</b>
	<b>Governmental</b>	<b>Units</b>
	<b>Activities</b>	<b>Units</b>
<b>ASSETS:</b>		
Cash and cash equivalents . . . . .	\$ 1,376,440	\$ 659,802
Investments, including accrued interest . . . . .	5,048,429	1,437,789
Receivables:		
Real estate taxes (less allowance for uncollectible amounts of \$387,568) . . . . .	613,158	—
Federal, State and other aid . . . . .	6,017,496	—
Taxes other than real estate . . . . .	2,695,446	—
Other . . . . .	637,949	1,254,359
Mortgage loans and interest receivable, net . . . . .	35,204	2,588,169
Inventories . . . . .	210,110	32,022
Due from Primary Government . . . . .	—	47,141
Due from Component Units . . . . .	486,004	—
Restricted cash and investments . . . . .	1,345,643	2,177,000
Capital assets:		
Land and construction work-in-progress . . . . .	7,692,050	3,422,070
Other Capital assets (net of depreciation):		
Property, plant and equipment . . . . .	9,535,316	14,869,633
Infrastructure . . . . .	5,311,181	—
Other . . . . .	833,215	274,364
Total assets . . . . .	41,837,641	26,762,349
<b>LIABILITIES:</b>		
Accounts payable and accrued liabilities . . . . .	7,440,719	1,547,858
Accrued interest payable . . . . .	628,107	47,626
Deferred revenues:		
Prepaid real estate taxes . . . . .	1,620,651	—
Other . . . . .	1,499,557	174,792
Due to Primary Government . . . . .	—	486,004
Due to Component Units . . . . .	47,141	—
Estimated disallowance of Federal, State and other aid . . . . .	205,228	—
Payable for investment securities purchased . . . . .	255,876	—
Other . . . . .	—	155,965
Noncurrent Liabilities:		
Due within one year . . . . .	4,357,335	431,483
Due in more than one year . . . . .	44,482,631	12,431,396
Total liabilities . . . . .	60,537,245	15,275,124
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt . . . . .	(8,379,336)	8,931,774
Restricted for:		
Capital projects . . . . .	—	180,394
Debt service . . . . .	4,189,167	—
Debt retirement . . . . .	—	1,077,813
Loans . . . . .	—	143,879
Donor restrictions . . . . .	—	12,606
Unrestricted (deficit) . . . . .	(14,509,435)	1,140,759
Total net assets (deficit) . . . . .	\$ (18,699,604)	\$ 11,487,225

See accompanying notes to financial statements.

**THE CITY OF NEW YORK**  
**STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2001  
(in thousands)

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Component Units
<b>Primary government:</b>						
General government . . . . .	\$ 1,881,812	\$ 881,322	\$ 82,914	\$ 179,487	\$ (738,089)	\$ —
Public safety and judicial. . . . .	8,661,411	158,925	537,248	16,034	(7,949,204)	—
Education . . . . .	12,248,775	69,594	6,666,089	2,742	(5,510,350)	—
City University . . . . .	668,954	135,307	433,781	—	(99,866)	—
Social services. . . . .	9,166,149	41,909	4,064,614	6,771	(5,052,855)	—
Environmental protection. . . . .	2,350,867	765,781	607	9,669	(1,574,810)	—
Transportation services . . . . .	1,654,344	569,341	151,269	113,621	(820,113)	—
Parks, recreation and cultural activities . . . . .	488,865	55,385	7,075	5,652	(420,753)	—
Housing . . . . .	1,000,300	150,153	148,396	203,646	(498,105)	—
Health (including payments to HHC). . . . .	2,329,191	40,888	681,022	34,892	(1,572,389)	—
Libraries . . . . .	362,034	—	—	—	(362,034)	—
Debt service interest . . . . .	2,214,717	—	—	—	(2,214,717)	—
Total Primary government . . . . .	<u>\$ 43,027,419</u>	<u>\$ 2,868,605</u>	<u>\$ 12,773,015</u>	<u>\$ 572,514</u>	<u>(26,813,285)</u>	<u>—</u>
<b>Component Units. . . . .</b>	<u>\$ 9,343,729</u>	<u>\$ 6,422,033</u>	<u>\$ 1,849,333</u>	<u>\$ 992,464</u>	<u>—</u>	<u>(79,899)</u>
General revenues:						
Taxes (Net of Refunds):						
Real estate taxes . . . . .					8,273,172	—
Sales and use taxes . . . . .					4,199,594	—
Personal income tax . . . . .					6,128,516	—
Income taxes, other . . . . .					3,826,312	—
Other taxes . . . . .					1,284,471	—
Investment income . . . . .					391,902	221,339
Other Federal and State aid . . . . .					928,184	1,800
Other . . . . .					633,579	228,714
Total General revenues . . . . .					<u>25,665,730</u>	<u>451,853</u>
Change in net assets . . . . .					(1,147,555)	371,954
Net Assets — Beginning. . . . .					<u>(18,699,604)</u>	<u>11,487,225</u>
Net Assets — Ending . . . . .					<u>\$ (19,847,159)</u>	<u>\$ 11,859,179</u>

See accompanying notes to financial statements.