

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

June 30, 2001
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2000	Housing Authority December 31, 2000	Economic Development Corporation	Water and Sewer System	Total Nonmajor Component Units	Total Component Units
ASSETS:								
Cash and cash equivalents	\$ 314,043	\$ 25,123	\$ 966	\$ 120,927	\$ 22,516	\$ 7,423	\$ 38,194	\$ 529,192
Investments, including accrued interest	—	—	255,364	1,206,678	138	—	2,427	1,464,607
Other receivables	775,146	1,439	—	42,729	219,841	448,017	4,735	1,491,907
Mortgage loans and interest receivable, net	—	—	2,696,121	1,556	42,246	—	—	2,739,923
Inventories	33,007	—	—	12,010	—	—	—	45,017
Due from Primary Government	—	—	—	—	—	23,458	—	23,458
Restricted cash and investments	316,139	1,595	720,027	9,095	117,510	1,017,852	219,828	2,402,046
Capital assets:								
Construction work-in-progress	312,196	—	—	—	—	3,580,396	55,677	3,948,269
Property, plant and equipment	3,883,889	51,620	6,683	8,250,654	4,463	14,369,095	78,178	26,644,582
Accumulated depreciation	(2,738,498)	(32,985)	(805)	(3,875,323)	(510)	(4,573,701)	(16,671)	(11,238,493)
Other	10,640	—	41,093	67,343	58,377	142,284	3,438	323,175
Total assets	2,906,562	46,792	3,719,449	5,835,669	464,581	15,014,824	385,806	28,373,683
LIABILITIES:								
Accounts payable and accrued liabilities	643,308	27,512	159,593	739,923	54,405	18,033	9,714	1,652,488
Accrued interest payable	10,416	—	37,061	1,869	—	22,596	—	71,942
Deferred revenues	—	—	45,656	58,506	674	76,562	9,685	191,083
Due to Primary Government	—	311	214,371	—	—	205,456	—	420,138
Noncurrent Liabilities:								
Due within one year	24,989	—	38,800	11,864	—	674,489	17	750,159
Due in more than one year	789,850	3,743	2,615,103	138,128	144,773	9,345,805	270,158	13,307,560
Other	23,632	—	—	48,688	47,337	—	1,477	121,134
Total liabilities	1,492,195	31,566	3,110,584	998,978	247,189	10,342,941	291,051	16,514,504
NET ASSETS:								
Invested in capital assets, net of related debt	826,668	16,321	5,787	4,391,023	3,953	3,453,709	61,507	8,758,968
Restricted for:								
Capital projects	—	—	—	—	67,539	89,017	187,141	343,697
Loans	—	—	—	—	88,938	—	2,356	91,294
Donor restrictions	13,293	—	—	—	—	—	—	13,293
Debt service	—	—	248,086	—	—	886,624	23,677	1,158,387
Unrestricted (deficit)	574,406	(1,095)	354,992	445,668	56,962	242,533	(179,926)	1,493,540
Total net assets	\$ 1,414,367	\$ 15,226	\$ 608,865	\$ 4,836,691	\$ 217,392	\$ 4,671,883	\$ 94,755	\$ 11,859,179

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF NET ASSETS

JUNE 30, 2000
(in thousands)

	<u>Health and Hospitals Corporation</u>	<u>Off-Track Betting Corporation</u>	<u>Housing Development Corporation October 31, 1999</u>	<u>Housing Authority December 31, 1999</u>	<u>Economic Development Corporation</u>	<u>Water and Sewer System</u>	<u>Total Nonmajor Component Units</u>	<u>Total Component Units</u>
ASSETS:								
Cash and cash equivalents	\$ 435,921	\$ 27,216	\$ —	\$ 113,863	\$ 37,575	\$ 8,734	\$ 36,493	\$ 659,802
Investments, including accrued interest	—	—	264,712	1,170,128	41	—	2,908	1,437,789
Other receivables	656,280	1,219	—	48,455	120,322	421,800	6,283	1,254,359
Mortgage loans and interest receivable, net	—	—	2,540,295	1,814	46,060	—	—	2,588,169
Inventories	32,022	—	—	—	—	—	—	32,022
Due from Primary Government	—	—	—	—	—	47,141	—	47,141
Restricted cash and investments	293,890	502	730,686	14,748	161,602	974,660	912	2,177,000
Capital assets:								
Construction work-in-progress	225,768	—	—	—	—	3,196,302	—	3,422,070
Property, plant and equipment	3,683,224	45,316	6,641	7,653,866	14,495	13,930,051	66,659	25,400,252
Accumulated depreciation	(2,575,818)	(27,076)	(290)	(3,611,154)	(288)	(4,302,707)	(13,286)	(10,530,619)
Other	11,645	—	42,861	85,204	25,128	108,668	858	274,364
<u>Total assets</u>	<u>2,762,932</u>	<u>47,177</u>	<u>3,584,905</u>	<u>5,476,924</u>	<u>404,935</u>	<u>14,384,649</u>	<u>100,827</u>	<u>26,762,349</u>
LIABILITIES:								
Accounts payable and accrued liabilities	587,817	21,933	145,889	701,544	45,828	43,093	1,754	1,547,858
Accrued interest payable	10,127	—	35,343	2,156	—	—	—	47,626
Deferred revenues	—	—	43,928	57,019	550	67,799	5,496	174,792
Due to Primary Government	—	170	232,923	—	—	252,911	—	486,004
Noncurrent Liabilities:								
Due within one year	21,414	—	33,530	17,957	—	358,575	7	431,483
Due in more than one year	800,581	3,346	2,523,496	149,992	78,366	8,875,569	46	12,431,396
Other	21,087	—	—	49,898	71,234	—	13,746	155,965
<u>Total liabilities</u>	<u>1,441,026</u>	<u>25,449</u>	<u>3,015,109</u>	<u>978,566</u>	<u>195,978</u>	<u>9,597,947</u>	<u>21,049</u>	<u>15,275,124</u>
NET ASSETS:								
Invested in capital assets, net of related debt	771,376	17,617	6,351	4,120,773	14,207	3,948,077	53,373	8,931,774
Restricted for:								
Capital projects	—	—	—	—	35,929	144,465	—	180,394
Loans	—	—	—	—	141,166	—	2,713	143,879
Donor restrictions	12,606	—	—	—	—	—	—	12,606
Debt retirement	—	—	247,618	—	—	830,195	—	1,077,813
Unrestricted (deficit)	537,924	4,111	315,827	377,585	17,655	(136,035)	23,692	1,140,759
<u>Total net assets</u>	<u>\$ 1,321,906</u>	<u>\$ 21,728</u>	<u>\$ 569,796</u>	<u>\$ 4,498,358</u>	<u>\$ 208,957</u>	<u>\$ 4,786,702</u>	<u>\$ 79,778</u>	<u>\$ 11,487,225</u>

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2001
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 2000	Housing Authority December 31, 2000	Economic Development Corporation	Water and Sewer System	Total Nonmajor Component Units	Total Component Units
Expenses.....	\$ 4,392,789	\$ 227,467	\$ 161,484	\$ 2,235,941	\$ 478,113	\$ 1,823,024	\$ 24,911	\$ 9,343,729
Program Revenues:								
Charges for Services	3,622,050	249,507	165,085	607,654	178,597	1,576,884	22,256	6,422,033
Operating Grants and Contributions	454,370	—	—	1,339,060	40,857	—	15,046	1,849,333
Capital Grants, Contributions and other	163,630	—	—	534,419	292,397	1,748	270	992,464
Total Program Revenues	4,240,050	249,507	165,085	2,481,133	511,851	1,578,632	37,572	9,263,830
Net (Expenses) Program Revenue	(152,739)	22,040	3,601	245,192	33,738	(244,392)	12,661	(79,899)
General Revenues (Expenses):								
Investment income (loss)	32,953	1,844	35,479	93,141	(28,928)	84,534	2,316	221,339
Other Federal and State aid	—	—	—	—	1,800	—	—	1,800
Other	212,247	(30,386)	(11)	—	1,825	45,039	—	228,714
Net General Revenues (Expenses)	245,200	(28,542)	35,468	93,141	(25,303)	129,573	2,316	451,853
Change in Net Assets	92,461	(6,502)	39,069	338,333	8,435	(114,819)	14,977	371,954
Net Assets — Beginning	1,321,906	21,728	569,796	4,498,358	208,957	4,786,702	79,778	11,487,225
Net Assets — Ending	\$ 1,414,367	\$ 15,226	\$ 608,865	\$ 4,836,691	\$ 217,392	\$ 4,671,883	\$ 94,755	\$ 11,859,179

See accompanying notes to financial statements.

THE CITY OF NEW YORK
COMPONENT UNITS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2000
(in thousands)

	Health and Hospitals Corporation	Off-Track Betting Corporation	Housing Development Corporation October 31, 1999	Housing Authority December 31, 1999	Economic Development Corporation	Water and Sewer System	Total Nonmajor Component Units	Total Component Units
Expenses	\$ 4,167,933	\$ 215,283	\$ 143,879	\$ 2,076,952	\$ 300,214	\$ 1,740,211	\$ 20,605	\$ 8,665,077
Program Revenues:								
Charges for Services	3,480,859	243,873	150,196	586,125	150,632	1,534,862	22,303	6,168,850
Operating Grants and Contributions	280,532	—	—	1,265,194	19,495	—	—	1,565,221
Capital Grants, Contributions and other	112,435	—	—	2,289,280	136,379	5,637	13,152	2,556,883
Total Program Revenues	3,873,826	243,873	150,196	4,140,599	306,506	1,540,499	35,455	10,290,954
Net (Expenses) Program Revenues	(294,107)	28,590	6,317	2,063,647	6,292	(199,712)	14,850	1,625,877
General Revenues (Expenses):								
Investment income	25,984	1,596	27,732	44,391	36,991	70,478	1,983	209,155
Other Federal and State aid	—	—	—	—	2,485	—	—	2,485
Decrease in accrued pension liability	93,339	6,297	—	—	—	—	—	99,636
Other	258,533	(29,112)	(101)	—	1,508	45,736	7	276,571
Net General Revenues (Expenses)	377,856	(21,219)	27,631	44,391	40,984	116,214	1,990	587,847
Change in Net Assets	83,749	7,371	33,948	2,108,038	47,276	(83,498)	16,840	2,213,724
Net Assets—Beginning	1,238,157	14,357	535,848	2,390,320	161,681	4,870,200	62,938	9,273,501
Net Assets—Ending	\$ 1,321,906	\$ 21,728	\$ 569,796	\$ 4,498,358	\$ 208,957	\$ 4,786,702	\$ 79,778	\$ 11,487,225

See accompanying notes to financial statements.

THE CITY OF NEW YORK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2001 and 2000

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of The City of New York (City or primary government) are presented in conformity with generally accepted accounting principles (GAAP) for governments in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The amounts shown in the “Primary Government” and “Component Units” columns of the accompanying government-wide financial statements are only presented to facilitate financial analysis and are not the equivalent of consolidated financial statements.

The following is a summary of the significant accounting policies and reporting practices of the City:

1. Reporting Entity

The City of New York is a municipal corporation governed by the Mayor and the City Council. The City’s operations also include those normally performed at the county level and, accordingly, transactions applicable to the operations of the five counties which comprise the City are included in these financial statements.

The financial reporting entity consists of the primary government including the Board of Education 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 reporting entity’s financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily 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 either it is able to 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.

Most component units are included in the financial reporting entity by discrete presentation. Some component units, despite being legally separate from the primary government, are so integrated with the primary government, that they are in substance part of the primary government. These component units are blended with the primary government.

The New York City Transit Authority is an affiliated agency of the Metropolitan Transportation Authority of the State of New York which is a component unit of New York State and is excluded from the City’s financial reporting entity.

Blended Component Units

These component units, although legally separate, all provide services exclusively to the City and thus are reported as if they were part of the primary government. They include the following:

Municipal Assistance Corporation for The City Of New York (MAC). MAC is a corporate governmental agency and instrumentality of the State constituting a public benefit corporation. MAC was created in 1975 by the Municipal Assistance Corporation For The City of New York Act (Act) to assist the City in providing essential services to its inhabitants without interruption and in reestablishing investor confidence in the soundness of City obligations. Pursuant to the Act, MAC is empowered to issue and sell bonds and notes, pay or loan to the City funds received from such sales, and exchange its obligations for those of the City. Also pursuant to the Act, MAC provides certain oversight of the City’s financial activities.

MAC has no taxing power. All outstanding bonds issued by MAC are general obligations of MAC and do not constitute an enforceable obligation or a debt of either the City or the State and neither the City nor the State is liable thereon. Neither the City nor a creditor of the City has any claim to MAC’s revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State’s collection of certain sales and compensating use taxes (imposed by the State within the City at rates formerly imposed by the City), the stock transfer tax, and certain per capita aid subject in each case to appropriation by the State Legislature. Net collections of taxes and per capita aid are returned to the City by the State after MAC debt service requirements are met. The MAC bond resolutions provide for liens by bondholders on certain monies received by MAC from the State.

New York City Transitional Finance Authority (TFA). TFA is a corporate governmental agency constituting a public benefit corporation and instrumentality of the State. TFA was created in 1997 by the New York City Financial Authority Act to assist the City in funding its capital program, the purpose of which is to maintain, rebuild, and expand the infrastructure of the City.

TFA has no taxing power. All outstanding bonds issued by TFA are general obligations of TFA and do not constitute an enforceable obligation or a debt of either the City or the State and neither the City nor the State is liable thereon. Neither the City nor a creditor of the City has any claim to TFA's revenues and assets. Debt service requirements and operating expenses are funded by allocations from the State's collection of personal income taxes (imposed by the City and collected by the State) and, under certain circumstances, sales taxes. Sales taxes are only available to TFA after such amounts required by MAC are deducted and if the amounts of personal income tax revenues fall below statutorily specified coverage levels. Net collections of taxes not required by TFA are paid to the City by TFA.

New York City Samurai Funding Corporation (SFC). The City created SFC in 1992. This is a special-purpose governmental not-for-profit entity, created to issue Yen-denominated bonds. The members, directors, and officers of SFC are all elected officials or employees of the City.

SFC issued Yen-denominated bonds to investors on May 27, 1993 and simultaneously bought general obligation bonds from the City. Such bonds require the City to make floating rate interest and principal payments in U.S. dollars to SFC. SFC entered into currency and interest rate exchange agreements to swap the City's payments into fixed rate Yen which are used to pay SFC's bondholders. These agreements limit the City's currency and exchange rate change exposure. The proceeds from the City's bonds sold to SFC were used for housing and economic development projects.

TSASC, Inc. (TSASC). TSASC is a special purpose, local development corporation organized in 1999 under the laws of the State of New York. TSASC is an instrumentality of the City, but is a separate legal entity from the City.

Pursuant to a purchase and sale agreement with the City, the City sold to TSASC all of its future right, title, and interest in the tobacco settlement revenues under the Master Settlement Agreement and the Decree and Final Judgement. This settlement agreement resolved cigarette smoking-related litigation between the settling states and participating manufacturers, released the participating manufacturers from past and present smoking-related claims, and provides for a continuing release of future smoking-related claims, in exchange for certain payments to be made to the settling states, as well as certain tobacco advertising and marketing restrictions, among other things. The City is allocated a share of the tobacco settlement revenues received by New York State.

The purchase price of the City's future right, title, and interest in the tobacco settlement revenues has been financed by the issuance of a series of bonds. In addition, the City is entitled to receive all amounts required to be distributed after payment of debt service, operating expenses, and certain other costs as set forth in the indenture. These payments are subordinate to payments on the bonds and payment of certain other costs specified in the indenture.

New York City Educational Construction Fund (ECF). ECF was created in 1967 as a corporate governmental agency of the State of New York, constituting a public benefit corporation. ECF was established to receive and administer money for the construction of the school related portion of combined occupancy structures. ECF was created by the Education Law of the State and is authorized to issue bonds, notes, or other obligations to finance the construction and improvement of elementary and secondary school buildings within the City.

The Board of Education maintains responsibility for the selection of school sites, and design and construction of schools, but the titles to such sites and schools are vested with ECF.

City University Construction Fund (CUCF). CUCF is a corporate governmental agency constituting a public benefit corporation. CUCF was created in 1966 by the New York State Education Law. The purpose of CUCF is to provide facilities for both senior colleges and community colleges of The City University of New York (CUNY) and to support the educational purposes of CUNY.

CUCF is administered by seven State and City appointed trustees.

New York City School Construction Authority (SCA). SCA is a public benefit corporation created by the New York State Legislature in 1988. SCA's responsibilities as defined in the enabling legislation are the design, construction, reconstruction, improvement, rehabilitation and repair of the City's public schools. SCA is governed by a three-member

Board of Trustees, each of whom is appointed by the Mayor who serves as the Chairman, the Governor, and the Schools Chancellor of the City, ex officio, respectively.

SCA's operations are almost entirely funded by appropriations made by the City and are guided by five-year capital plans, developed by the Board of Education of the City.

Discretely Presented Component Units

All discretely presented component units are legally separate from the primary government. These entities 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 component units column in the government-wide financial statements include the financial data of these entities, which are reported in a separate column to emphasize that they are legally separate from the City. They include the following:

New York City Health and Hospitals Corporation (HHC). HHC, a public benefit corporation, assumed responsibility for the operation of the City's municipal hospital system in 1970. HHC's financial statements include the accounts of HHC and its wholly-owned subsidiaries, Metroplus Health Plan, Inc. and HHC Capital Corporation.

The City provides funds to HHC for care given to uninsured indigent patients, members of the uniformed services and prisoners, and for other costs not covered by other payors. The City's Annual Expense Budget determines the support to HHC on a cash-flow basis. In addition, the City has paid HHC's costs for settlements of claims for medical malpractice, negligence, and other miscellaneous torts and contracts, as well as other HHC costs including utilities expense, City debt which funded HHC capital acquisitions, and New York State Housing Finance Agency (HFA) debt on HHC assets acquired through lease purchase agreements. HHC reimburses the City for these debt payments. HHC records both a revenue and an expense in an amount equal to expenditures made on its behalf by the City.

New York City Off-Track Betting Corporation (OTB). OTB was established in 1970 as a public benefit corporation to operate a system of off-track betting in the City. OTB earns: (i) revenues on its betting operations ranging between 15% and 31% of wagers handled, depending on the type of wager; (ii) a 5% surcharge and surcharge breakage on pari-mutuel winnings; (iii) a 1% surcharge on multiple, exotic, and super exotic wagering pools; and (iv) breakage, the revenue resulting from the rounding down of winning payoffs. Pursuant to State law, OTB: (i) distributes various portions of the surcharge and surcharge breakage to other localities in the State; (ii) allocates various percentages of wagers handled to the racing industry; (iii) allocates various percentages of wagers handled and breakage together with all uncashed pari-mutuel tickets to the State; and (iv) allocates the 1% surcharge on exotic wagering pools for the financing of capital acquisitions. All remaining net revenue is distributable to the City. In addition, OTB acts as a collection agent for the City with respect to surcharge and surcharge breakage due from other community off-track betting corporations.

Jay Street Development Corporation. (JSDC). JSDC is a local development corporation organized by the City in 2000 under the not-for-profit corporation law of the State of New York. JSDC is an instrumentality of the City, but is a separate legal entity from the City.

JSDC has no taxing power. Bonds issued by JSDC do not constitute debt of the State or the City and neither the State nor the City is liable on them. Bond issuances are being used to fund the costs of the design, construction, and furnishing of a courthouse (Courts Facility) in Brooklyn. The City has leased the Courts Facility from JSDC and the rental payments will fund debt service requirements, redemption premiums (if any), financing costs, administrative expenses, and certain additional amounts determined by JSDC as necessary for this project.

Housing and Economic Development Entities:

New York City Housing Development Corporation (HDC). HDC was established in 1971 to encourage private housing development by providing low interest mortgage loans. The combined financial statements include the accounts of HDC and its wholly-owned subsidiaries, Housing Assistance Corporation, Housing New York Corporation, and the New York City Residential Mortgage Insurance Corporation. HDC finances multiple dwelling mortgages substantially through issuance of HDC bonds and notes, and also acts as an intermediary for the sale and refinancing of certain City multiple dwelling mortgages. HDC has a fiscal year ending October 31.

HDC is supported by service fees, investment income, and interest charged to mortgagors and has been self-sustaining. Mortgage loans are carried at cost. Mortgage loan interest income, fees, charges, and interest expense are recognized on the accrual basis. HDC maintains separate funds in its financial records to assure compliance with specific restrictions of its various bond and note resolutions.

New York City Housing Authority (HA). HA is a public benefit corporation chartered in 1934 under the New York State Public Housing Law. HA develops, constructs, manages, and maintains low cost housing for eligible low income families in The City of New York. HA also maintains a leased housing program which provides housing assistance payments to families.

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that HA provides, and such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, HA receives subsidies from: (a) the Federal government primarily the U.S. Department of Housing and Urban Development in the form of annual grants for operating assistance, debt service payments, contributions for capital and reimbursement of expenditures incurred for certain Federal housing programs; (b) New York State in the form of operating assistance, reimbursement of certain expenses, and debt service payments; and (c) New York City in the form of operating assistance, reimbursement of certain housing police costs prior to May 1, 1995, and debt service payments. Subsidies are established through budgetary procedures which establish amounts to be funded by the grantor agencies. Projected operating income or loss amounts are budgeted on an annual basis and approved by the grantor agency. Expected variances from budgeted amounts are communicated to the agency during periodic budget revisions, as any revisions to previously approved budgets must be agreed to by the grantor. HA has a calendar year-end.

New York City Industrial Development Agency (IDA). IDA is a public benefit corporation established in 1974 to actively promote, retain, attract, encourage and develop an economically sound commerce and industry base to prevent unemployment and economic deterioration in the City. IDA is governed by a Board of Directors, which establishes official policies and reviews and approves requests for financing assistance. Its membership is prescribed by statute and includes public officials and private business leaders.

New York City Economic Development Corporation (EDC). EDC is a local development corporation organized in 1966 according to the not-for-profit corporation law of the State of New York. EDC renders a variety of services and administers certain economic development programs on behalf of the City relating to attraction, retention, and expansion of commerce and industry in the City. These services and programs include encouragement of construction, acquisition, rehabilitation and improvement of commercial and industrial enterprises within the City and provide loan guarantees or grants to qualifying business enterprises as a means of helping to create and retain employment therein.

Business Relocation Assistance Corporation (BRAC). BRAC is a not-for-profit corporation incorporated in 1981 according to the not-for-profit corporation law of the State of New York for the purpose of implementing and administering the Relocation Incentive Program (RIP) and other related programs. BRAC provides relocation assistance to qualifying commercial and manufacturing firms moving within The City of New York.

The funds for RIP are provided by owners/developers of certain residential projects which cause the relocation of commercial and manufacturing businesses previously located at those sites. These funds consists of conversion contributions or escrow payments mandated by the City's zoning resolution for this type of development.

All conversion contributions received by BRAC are restricted for the use of administering industrial retention/relocation programs consistent with the Zoning Resolution. The program provides grants up to \$30,000 to eligible New York City commercial and manufacturing firms to defray their moving costs. Grants are awarded after a firm completes its relocation. This program will continue to operate only with the current accumulated net assets now available.

Brooklyn Navy Yard Development Corporation (BNYDC). BNYDC was organized in 1966 as a not-for-profit corporation according to the not-for-profit corporation law of the State of New York. The primary purpose of BNYDC is to provide economic rehabilitation in Brooklyn to revitalize the economy and create job opportunities. In 1971, BNYDC leased the Brooklyn Navy Yard from the City for the purpose of rehabilitating it and attracting new businesses and industry to the area. The Mayor of The City of New York appoints the majority of the members of the Board of Directors.

Water And Sewer System:

New York City Water Board (Water Board) and New York City Municipal Water Finance Authority (Water Authority). The Water and Sewer System (NYW), consisting of two legally separate and independent entities, the Water Board and the Water Authority, was established in 1985. NYW provides for water supply and distribution, and sewage collection, treatment, and disposal for the City. The Water Authority was established to issue debt to finance the cost of capital improvements to the water distribution and sewage collection system. The Water Board was established to lease the water distribution and sewage collection system from the City and to establish and collect fees, rates, rents, and other service charges for services furnished by the system to produce cash sufficient to pay debt service on the Water Authority's bonds and to place the Water and Sewer System on a self-sustaining basis.

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 800, 1 Centre Street, New York, New York 10007.

2. Basis of Presentation

Government-wide Statements: The government-wide financial statements, *i.e.* the statement of net assets and the statement of activities, display information about the primary government and its component units. These statements include the financial activities of the overall government except for fiduciary activities. For the most part, eliminations of internal activity have been made in these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable. All of the activities of the City as primary government are governmental activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the City's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (i) charges for services such as rental revenue from operating leases on markets, ports, and terminals and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or program. Taxes and other revenues not properly included among program revenues are reported as general revenues.

Fund Financial Statements: The fund financial statements provide information about the City's funds, including fiduciary funds and blended component units. Separate statements for the governmental and fiduciary fund categories are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The City uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, fiduciary, and proprietary. Except for proprietary (the only organizations that would be categorized as proprietary funds are reported as component units), each category, in turn, is divided into separate "fund types."

The City reports the following major governmental funds:

General Fund. This is the general operating fund of the City. Substantially all tax revenues, Federal and State aid (except aid for capital projects), and other operating revenues are accounted for in the General Fund. This fund also accounts for expenditures and transfers as appropriated in the Expense Budget, which provides for the City's day-to-day operations, including transfers to Debt Service Funds for payment of long-term liabilities.

New York City Capital Projects Fund. This fund is used to record all revenues, expenditures, assets, and liabilities associated with City capital projects. It accounts for resources used to construct or acquire fixed assets and make capital improvements. Resources of the New York City Capital Projects Fund are derived principally from proceeds of City, TFA, and TSASC bond issues, payments from the Water Authority, and from Federal, State, and other aid.

General Debt Service Fund. This fund, required by State legislation on January 1, 1979 is administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this fund.

Additionally, the City reports the following fund types:

Fiduciary Funds

The Fiduciary Funds are used to account for assets and activities when a governmental unit is functioning either as a trustee or an agent for another party. They include the following:

The **Pension and Other Employee Benefit Trust Funds** account for the operations of:

- New York City Employees' Retirement System (NYCERS)
- New York City Teachers' Retirement System—Qualified Pension Plan (TRS)
- New York City Board of Education Retirement System—Qualified Pension Plan (BERS)
- New York City Police Department Pension Fund—Subchapter 2 (POLICE)
- New York City Fire Department Pension Fund—Subchapter 2 (FIRE)
- New York Police Department Police Officers' Variable Supplements Fund (POVSF)
- New York Police Department Police Superior Officers' Variable Supplements Fund (PSOVSF)
- New York Fire Department Firefighters' Variable Supplements Fund (FFVSF)
- New York Fire Department Fire Officers' Variable Supplements Fund (FOVSF)
- Transit Police Officers' Variable Supplements Fund (TPOVSF)
- Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF)
- Housing Police Officers' Variable Supplements Fund (HPOVSF)
- Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF)
- Correction Variable Supplements Fund (CVSF)
- Deferred Compensation Plan for Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

Note: These organizations publish separate annual financial statements which are available at: Office of the Comptroller, Bureau of Accountancy—Room 800, 1 Centre Street, New York, New York 10007.

These funds use the accrual basis of accounting and a measurement focus on the periodic determination of additions, deductions, and net assets held in trust for benefit payments.

The **Agency Funds** account for miscellaneous assets held by the City for other funds, governmental units, and individuals. The Agency Funds are custodial in nature and do not involve measurement of results of operations.

Discretely Presented Component Units

The discretely presented component units consist of **HHC, OTB, HDC, HA, EDC** and the nonmajor component units comprising the Housing and Economic Development Entities, and the **Water and Sewer System**. These activities are accounted for in a manner similar to private business enterprises, in which the focus is on the periodic determination of revenues, expenses, and net income.

New Accounting Standards Adopted

In fiscal year 2001, the City adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*
- Statement No. 34 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*
- Statement No. 37 *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*
- Statement No. 38 *Certain Financial Statement Disclosures*

Statement No. 33 prescribes standards for recording nonexchange transactions on the modified accrual and accrual bases of accounting. A significant amount of the City's revenues are derived from nonexchange transactions, such as real

estate, income and sales taxes, as well as Federal, State and other categorical aid. The effect of adoption of Statement No. 33 on the nonexchange transactions recorded as revenue in the City's governmental funds was insignificant. However, the City recorded in the balance sheet of its governmental fund financial statements at June 30, 2001 and 2000, \$2.470 billion and \$2.444 billion, respectively, as a receivable with a corresponding amount reported as deferred revenue. These amounts represent revenues from nonexchange transactions during the fiscal year which are not available to finance expenditures of the current period. For reporting nonexchange transactions in the government-wide financial statements on the accrual basis of accounting, the receivables are recorded as described in the preceding sentence, however, corresponding amounts are reported as revenue instead of deferred revenue. Accordingly, the amounts recognized as revenue in the fund financial statements differs from the amounts recognized as revenue in the government-wide financial statements by the change in deferred revenue in the fund financial statements from the beginning to the end of the fiscal year.

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities and activities of its discretely presented component units on the statement of net assets and statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Obligations Account Group. In addition to the fixed assets previously recorded in the General Fixed Assets Account Group, the City retroactively capitalized infrastructure assets that were acquired beginning with fiscal year ended June 30, 1981. In addition, the government-wide statement of activities reflects depreciation expenses on the City's fixed assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. Accordingly, the accounting and financial reporting for the City's General Fund, Capital Projects Funds and Debt Service Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34.

Statement No. 34 also requires as required supplementary information Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of Statement No. 34. While this Statement did not affect amounts reported in the financial statements of the City, certain note disclosures have been added and or amended including descriptions of activities of major funds, violations of legal or contractual provisions, future debt service and lease obligations in five year increments, short-term obligations, interest rates, and interfund balances and transactions.

3. Basis of Accounting

The basis of accounting determines when transactions are reported on the financial statements. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City either gives or receives value without directly receiving or giving equal value in exchange, include, for example sales and income taxes, property taxes, grants, entitlements, and donations. On an accrual basis, revenue from sales and income taxes are recognized when the underlying 'exchange' transaction takes place. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund types use the flow of current financial resources measurement focus. This focus is on the determination of, and changes in financial position, and generally only current assets and current liabilities are included on the balance sheet. These funds use the modified accrual basis of accounting, whereby revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Revenues from taxes are generally considered available if received within two months after the fiscal year end. Revenues

from categorical and other grants are generally considered available if received within one year after the fiscal year end. Expenditures are recorded when the related liability is incurred and payment is due, except for principal and interest on long-term debt and certain estimated liabilities which are recorded only when payment is due.

The measurement focus of the Pension and Other Employee Benefit Trust Funds is on the flow of economic resources. This focus emphasizes the determination of net income, changes in net assets, and financial position. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. These funds use the accrual basis of accounting whereby revenues are recognized in the accounting period in which they are earned, and expenses are recognized in the period incurred. The Pension Trust Funds' contributions from members are recorded when the employer makes payroll deductions from Plan members. Employer contributions are recognized when due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans.

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, the discretely presented component units have elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

The Agency Funds use the modified accrual basis of accounting and do not measure the results of operations.

4. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for expenditures are recorded to reflect the use of the applicable spending appropriations, is used by the General Fund during the fiscal year to control expenditures. The cost of those goods received and services rendered on or before June 30 are recognized as expenditures. Encumbrances not resulting in expenditures by year-end, lapse.

5. Cash and Investments

The City considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased, to be cash equivalents.

Cash and cash equivalents include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during fiscal years 2001 and 2000 were approximately \$226 million and \$264 million, respectively.

Most investments are reported in the balance sheet at fair value. Investment income, including changes in the fair value of investments, is reported in operations.

Investments in fixed income securities are recorded at fair value. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold.

Investments of the Pension and Other Employee Benefit Trust Funds are reported at fair value. Investments are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year.

A description of the City's securities lending activities for the Pension and Other Employee Benefit Trust Funds in fiscal years 2001 and 2000 is provided in Deposits and Investments (see Note D.1.).

6. Inventories

Inventories on hand at June 30, 2001 and 2000 (estimated at \$198 million and \$210 million, respectively, based on average cost) have been reported on the governmental-wide financial statement of net assets. Inventories are recorded as expenditures in governmental funds at the time of purchase and accordingly, have not been reported on the governmental funds balance sheet.

7. Restricted Cash and Investments

Certain proceeds of component unit bonds, as well as certain resources set aside for bond repayment, are classified as restricted cash and investments on the balance sheet because their use is limited by applicable bond covenants.

8. Capital Assets

Capital assets and improvements include substantially all land, buildings, equipment, water distribution and sewage collection systems, and other elements of the City's infrastructure having a minimum useful life of five years, having a

cost of more than \$35,000 and having been appropriated in the Capital Budget (see Note C.1.). Capital assets which are used for general governmental purposes and are not available for expenditure are accounted for and reported in the government-wide financial statements. These statements also contain the City's infrastructure elements that are now required to be capitalized under GAAP. Infrastructure elements include the roads, bridges, curbs and gutters, streets and sidewalks, park land and improvements, and subway tracks and tunnels. The fixed assets of the water distribution and sewage collection system are recorded in the Water and Sewer System component unit financial statements under a lease agreement between the City and the Water Board.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Donated fixed assets are stated at their fair market value as of the date of the donation. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease (see Note D.3.).

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 40 to 50 years for buildings; 5 to 35 years for equipment; and 15 to 50 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less.

9. Allowance for Uncollectible Mortgage Loans

Mortgage loans and interest receivable in the Debt Service Funds are net of an allowance for uncollectible amounts of \$750.1 million and \$742.4 million for fiscal years 2001 and 2000, respectively. The allowance is composed of the balance of first mortgages one or more years in arrears and the balance of refinanced mortgages where payments to the City are not expected to be completed for approximately 25 to 30 years.

10. Vacation and Sick Leave

Earned vacation and sick leave is recorded as an expenditure in the period when it is payable from current financial resources in the fund financial statements. The estimated value of vacation leave earned by employees which may be used in subsequent years or earned vacation and sick leave paid upon termination or retirement, and therefore payable from future resources, is recorded as a liability in the government-wide financial statements.

11. Treasury Obligations

Bonds payable included in the government-wide financial statements and investments in the Debt Service Funds are reported net of "treasury obligations." Treasury obligations represent City bonds held as investments of the Debt Service Funds which are offset and reported as if these bonds had been redeemed.

12. Judgments and Claims

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. In the fund financial statements, expenditures for judgments and claims (other than workers' compensation and condemnation proceedings) are recorded on the basis of settlements reached or judgments entered within the current fiscal year. Expenditures for workers' compensation are recorded when paid. Settlements relating to condemnation proceedings are reported when the liability is estimable. In the government-wide financial statements the estimated liability for all judgments and claims is recorded as a liability.

13. Long-term Liabilities

For long-term liabilities, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund. All long-term liabilities are reported in the government-wide financial statement of net assets. Long-term liabilities expected to be financed from discretely presented component unit operations are accounted for in those component unit financial statements.

14. Real Estate Tax

Real estate tax payments for the fiscal year ended June 30, 2001 were due July 1, 2000 and January 1, 2001 except that payments by owners of real property assessed at \$80,000 or less and cooperatives whose individual units on average are valued at \$80,000 or less were due in quarterly installments on the first day of each quarter beginning on July 1.

The levy date for fiscal year 2001 taxes was June 6, 2000. The lien date is the date taxes are due.

Real estate tax revenue represents payments received during the year and payments received (against the current fiscal year and prior years' levies) within the first two months of the following fiscal year reduced by tax refunds for the fund financial statements. Additionally, the government-wide financial statements recognize real estate tax revenue (net of refunds) which are not available to the governmental fund type in the fiscal year for which the taxes are levied.

The City offered the usual discount of 2% for the prepayment of real estate taxes for fiscal years 2002 and 2001. Collections of these real estate taxes received on or before June 30, 2001 and 2000 were \$1,452 million and \$1,576 million, respectively. These amounts were recorded as deferred revenue.

The City sold approximately \$213.9 million of real property tax liens, fully attributable to fiscal year 2001, at various dates in fiscal year 2001. As in prior year's lien sale agreements, the City will refund the value of liens later determined to be defective, plus interest and a five percent surcharge. It has been estimated that \$8.6 million worth of liens sold in fiscal year 2001 will require replacement. The estimated refund accrual amount of \$9 million, including the surcharge, results in fiscal year 2001 sale proceeds of \$204.9 million.

In fiscal year 2001, \$15.1 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 2000 sale. This resulted in a decrease to fiscal year 2001 revenue of \$9.1 million for the refund amount in excess of the fiscal year 2000 accrual of \$6 million and decreased the proceeds of the fiscal year 2000 sale to \$49.9 million down from the original fiscal year 2000 proceeds reported last year of \$59 million.

In fiscal years 2001 and 2000, \$363 million and \$388 million, respectively, were provided as allowances for uncollectible real estate taxes against the balance of the receivable. Delinquent real estate taxes receivable that are estimated to be collectible but which are not collected in the first two months of the next fiscal year are recorded as deferred revenues in the governmental funds balance sheet but included in revenue on the government-wide statement of net assets.

The City sold approximately \$65 million of real property tax liens, fully attributable to fiscal year 2000, at various dates in fiscal year 2000. It was estimated that \$5.7 million worth of liens sold in fiscal year 2000 will require replacement. The estimated refund accrual amount of \$6 million, including the surcharge, results in fiscal year 2000 sale proceeds of \$59 million.

In fiscal year 2000, \$10.8 million, including the surcharge and interest, was refunded for defective liens from the fiscal year 1999 sale. This resulted in an increase to fiscal year 2000 revenue of \$3.2 million for the unused balance of the fiscal year 1999 accrual of \$14 million and increased the proceeds of the fiscal year 1999 sale to \$130.2 million up from the original fiscal year 1999 proceeds reported last year of \$127 million.

The City is permitted to levy real estate taxes for general operating purposes in an amount up to 2.5% of the average full value of taxable real estate in the City for the last five years and in unlimited amounts for the payment of principal and interest on long-term City debt. Amounts collected for payment of principal and interest on long-term debt in excess of that required for that purpose in the year of the levy must be applied towards future years' debt service. For the fiscal years ended June 30, 2001 and 2000, excess amounts of \$917 million and \$414 million, respectively, were transferred to the Debt Service Funds.

15. Other Taxes and Other Revenues

Taxpayer-assessed taxes, such as sales and income taxes, net of refunds, are recognized in the accounting period in which they become susceptible to accrual for the fund financial statements. Additionally, the government-wide financial statements recognize sales and income taxes (net of refunds) which are not available to the governmental fund type in the accounting period for which the taxes are assessed.

16. Federal, State, and Other Aid

For the government-wide and fund financial statements, categorical aid, net of a provision for estimated disallowances, is reported as receivables when the related eligibility requirements are met. Unrestricted aid is reported as revenue in the fiscal year of entitlement.

17. Bond Discounts/Issuance Costs

In governmental fund types, bond discounts and issuance costs are recognized as expenditures in the period incurred. Bond discounts and issuance costs in the government-wide financial statements units are deferred and amortized over the term of the bonds using the bonds-outstanding method, which approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of bonds payable, whereas issuance costs are recorded as deferred charges.

18. Intra-entity Activity

Payments from a fund receiving revenue to a fund through which the revenue is to be expended are reported as operating transfers. Such payments include transfers for debt service and capital construction. In the government-wide financial statements, resource flows between the primary government and the discretely presented component units are reported as if they were external transactions.

19. Subsidies

The City makes various payments to subsidize a number of organizations which provide services to City residents. These payments are recorded as expenditures in the year paid.

20. Pensions

Pension cost is required to be measured and disclosed using the accrual basis of accounting (see Note E.5.), regardless of the amount recognized as pension expense on the modified accrual basis of accounting. Annual pension cost should be equal to the annual required contributions to the pension plan, calculated in accordance with certain parameters.

21. Reclassifications

Reclassifications and adjustments of certain prior year amounts have been made to conform with the current year presentation and separately issued financial statements of reported entities.

22. Estimates and Assumptions

A number of estimates and assumptions relating to the reporting of revenues, expenditures, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

B. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A summary reconciliation of the difference between total fund balances as reflected on the governmental funds balance sheet and total net assets (deficit) for governmental activities as shown on the government-wide statement of net assets is presented in an accompanying schedule to the governmental funds balance sheet. The asset and liability elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

A summary reconciliation of the difference between net changes in fund balances as reflected on the governmental funds statement of revenues, expenditures, and changes in fund balances and change in net assets for governmental activities as shown on the government-wide statement of activities is presented in an accompanying schedule to the governmental funds statement of revenues, expenditures, and changes in fund balances. The revenue and expense elements which comprise the reconciliation difference stem from governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting while the government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting.

C. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Budgets and Financial Plans

Budgets

Annual Expense Budget appropriations, which are prepared on the modified accrual basis, are adopted for the General Fund, and unused appropriations lapse at fiscal year-end. The City uses appropriations in the Capital Budget to authorize the expenditure of funds for various capital projects. Capital appropriations, unless modified or rescinded, remain in effect until the completion of each project.

The City is required by State Law to adopt and adhere to a budget, on a basis consistent with GAAP, that would not have General Fund expenditures in excess of revenues.

Expenditures made against the Expense Budget are controlled through the use of quarterly spending allotments and units of appropriation. A unit of appropriation represents a subdivision of an agency's budget and is the level of control at which expenditures may not legally exceed the appropriation. The number of units of appropriation and the span of operating responsibility which each unit represents, differs from agency to agency depending on the size of the agency and the level of control required. Transfers between units of appropriation and supplementary appropriations may be made by the Mayor subject to the approval provisions set forth in the City Charter. Supplementary appropriations increased the Expense Budget by \$3,513 million and \$3,898 million subsequent to its original adoption in fiscal years 2001 and 2000, respectively.

Financial Plans

The New York State Financial Emergency Act for The City of New York, as amended in 1978, requires the City to operate under a "rolling" Four-Year Financial Plan (Plan). Revenues and expenditures, including operating transfers, of each year of the Plan are required to be balanced on a basis consistent with GAAP. The Plan is broader in scope than the Expense Budget; it comprises General Fund revenues and expenditures, Capital Projects Fund revenues and expenditures, and all short and long-term financing.

The Expense Budget is generally consistent with the first year of the Plan and operations under the Expense Budget must reflect the aggregate limitations contained in the approved Plan. The City reviews its Plan periodically during the year and, if necessary, makes modifications to incorporate actual results and revisions to assumptions.

2. Deficit Fund Balance

The New York City Capital Projects Fund has cumulative deficits of \$2.1 billion and \$1.1 billion at June 30, 2001 and 2000, respectively. These deficits represent the amounts expected to be financed from future bond issues or intergovernmental reimbursements. To the extent the deficits will not be financed or reimbursed, a transfer from the General Fund will be required.

D. DETAILED NOTES ON ALL FUNDS

1. Deposits and Investments

Deposits

The City's bank depositories are designated by the Banking Commission, which consists of the Comptroller, the Mayor, and the Finance Commissioner. Independent bank rating agencies are used to determine the financial soundness of each bank, and the City's banking relationships are under periodic operational and credit reviews.

The City Charter limits the amount of deposits at any time in any one bank or trust company to a maximum of one-half of the amount of the capital and net surplus of such bank or trust company. The discretely presented component units included in the City's reporting entity maintain their own banking relationships which generally conform with the City's. Bank balances are currently insured up to \$100,000 in the aggregate by the Federal Deposit Insurance Corporation (FDIC) for each bank for all funds other than monies of the retirement systems, which are held by well-capitalized banks and are insured by the FDIC up to \$100,000 per retirement system member. At June 30, 2001 and 2000, the carrying amount of the

City's cash and cash equivalents was \$1,576 million and \$1,978 million, respectively, and the bank balances were \$1,340 million and \$1,620 million, respectively. Of the bank balances, \$570 million and \$737 million, respectively, were covered by Federal depository insurance and \$770 million and \$883 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. At June 30, 2001 and 2000, the carrying amount of the discretely presented component units' cash and cash equivalents was \$529 million and \$660 million, respectively, and the bank balances were \$103 million and \$64 million, respectively. Of the bank balances, \$4 million and \$4 million, respectively, were covered by Federal depository insurance and \$90 million and \$58 million, respectively, were uninsured and collateralized with securities held by the City's agent in the City's name. Of the bank balances, \$9 million and \$2 million, respectively, were uninsured and uncollateralized.

The uninsured, collateralized cash balances carried during the year present primarily the compensating balances to be maintained at banks for services provided. It is the policy of the City to invest all funds in excess of compensating balance requirements.

Investments

The City's investment of cash in its governmental fund types is currently limited to U.S. Government guaranteed securities and U.S. Government agency securities purchased directly and through repurchase agreements from primary dealers as well as commercial paper rated A1 and P1 by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively. The repurchase agreements must be collateralized by U.S. Government guaranteed securities, U.S. Government agency securities, or eligible commercial paper in a range of 100% to 102% of the matured value of the repurchase agreements.

The investment policies of the discretely presented component units included in the City's reporting entity generally conform to those of the City's. The criteria for the Pension and Other Employee Benefit Trust Funds investments are as follows:

1. Fixed income investments may be made in U.S. Government securities or securities of U.S. Government agencies, securities of companies rated BBB or better by both Standard and Poor's Corporation and Moody's Investors Service, Inc., and any bond that meets the qualifications of the New York State Retirement and Social Security Law, the New York State Banking Law, and the New York City Administrative Code.
2. Equity investments may be made only in those stocks that meet the qualifications of the New York State Retirement and Social Security Laws, the New York State Banking Law, and the New York City Administrative Code.
3. Short-term investments may be made in the following:
 - a. U.S. Government guaranteed securities or U.S. Government agency securities.
 - b. Commercial paper rated A1 or P1 or F1 by Standard & Poor's Corporation or Moody's Investors Service, Inc. or Fitch, respectively.
 - c. Repurchase agreements collateralized in a range of 100% to 102% of matured value, purchased from primary dealers of U.S. Government securities.
 - d. Investments in bankers' acceptances, certificates of deposit, and time deposits are limited to banks with worldwide assets in excess of \$50 billion that are rated within the highest categories of the leading bank rating services and selected regional banks also rated within the highest categories.
4. Investments up to 15% of total pension fund assets in instruments not specifically covered by the New York State Retirement and Social Security Law.
5. No investment in any one corporation can be: (i) more than 2% of the pension plan net assets; or (ii) more than 5% of the total outstanding issues of the corporation.

All investments are held by the City's custodial banks (in bearer or book-entry form) solely as agent of the Comptroller of The City of New York on behalf of the various account owners. Payments for purchases are not released until evidence of ownership of the underlying investments are received by the City's custodial bank.

Investments of the City and its discretely presented component units are categorized by level of credit risk (the risk that a counterparty to an investment transaction will not fulfil its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which securities are held by the entity or its agent in the entity's name. Category 2, includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes investments that are uninsured and unregistered with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

The City's investments, including those of the discretely presented component units (CU), as of June 30, 2001 and 2000 are classified as follows:

	2001									
	Category						Total Carrying Amount		Fair Value	
	1		2		3		City	CU	City	CU
	City	CU	City	CU	City	CU				
	(in millions)									
Repurchase agreements	\$ 1,947	\$ 62	\$ —	\$ —	\$ —	\$ —	\$ 1,947	\$ 62	\$ 1,947	\$ 62
U.S. Government securities	17,958	1,091	—	—	—	—	17,958	1,091	17,959	1,091
Commercial paper	4,258	—	—	—	—	—	4,258	—	4,259	—
Corporate bonds	13,744	—	—	—	—	—	13,744	—	13,744	—
Corporate stocks	53,119	—	—	—	—	—	53,119	—	53,119	—
Agency discount notes	535	279	—	—	—	—	535	279	534	279
Certificates of deposit	—	33	—	—	—	—	—	33	—	33
Securities lending investment collateral (categorized):										
Repurchase agreements	348	—	—	—	—	—	348	—	348	—
U.S. Government securities	26	—	—	—	—	—	26	—	26	—
Commercial paper	3,159	—	—	—	—	—	3,159	—	3,159	—
Corporate bonds	2,601	—	—	—	—	—	2,601	—	2,601	—
Certificates of deposit	2,182	—	—	—	—	—	2,182	—	2,182	—
Money markets	232	—	—	—	—	—	232	—	232	—
Uninvested cash	5	—	—	—	—	—	5	—	5	—
Promissory Notes	430	—	—	—	—	—	430	—	430	—
Loan Participation	4	—	—	—	—	—	4	—	4	—
Open time deposits	381	—	—	—	—	—	381	—	381	—
Corporate stocks	203	—	—	—	—	—	203	—	203	—
	<u>\$ 101,132</u>	<u>\$ 1,465</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>101,132</u>	<u>1,465</u>	<u>101,133</u>	<u>1,465</u>
Mutual funds (1)							4,552	—	4,552	—
International investment fund— equity (1)							12,973	—	12,973	—
Guaranteed investment contracts (1)							1,043	—	1,043	—
Management investment contracts (1)							98	—	98	—
Short-term investment fund (1)							2,791	—	2,791	—
Securities lending investment collateral (uncategorized):										
Small mortgages (1)							9	—	9	—
Total investments							<u>\$ 122,598</u>	<u>\$ 1,465</u>	<u>\$ 122,599</u>	<u>\$ 1,465</u>

(1) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

In fiscal year 2001, the restricted cash and cash equivalents applicable to the governmental funds was \$251 million of which the repayment of \$251 million was insured or collateralized and none was uninsured and uncollateralized. There were no restricted governmental funds investments for fiscal year 2001.

In fiscal year 2001, the restricted cash, cash equivalents, and investments applicable to discretely presented component units include \$404 million of cash and cash equivalents, of which the repayment of \$401 million was insured or collateralized and \$3 million was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate fair value of \$1,998 million are fully registered with securities held by the City's agent in the entity's name of which \$241 million have maturities of three months or less.

	2000									
	Category						Total Carrying Amount		Fair Value	
	1		2		3		City	CU	City	CU
	City	CU	City	CU	City	CU				
	(in millions)									
Repurchase agreements	\$ 2,448	\$ 74	\$ —	\$ —	\$ —	\$ —	\$ 2,448	\$ 74	\$ 2,448	\$ 74
U.S. Government securities	16,895	1,204	—	—	—	—	16,895	1,204	16,895	1,204
Commercial paper	3,880	10	—	—	—	—	3,880	10	3,880	10
Corporate bonds	12,404	—	—	—	—	—	12,404	—	12,404	—
Corporate stocks	63,888	—	—	—	—	—	63,888	—	63,888	—
Agency discount notes	522	123	—	—	—	—	522	123	522	123
Certificates of deposit	—	27	—	—	—	—	—	27	—	27
Securities lending investment collateral (categorized):										
Repurchase agreements	461	—	—	—	—	—	461	—	461	—
U.S. Government securities	105	—	—	—	—	—	105	—	105	—
Commercial paper	5,883	—	—	—	—	—	5,883	—	5,883	—
Corporate bonds	2,448	—	—	—	—	—	2,448	—	2,448	—
Certificates of deposit	2,473	—	—	—	—	—	2,473	—	2,473	—
Open time deposits	802	—	—	—	—	—	802	—	802	—
Corporate stocks	67	—	—	—	—	—	67	—	67	—
	<u>\$ 112,276</u>	<u>\$ 1,438</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>112,276</u>	<u>1,438</u>	<u>112,276</u>	<u>1,438</u>
Mutual funds (1)							3,187	—	3,187	—
International investment fund—equity (1)							16,625	—	16,625	—
Guaranteed investment contracts (1)							1,022	—	1,022	—
Management investment contracts (1)							182	—	182	—
Short-term investment fund (1)							3,331	—	3,331	—
Securities lending investment collateral (uncategorized):										
Mutual funds (1)							30	—	30	—
Small mortgages (1)							12	—	12	—
Total investments							<u>\$ 136,665</u>	<u>\$ 1,438</u>	<u>\$ 136,665</u>	<u>\$ 1,438</u>

(1) These investments are not categorized because they are not evidenced by securities that exist in physical or book entry form.

In fiscal year 2000, the restricted cash and cash equivalents applicable to the governmental funds was \$1,346 million of which the repayment of \$1,346 million was insured or collateralized and none was uninsured and uncollateralized. There were no restricted governmental funds investments for fiscal year 2000.

In fiscal year 2000, the restricted cash, cash equivalents, and investments applicable to discretely presented component units include \$1,213 million of cash and cash equivalents, of which the repayment of \$1,213 million was insured or collateralized and none was uninsured and uncollateralized. Restricted investments, principally in U.S. Government securities with a cost and approximate fair value of \$964 million are fully registered with securities held by the City's agent in the entity's name of which \$253 million have maturities of three months or less.

Securities Lending

State statutes and boards of trustees policies permit the Pension and Retirement Systems and certain Variable Supplements Funds (Systems and Funds) to lend their securities (the underlying securities) to brokers-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Systems' and Funds' custodians lend the following types of securities: short-term securities, common stock, long-term corporate bonds, U.S. Government and U.S. Government agencies' bonds, asset-backed securities, and international equities and bonds held in collective investment funds. Securities on loan at year-end are classified as a Category 1 risk in the preceding schedule of custodial credit risk. International securities are uncategorized. In return, they receive collateral in the form of cash at 100%—105% of the principal plus accrued interest for reinvestment. At year-end, the Systems and Funds had no credit risk exposure to borrowers because the amounts the Systems and Funds owe the borrowers exceed the amounts the borrowers owe the Systems and Funds. The contracts with the Systems' and Funds' custodian requires borrowers to indemnify the Systems and Funds if the borrowers fail to return the securities, if the collateral is inadequate, and if the borrowers fail to pay the Systems and Funds for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand within a period specified in each agreement by either the Systems and Funds or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. The underlying securities (fixed income) have an average maturity of 10 years except for the TRS securities lending program discussed below which has an average maturity of 5 years.

In addition, TRS administers a securities lending program for TRS and BERS Variable A investment program which is comparable to the securities lending program discussed above.

The City reports securities loaned as assets on the balance sheet. Cash received as collateral on securities lending transactions and investments made with that cash are also recorded as assets. Liabilities resulting from these transactions are reported on the balance sheet. Accordingly, the City records the investments purchased with the cash collateral as Investments, Collateral From Securities Lending Transactions with a corresponding liability as Securities Lending Transactions.

2. Capital Assets

The following is a summary of capital assets activity for the fiscal years ended June 30, 2000 and 2001:

Primary Government	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000 <small>(in thousands)</small>	Additions	Deletions	Balance June 30, 2001
Governmental activities:							
Capital assets, not being depreciated:							
Land	\$ 648,496	\$ 58,572	\$ —	\$ 707,068	\$ 30,006	\$ 3,220	\$ 733,854
Construction work-in-progress	6,926,330	1,387,002	1,328,350	6,984,982	2,474,041	2,598,403	6,860,620
Total capital assets, not being depreciated	7,574,826	1,445,574	1,328,350	7,692,050	2,504,047	2,601,623	7,594,474
Capital assets, being depreciated:							
Buildings	13,703,503	1,465,412	29,657	15,139,258	2,598,403	52,722	17,684,939
Equipment	4,772,945	415,421	52,601	5,135,765	404,143	109,062	5,430,846
Infrastructure	7,755,045	609,961	—	8,365,006	458,628	—	8,823,634
Total capital assets, being depreciated	26,231,493	2,490,794	82,258	28,640,029	3,461,174	161,784	31,939,419
Less accumulated depreciation:							
Buildings	6,224,972	1,024,812	—	7,249,784	725,207	—	7,974,991
Equipment	3,209,169	283,911	3,157	3,489,923	341,753	—	3,831,676
Infrastructure	2,863,246	190,579	—	3,053,825	176,040	—	3,229,865
Total accumulated depreciation	12,297,387	1,499,302(1)	3,157	13,793,532	1,243,000(1)	—	15,036,532
Total capital assets, being depreciated, net.	13,934,106	991,492	79,101	14,846,497	2,218,174	161,784	16,902,887
Governmental activities capital assets, net.	<u>\$21,508,932</u>	<u>\$2,437,066</u>	<u>\$1,407,451</u>	<u>\$22,538,547</u>	<u>\$4,722,221</u>	<u>\$2,763,407</u>	<u>\$24,497,361</u>

(1) Depreciation expense was charged to functions/programs of the City for the fiscal years ended June 30, 2001 and 2000 as follows:

	2001	2000
	<small>(in thousands)</small>	
Governmental activities:		
General government	\$ 168,503	\$ 204,304
Public safety and judicial	119,753	199,715
Board of Education	377,447	340,543
City University	7,878	1,990
Environmental protection	193,570	283,927
Transportation services	223,479	263,736
Parks, recreation and cultural activities	86,943	142,292
Social services	39,213	37,628
Health	11,815	10,662
Libraries	14,399	14,505
Total depreciation expense—governmental activities	<u>\$1,243,000</u>	<u>\$1,499,302</u>

The following are the sources of funding for the governmental activities capital assets for the fiscal years ended June 30, 2001 and 2000. Sources of funding for capital assets are not available prior to fiscal year 1987.

	<u>2001</u>	<u>2000</u>
	(in thousands)	
Capital Projects Funds:		
Prior to fiscal year 1987	\$ 6,467,109	\$ 6,632,113
City bonds	30,466,604	27,176,867
Federal grants	363,774	350,833
State grants	130,735	123,965
Private grants	51,574	49,454
Capitalized leases	<u>2,054,097</u>	<u>1,998,847</u>
Total funding sources	<u>\$39,533,893</u>	<u>\$36,332,079</u>

At June 30, 2001 and 2000, governmental activities capital assets include approximately \$1.2 billion of City-owned assets leased for \$1 per year to the New York City Transit Authority which operates and maintains the assets. In addition, assets leased to HHC and to the Water and Sewer System are excluded from governmental activities capital assets and are recorded in the respective component unit financial statements.

Included in land and buildings at June 30, 2001 and 2000 are leased properties capitalized at \$2,054 million and \$1,999 million, respectively, with related accumulated amortization of \$250 million and \$196 million, respectively.

Capital 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 fiscal years 2002 through 2011. To help meet its capital spending program, the City and TFA borrowed \$2.8 billion in the public credit market in fiscal year 2001. The City, TFA, and/or TSASC plan to borrow \$4.1 billion in the public credit market in fiscal year 2002.

3. Leases

The City leases a significant amount of property and equipment from others. Leased property having elements of ownership is recorded in the government-wide financial statements. The related obligations, in amounts equal to the present value of minimum lease payments payable during the remaining term of the leases, are also recorded in the government-wide financial statements. Other leased property not having elements of ownership are classified as operating leases. Both capital and operating lease payments are recorded as expenditures when payable. Total expenditures on such leases for the fiscal years ended June 30, 2001 and 2000 were approximately \$453 million and \$425 million, respectively.

As of June 30, 2001, the City (excluding discretely presented component units) had future minimum payments under capital and operating leases with a remaining term in excess of one year as follows:

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
	(in thousands)		
Governmental activities:			
Fiscal year ending June 30:			
2002	\$ 168,598	\$ 258,671	\$ 427,269
2003	174,420	238,892	413,312
2004	174,734	234,192	408,926
2005	176,156	224,295	400,451
2006	175,786	219,182	394,968
2007-2011	750,873	815,859	1,566,732
2012-2016	580,019	446,417	1,026,436
2017-2021	445,139	171,852	616,991
2022-2026	275,813	1,800	277,613
2027-2031	155,446	1,800	157,246
2032-2036	95,844	1,800	97,644
2037-2041	57,508	60	57,568
Future minimum payments	<u>3,230,336</u>	<u>\$2,614,820</u>	<u>\$5,845,156</u>
Less interest	<u>1,425,759</u>		
Present value of future minimum payments	<u>\$1,804,577</u>		

The present value of future minimum lease payments includes approximately \$1.303 billion for leases with Public Benefit Corporations (PBC) where State law generally provides that in the event the City fails to make any required lease payment, the amount of such payment will be deducted from State aid otherwise payable to the City and paid to PBC.

The City also leases City-owned property to others, primarily for markets, ports, and terminals. Total rental revenue on these capital and operating leases for the fiscal years ended June 30, 2001 and 2000 was approximately \$154 million and \$139 million, respectively. As of June 30, 2001, the following future minimum rentals are provided for by the leases:

	<u>Capital Leases</u>	<u>Operating Leases</u>	<u>Total</u>
	(in thousands)		
Governmental activities:			
Fiscal year ending June 30:			
2002	\$ 6,942,220	\$ 60,871,986	\$ 67,814,206
2003	6,985,137	57,042,438	64,027,575
2004	7,095,541	50,289,082	57,384,623
2005	7,205,946	44,290,702	51,496,648
2006	7,248,862	39,662,544	46,911,406
2007-2011	36,888,058	177,118,506	214,006,564
2012-2016	38,340,590	122,400,641	160,741,231
2017-2021	39,743,052	67,602,552	107,345,604
2022-2026	39,729,713	38,046,305	77,776,018
2027-2031	39,469,603	28,827,645	68,297,248
2032-2036	39,469,603	28,490,451	67,960,054
2037-2041	39,469,603	25,324,253	64,793,856
2042-2046	39,469,603	23,972,942	63,442,545
2047-2051	39,469,603	23,238,110	62,707,713
2052-2056	39,469,603	21,379,187	60,848,790
2057-2061	29,591,415	14,765,880	44,357,295
2062-2066	29,591,415	14,765,878	44,357,293
2067-2071	29,591,415	14,128,375	43,719,790
2072-2076	29,591,415	12,640,875	42,232,290
2077-2081	21,871,575	4,848,631	26,720,206
2082-2086	19,285,518	—	19,285,518
Future minimum lease rentals	<u>586,519,494</u>	<u>\$ 869,706,980</u>	<u>\$1,456,226,473</u>
Less interest	<u>487,467,322</u>		
Present value of future minimum lease rentals	<u>\$ 99,052,172</u>		

4. Short-Term Liabilities*Changes in Short-term liabilities*

In fiscal years 2000 and 2001, the changes in short-term liabilities were as follows:

Primary Government	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001
				(in thousands)			
Governmental activities:							
Notes payable:							
Revenue anticipation notes (1) . . .	\$ —	\$ 750,000	\$ 750,000	\$ —	\$ 750,000	\$ 750,000	\$ —
Bond anticipation notes (2)	—	1,115,000	600,000	515,000	515,000	1,030,000	—
Total notes payable	\$ —	\$ 1,865,000	\$ 1,350,000	\$ 515,000	\$ 1,265,000	\$ 1,780,000	\$ —

(1) Revenue anticipation notes are used by the City to satisfy its seasonal financing needs.

(2) Bond anticipation notes are used by TFA to provide financing for the City's capital expenditures.

5. Long-Term Liabilities*Changes in Long-term liabilities*

In fiscal years 2000 and 2001, the changes in long-term liabilities were as follows:

Primary Government	Balance June 30, 1999	Additions	Deletions	Balance June 30, 2000	Additions	Deletions	Balance June 30, 2001	Due Within One Year
				(in thousands)				
Governmental activities:								
Bonds payable:								
General obligation								
bonds	\$ 27,441,063	\$ 666,385	\$ 1,215,342	\$ 26,892,106	\$ 2,378,565	\$ 2,434,880	\$ 26,835,791	\$ 1,336,391
1991 general resolution								
bonds	3,832,415	—	300,850	3,531,565	—	314,530	3,217,035	337,290
Future tax secured								
bonds	4,150,000	1,814,940	41,785	5,923,155	1,536,825	73,970	7,386,010	117,535
Bond anticipation notes	—	515,000	—	515,000	—	515,000	—	—
Tobacco flexible								
amortization bonds	—	709,280	—	709,280	—	5,620	703,660	9,430
Japanese Yen bonds	160,000	—	40,000	120,000	—	40,000	80,000	40,000
Revenue bonds(1)(2)	586,188	—	15,537(3)	570,651	—	27,711(3)	542,940	28,785
Total before treasury								
obligations and discounts	36,169,666	3,705,605	1,613,514	38,261,757	3,915,390	3,411,711	38,765,436	1,869,431
Less treasury obligations	298,740	—	68,272	230,468	—	62,095	168,373	52,102
Total before discounts	35,870,926	3,705,605	1,545,242	38,031,289	3,915,390	3,349,616	38,597,063	1,817,329
Less discounts (net)	219,200	31,024	15,275	234,949	16,230	83,872	167,307	—
Total bonds payable	35,651,726	3,674,581	1,529,967	37,796,340	3,899,160	3,265,744	38,429,756	1,817,329
Capital lease obligations	1,525,448	328,686	51,084	1,803,050	55,251	53,724	1,804,577	57,031
Real estate tax refunds	456,972	172,776	38,967	590,781	139,689	148,075	582,395	108,081
Other tax refunds	1,593,974	—	125,445(4)	1,468,529	121,459	261,529	1,328,459	121,459
Judgments and claims	3,517,566	986,791	490,669	4,013,688	1,206,470	993,650	4,226,508	923,773
Vacation and sick leave	2,059,298	23,002(4)	—	2,082,300	148,571	122,169	2,108,702	118,569
Pension liability	2,336,230	—	2,336,230	—	188,200	—	188,200	21,548
Landfill closure and post-								
closure care costs	979,007	106,271	—	1,085,278	363,176	51,538	1,396,916	90,044
Total changes in governmental								
activities long-term								
liabilities	\$48,120,221	\$5,292,107	\$4,572,362	\$48,839,966	\$ 6,121,976	\$4,896,429	\$ 50,065,513	\$ 3,257,834

(1) The debt of CUCF and ECF are reported as bonds outstanding pursuant to their treatment as component units (see Note A.1.).

(2) Excludes \$259,901 in 2000 and \$250,121 in 2001 for CUCF to be provided by the State.

(3) Net adjustment for CUCF portion based on allocation of debt between New York State and New York City.

(4) The amount of additions and deletions is not available, thus the net amounts are presented.

Note: City bonds payable are generally liquidated with resources of the General Debt Service Fund. Other long-term liabilities are generally liquidated with resources of the General Fund.

The bonds payable, net of treasury obligations, at June 30, 2001 and 2000 summarized by type of issue are as follows:

Primary Government	2001			2000		
	General Obligations	Revenue	Total	General Obligations	Revenue	Total
	(in thousands)					
Governmental activities:						
Bonds payable:						
General obligation bonds	\$26,667,418	\$ —	\$26,667,418	\$26,661,638	\$ —	\$26,661,638
1991 general resolution bonds	3,217,035	—	3,217,035	3,531,565	—	3,531,565
Future tax secured bonds	7,386,010	—	7,386,010	5,923,155	—	5,923,155
Tobacco flexible amortization bonds	703,660	—	703,660	709,280	—	709,280
Japanese yen bonds	80,000	—	80,000	120,000	—	120,000
Revenue bonds	—	542,940	542,940	—	570,651	570,651
Total bonds payable	<u>\$38,054,123</u>	<u>\$542,940</u>	<u>\$38,597,063</u>	<u>\$36,945,638</u>	<u>\$570,651</u>	<u>\$37,516,289</u>

The following table summarizes future debt service requirements as of June 30, 2001:

Primary Government	Governmental Activities			
	General Obligation Bonds		Revenue Bonds	
	Principal	Interest(1)	Principal	Interest
	(in thousands)			
Fiscal year ending June 30:				
2002	\$ 1,788,302	\$ 1,997,845	\$ 28,785	\$ 33,135
2003	1,940,319	1,913,429	31,465	30,669
2004	1,992,188	1,812,030	32,099	30,185
2005	2,002,841	1,725,355	32,642	28,512
2006	1,983,759	1,598,639	34,859	23,603
2007–2011	9,113,740	6,496,384	150,222	87,467
2012–2016	7,118,164	4,331,609	125,953	47,378
2017–2021	6,093,591	2,457,456	61,140	18,608
2022–2026	4,268,454	1,007,601	36,648	7,733
2027–2031	1,708,958	191,012	9,127	600
2032–2036	32,563	6,878	—	—
2037–2041	11,203	635	—	—
Thereafter until 2147	41	173	—	—
	<u>38,054,123</u>	<u>23,539,046</u>	<u>542,940</u>	<u>307,890</u>
Less interest component	—	23,539,046	—	307,890
Total future debt service requirements	<u>\$38,054,123</u>	<u>\$ —</u>	<u>\$ 542,940</u>	<u>\$ —</u>

- (1) Includes interest for general obligation bonds estimated at 4% rate on tax-exempt adjustable rate bonds and at 6% rate on taxable adjustable rate bonds which are the rates at the end of the fiscal year; also, includes interest estimated at 7% rate for Japanese yen bonds. Semiannual interest on Japanese yen bonds is based on offering rates for deposits in U.S. dollars on London interbank offerings.

The average (weighted) interest rates for outstanding City general obligation bonds as of June 30, 2001 and 2000 were 5.6% and 5.7%, respectively, and ranged from 3.0% to 13.55%, and the interest rates on outstanding MAC bonds as of both June 30, 2001 and 2000 ranged from 3.75% to 6.25%. The last maturity of the outstanding City debt is in the year 2147.

In fiscal years 2001 and 2000, the City issued \$1.139 billion and \$66.4 million, respectively, of general obligation bonds to advance refund general obligation bonds of \$1.147 billion and \$79.7 million, respectively, aggregate principal amount. The net proceeds from the sales of the refunding bonds, together with other funds of \$46.2 million and \$16.8 million, respectively, were irrevocably placed in escrow accounts and invested in United States Government securities. As a result of providing for the payment of the principal and interest to maturity, and any redemption premium, the advance refunded bonds are considered to be defeased and, accordingly, the liability is not reported in the government-wide financial

statements. In fiscal year 2001, the refunding transactions will decrease the City's aggregate debt service payments by \$61.4 million and provide an economic gain of \$56.3 million. In fiscal year 2000, the refunding transactions will increase the City's aggregate debt service payments by \$4.3 million but provide an economic gain of \$3.1 million. At June 30, 2001 and 2000, \$8.298 billion and \$8.257 billion, respectively, of the City's outstanding general obligation bonds were considered defeased.

The State Constitution requires the City to pledge its full faith and credit for the payment of the principal and interest on City term and serial bonds and guaranteed debt. The general debt-incurring power of the City is limited by the Constitution to 10% of the average of five years' full valuations of taxable real estate. Excluded from this debt limitation is certain indebtedness incurred for water supply, certain obligations for transit, sewage, and other specific obligations which exclusions are based on a relationship of debt service to net revenue.

As of July 1, 2001, the 10% general limitation was approximately \$32.867 billion (compared with \$30.593 billion as of July 1, 2000). To provide for the City's capital program, TFA and TSASC were created, the debt of which is not subject to the general debt limit of the City. The debt-incurring power of TFA and TSASC has permitted the City to continue to enter into new contractual commitments. As of July 1, 2001, the combined City, TFA and TSASC remaining debt incurring power totaled \$6.696 billion, after providing for capital commitments.

Pursuant to State legislation on January 1, 1979, the City established a General Debt Service Fund administered and maintained by the State Comptroller into which payments of real estate taxes and other revenues are deposited in advance of debt service payment dates. Debt service on all City notes and bonds is paid from this Fund. In fiscal year 2001, discretionary and other transfers of \$2.097 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2002 debt service. In addition, in fiscal year 2001, discretionary transfers totaling \$514 million were made to certain component units of the Debt Service Funds. In fiscal year 2000, discretionary and other transfers of \$2.509 billion were made from the General Fund to the General Debt Service Fund for fiscal year 2001 debt service. In addition, in fiscal year 2000, discretionary transfers totaling \$524 million were made to certain component units of the Debt Service Funds.

Judgments and Claims

The City is a defendant in lawsuits pertaining to material matters, including claims asserted which are incidental to performing routine governmental and other functions. This litigation includes but is not limited to: actions commenced and claims asserted against the City arising out of alleged torts; alleged breaches of contracts; alleged violations of law; and condemnation proceedings. As of June 30, 2001 and 2000, claims in excess of \$500 billion and \$455 billion, respectively, were outstanding against the City for which the City estimates its potential future liability to be \$4.2 billion and \$4.0 billion, respectively.

As explained in Note A.12., the estimate of the liability for unsettled claims has been reported in the government-wide statement of net assets under noncurrent liabilities. The liability was estimated by categorizing the various claims and applying a historical average percentage, based primarily on actual settlements by type of claim during the preceding ten fiscal years, and supplemented by information provided by the New York City Law Department with respect to certain large individual claims and proceedings. The recorded liability is the City's best estimate based on available information and application of the foregoing procedures.

In February, 1997, a former New York City school principal filed an action in New York State Supreme Court challenging the investment policies and practices of the Retirement Board of the New York City Teachers' Retirement System (TRS) with regard to a component of TRS consisting of member contributions and earnings thereon known as the Variable B Fund. Plaintiff alleges that the trustees of TRS illegally maintained the Variable B Fund as a fixed-income fund and ignored a requirement that a substantial amount of the Fund's assets be invested in equity securities. The defendants are TRS and its individual trustees. Plaintiff seeks damages on behalf of all Variable B Fund participants in excess of \$250 million. In May, 1999, the Appellate Division, First Department, affirmed the Supreme Court's earlier denial of the defendants' motion for summary judgement. If the plaintiff were to prevail in this action, it could result in substantial costs to the City.

In May, 1997, an action was commenced against the City in the United States District Court for the Southern District of New York by ten individuals on behalf of themselves and persons similarly situated, alleging that City correctional officers since July, 1996 had violated the constitutional rights of persons arrested for misdemeanors or non-criminal

offenses by stripsearching such persons upon entry into prearrest holding pens at the Manhattan and Queens criminal courthouses. In April, 1998, the district court granted plaintiffs' motion for class certification. The City estimates that there are approximately 68,000 persons in the class. The City and the lawyers representing the plaintiff class have reached a settlement which has been approved by the Court under which the City is required to pay between \$20 million and \$50 million.

In addition to the above claims and proceedings, numerous real estate tax certiorari proceedings are presently pending against the City on grounds of alleged overvaluation, inequality, and illegality of assessment. In response to these actions, in December, 1981, State legislation was enacted which, among other things, authorizes the City to assess real property according to four classes and makes certain evidentiary changes in real estate tax certiorari proceedings. Based on historical settlement activity, the City estimates its potential liability for outstanding certiorari proceedings to be \$582 million and \$591 million at June 30, 2001 and 2000, respectively, as reported in the government-wide financial statements.

Pension Liability

The City's pension liability as of June 30, 1999 resulted from a statutory change in the timing of the City's contribution to its pension plans. Prior to fiscal year 1981, the City's pension contribution reflected pension costs incurred two years earlier and a phase-in of certain actuarial assumptions. The City's liability was originally amortized over 40 years. Later legislation reduced the amortization period to 20 years. As of June 30, 1999, the remaining amortization period was 11 years. In accordance with Chapter 85 of the New York State Laws of 2000, enacted on June 24, 2000, as part of a number of changes to actuarial assumptions and methods, this liability is no longer being funded separately as part of actuarially-determined pension contributions and a liability on the part of the City separate from its actuarially-determined pension contributions no longer exists. Accordingly, the amount of the recorded liability was decreased to zero as of June 30, 2000. For actuarial purposes, the liability was eliminated for the purpose of calculating fiscal year 2000 pension contributions.

As of June 30, 2001, the City's pension liability resulted from State legislation (Chapter 125 of the Laws of 2000) enacted during their Spring 2000 session, which provides automatic cost-of-living adjustments for eligible retirees and eligible beneficiaries beginning September, 2000 and a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law (see Note E.5.).

Landfill Closure and Postclosure Care Costs

Heretofore, the City's only active landfill available for waste disposal was the Fresh Kills landfill which ceased landfill operations in March, 2001. For government-wide financial statements, the measurement and recognition of the liability for closure and postclosure care is based on total estimated current cost and landfill usage to date. For fund financial statements, expenditures are recognized using the modified accrual basis of accounting where a liability is recognized only when liquidated with expendable financial resources.

Upon the landfill becoming inactive, the City is required by Federal and State law to close the landfill, including final cover, stormwater management, landfill gas control, and to provide postclosure care for a period of 30 years following closure. The City is also required under Consent Order with the New York State Department of Environmental Conservation to conduct certain corrective measures associated with the landfill. The corrective measures include construction and operation of a leachate mitigation system for the active portions of the landfill as well as closure, postclosure, and groundwater monitoring activities for the sections no longer accepting solid waste.

The liability for these activities as of June 30, 2001 which equates to the total estimated current cost is \$1,166.7 million based on the maximum cumulative landfill capacity used to date. There are no costs remaining to be recognized. During fiscal year 1996, New York State legislation was enacted which states that no waste will be accepted at the Fresh Kills landfill on or after January 1, 2002. Accordingly, the liability for closure and postclosure care costs is based upon an effective cumulative landfill capacity used to date of approximately 100%. Cost estimates are based on current data including contracts awarded by the City, contract bids, and engineering studies. These estimates are subject to adjustment for inflation and to account for any changes in landfill conditions, regulatory requirements, technologies, or cost estimates.

During fiscal year 2001, expenditures for landfill closure and postclosure care costs totaling \$51.5 million were recorded in the General and Capital Projects Funds.

Resource Conservation and Recovery Act Subtitle D Part 258, which became effective April, 1997, requires financial assurance regarding closure and postclosure care. This assurance was most recently provided, on April 6, 2001, by the City's Chief Financial Officer placing in the Fresh Kills Landfill operating record representations in satisfaction of the Local Government Financial Test.

The City has five inactive hazardous waste sites not covered by the EPA rule. The City has recorded the long-term liability for these postclosure care costs in the government-wide financial statements.

The following represents the City's total landfill and hazardous waste sites liability which is recorded in the government-wide statement of net assets:

	<u>Amount</u> <u>(in thousands)</u>
Landfill	\$1,166,738*
Hazardous waste sites	<u>230,178</u>
Total landfill and hazardous waste sites liability	<u><u>\$1,396,916</u></u>

* Since September 11, 2001, the diversion of debris from the World Trade Center's destruction to Fresh Kills is not expected to have a significant impact on the closure cost estimates.

6. Interfund Receivables and Payables

At June 30, 2001 and 2000, primary government and discretely presented component unit receivable and payable balances were as follows:

Governmental Funds:

Due from/to other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>2001</u>	<u>2000</u>
			(in thousands)
General Fund:	New York City Capital Projects Fund.	\$2,813,173 ⁽¹⁾	\$2,480,864 ⁽¹⁾
	General Debt Service Fund	7,408	7,408
	CUCF	<u>19,838</u>	<u>14,395</u>
		<u>2,840,419</u>	<u>2,502,667</u>
NYC Capital Projects Fund	General Fund.	<u>1,140,130⁽¹⁾</u>	<u>1,293,842⁽¹⁾</u>
Total due from/to other funds		<u>3,980,549</u>	<u>3,796,509</u>

Component Units:

Due from/to primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>2001</u>	<u>2000</u>
			(in thousands)
Primary government—General Fund:	Component units: HDC	\$ 203,308	\$ 222,471
	OTB	<u>311</u>	<u>170</u>
		<u>203,619</u>	<u>222,641</u>
Primary government—NYC Capital Projects Fund	Component unit—Water Authority	<u>205,456</u>	<u>252,911</u>
Primary Government—Private Housing Loan Programs	Component unit—HDC	<u>11,063</u>	<u>10,452</u>
Total due from component units		<u>420,138</u>	<u>486,004</u>
Component unit—Water Board	Primary government—General Fund.	<u>23,458</u>	<u>47,141</u>
Total due to component units		<u>23,458</u>	<u>47,141</u>
Total due from/to primary government and component units		<u>443,596</u>	<u>533,145</u>
Total primary government and component units receivable and payable balances		<u>\$4,424,145</u>	<u>\$4,329,654</u>

(1) Net of eliminations within the same fund type.

Note: During both fiscal years 2001 and 2000, the New York City Capital Projects Fund reimbursed the General Fund for expenditures made on its behalf.

E. OTHER INFORMATION

1. Audit Responsibility

In fiscal years 2001 and 2000, respectively, the separately administered organizations included in the financial statements of the City audited by auditors other than KPMG LLP, are the Municipal Assistance Corporation For The City of New York, New York City Housing Authority, New York City Economic Development Corporation, New York City Educational Construction Fund, New York City Industrial Development Agency, New York City Off-Track Betting Corporation, New York City School Construction Authority, Brooklyn Navy Yard Development Corporation, Business Relocation Assistance Corporation, City University Construction Fund, Deferred Compensation Plan, New York City Transitional Finance Authority, TSASC, Inc., and Jay Street Development Corporation.

The following describes the proportion of certain key financial information that is audited by other auditors in fiscal years 2001 and 2000:

	Government-wide				Fund-based			
	Governmental Activities		Component Units		Nonmajor Governmental Funds		Pension and Other Employee Benefit Trust Funds	
	2001	2000	2001	2000	2001	2000	2001	2000
Total assets	5	6	37	36	95	94	4	3
Revenues / additions (deductions) and other financing sources	2	2	36	46	99	99	2	8

2. Subsequent Events

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 TFA by \$2.5 billion to fund the City's costs related to or arising from the September 11 attack, and has 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. 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.

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.

Long-term and Short-term Financing

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

TFA Debt: On July 10, 2001, TFA issued its fiscal 2002 Series A future tax secured bonds of \$150 million. On August 9, 2001, TFA issued its fiscal 2002 Series 1 and 2 of \$600 million bond anticipation notes of which \$400 million is for tax exempt bonds and \$200 million is for taxable bonds to finance various municipal capital purposes. On October 4, 2001, TFA sold \$1.0 billion of New York City recovery notes resulting from the World Trade Center attack of September 11, 2001.

City Debt: To satisfy its seasonal financing needs for fiscal year 2002, on October 23, 2001, the City offered for sale in the public credit market, its fiscal 2002 Series A general obligation revenue anticipation notes of \$1.5 billion.

3. Other Employee Benefit Trust Fund

Deferred Compensation Plan For Employees of The City of New York and Related Agencies and Instrumentalities (DCP)

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (Section 457). DCP is available to certain employees of The City of New York and related agencies and instrumentalities. It permits them to defer a portion of their salary until future years. The compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency (as defined by the Internal Revenue Service).

Section 457 requires amounts maintained under a deferred compensation plan by a state or local government to be held in trust (or custodial account or annuity contract) for the exclusive benefit of plan participants and their beneficiaries. Consequently, DCP is presented as an Other Employee Benefit Trust Fund in the City's financial statements.

Investments are managed by DCP's trustee under one of eight investment options or a combination thereof. The choices of the investment options are made by the participants.

The following is a summary of the increases and decreases of the fund for the calendar years ended December 31, 2000 and 1999:

	<u>2000</u>	<u>1999</u>
	(in thousands)	
Fund assets, December 31	\$4,270,632	\$3,367,261
Deferrals of compensation	423,004	385,691
Earnings and net increase (decrease) in investments'		
fair value	(244,905)	606,148
Payments to eligible participants and beneficiaries	(100,746)	(84,255)
Administrative expenses	(4,303)	(4,213)
Fund assets, December 31	<u>\$4,343,682</u>	<u>\$4,270,632</u>

4. Other Postemployment Benefits

In accordance with collective bargaining agreements, the City provides Other Postemployment Benefits (OPEB) which include basic medical and hospitalization (health care) benefits to eligible retirees and dependents at no cost to 94.5% of the participants. Basic health care premium costs which are partially paid by the remaining participants vary according to the terms of their elected plans. To qualify, retirees must: (i) have worked for the City with at least five years of credited service as a member of an approved pension system (requirement does not apply if retirement is as a result of accidental disability); (ii) have been employed by the City or a City related agency prior to retirement; (iii) have worked regularly for at least twenty hours a week prior to retirement; and (iv) be receiving a pension check from a retirement system maintained by the City or another system approved by the City. The City's OPEB expense is recorded on a pay-as-you-go basis. The City also provides reimbursement to eligible City retirees and their dependents for the Part B Medicare premium. Retirees and their dependents must be enrolled in the Medicare Part B program in order to receive reimbursement. Each eligible retiree and dependent receives a reimbursement of \$32 per month.

The amounts expended for health care benefits for fiscal years 2001 and 2000 are as follows:

	2001		2000	
	Active	Retired	Active	Retired
Number of employees	348,813	185,139	344,456	180,610
Cost of health care (in thousands)*.	\$1,469,818	\$504,589	\$1,395,056	\$457,501

* The amounts reflected are based on average headcounts.

In addition, the City sponsors a supplemental (Superimposed Major Medical) benefit plan for City managerial employees to refund medical and hospital bills that are not reimbursed by the regular health insurance carriers.

The amounts expended for supplemental benefits for fiscal years 2001 and 2000 are as follows:

	2001		2000	
	Active	Retired	Active	Retired
Number of claims.	13,352	9,467	13,891	8,607
Cost of Superimposed Major Medical (in thousands)*	\$ 2,037	\$ 675	\$ 1,828	\$ 589

* Costs are based on reported claims and include a provision for estimated claims incurred but not yet reported.

5. Pension and Other Employee Benefit Trust Funds

Pension Systems

Plan Descriptions

The City sponsors or participates in pension systems providing benefits to its employees. The pension systems function in accordance with existing State statutes and City laws. Each system combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employers and the members.

The majority of City employees are members of one of the following five major actuarial pension systems:

1. New York City Employees' Retirement System (NYCERS), a cost-sharing, multiple-employer public employee retirement system, for employees of the City not covered by one of the other pension systems and employees of certain component units of the City and certain other government units.
2. New York City Teachers' Retirement System—Qualified Pension Plan (TRS), a cost-sharing, multiple-employer public employee retirement system for teachers in the public schools of the City and certain other specified school and college employees.
3. New York City Board of Education Retirement System—Qualified Pension Plan (BERS), a cost-sharing, multiple-employer public employee retirement system, for nonpedagogical employees of the Board of Education and certain employees of the School Construction Authority.
4. New York City Police Department, Subchapter Two Pension Fund (POLICE), a single-employer public employee retirement system, for full-time uniformed employees of the Police Department.
5. New York City Fire Department, Subchapter Two Pension Fund (FIRE), a single-employer public employee retirement system, for full-time uniformed employees of the Fire Department.

The actuarial pension systems provide pension benefits to retired employees based on salary and length of service. In addition, the actuarial pension systems provide automatic cost-of-living adjustments (COLA) and other supplemental pension benefits to certain retirees and beneficiaries. In the event of disability during employment, participants may

receive retirement allowances based on satisfaction of certain service requirements and other provisions. The actuarial pension systems also provide death benefits.

Subject to certain conditions, members become fully vested as to benefits upon the completion of 5 years of service. Except for NYCERS, permanent, full-time employees are generally required to become members of the actuarial pension systems upon employment. Permanent full-time employees who are eligible to participate in NYCERS are required to become members within six months of their permanent employment status but may elect to become members earlier. Other employees who are eligible to participate in NYCERS may become members at their option. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions including accumulated interest less any loans outstanding.

Plan Membership

At June 30, 2000 and 1999, the membership of the actuarial pension systems consisted of:

	2000					
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Retirees and beneficiaries receiving benefits	122,761	50,969	9,407	34,636	16,163	233,936
Terminated vested members not yet receiving benefits	6,034	4,883	717	161	17	11,812
Active members	<u>171,013</u>	<u>91,494</u>	<u>24,720</u>	<u>40,451</u>	<u>11,492</u>	<u>339,170</u>
Total plan membership	<u>299,808</u>	<u>147,346</u>	<u>34,844</u>	<u>75,248</u>	<u>27,672</u>	<u>584,918</u>
	1999					
	<u>NYCERS</u>	<u>TRS</u>	<u>BERS</u>	<u>POLICE</u>	<u>FIRE</u>	<u>TOTAL</u>
Retirees and beneficiaries receiving benefits	121,880	50,525	9,058	34,739	16,146	232,348
Terminated vested members not yet receiving benefits	6,276	3,065	771	85	14	10,211
Active members	<u>169,458</u>	<u>86,682</u>	<u>22,933</u>	<u>39,107</u>	<u>11,477</u>	<u>329,657</u>
Total plan membership	<u>297,614</u>	<u>140,272</u>	<u>32,762</u>	<u>73,931</u>	<u>27,637</u>	<u>572,216</u>

Funding Policy

The City's funding policy for periodic employer contributions to the actuarial pension systems is to provide for actuarially-determined rates that, expressed as percentages of annualized covered payroll, are designed to accumulate sufficient assets to pay benefits when due.

Annual contributions determined by the system's Actuary are funded by the employers in the appropriate fiscal year.

Member contributions are established by law and vary by Plan. In general, Tiers I and II member contribution rates are dependent upon the employee's age at membership and retirement plan election. Except for Transit Authority employees, Tier III and Tier IV members make basic contribution of 3.0% of salary regardless of age at membership. Beginning October 1, 2000, these members are not required to make contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. However, a collective bargaining agreement must take effect before the contribution limitation is implemented for members. Certain Transit Authority Tier III and Tier IV members make basic contribution of 2.0% of salary based upon the enactment of Chapter 10 of the Laws of 2000 and the election of the Transit Authority. Certain members of NYCERS and BERS make additional member contributions.

Annual Pension Costs

The annual required contributions and actual contributions were determined as part of the June 30, 2000 actuarial valuations using current actuarial assumptions and methods including the Frozen Initial Liability Actuarial Cost Method.

The annual pension costs, for the five major actuarial pension systems, for the fiscal years ended June 30, 2001, 2000 and 1999, were as follows:

	<u>2001</u>	<u>2000</u> (in millions)	<u>1999</u>
NYCERS	\$ 100.0	\$ 68.6	\$ 179.1
TRS	572.0	181.8	460.5
BERS	52.1	9.5	45.0
POLICE	543.8	250.0	502.1
FIRE	298.9	182.9	256.1
Total annual pension costs	<u>\$1,566.8</u>	<u>\$692.8</u>	<u>\$1,442.8</u>

For fiscal year 2001, the City's actual contributions of approximately \$1,216.9 million were less than the annual pension costs for the five major actuarial pension systems plus the other pension expenditures. This relationship occurs, primarily, because (1) the City is only one of the participating employers within NYCERS, TRS and BERS and (2) Chapter 125 of the Laws of 2000, which provides eligible retirees and eligible beneficiaries with automatic cost-of-living adjustments (COLA) beginning September 2000, also provides for a phase-in schedule for funding the additional liabilities created by the benefits provided by this law.

Specifically, the Actuary for the five major actuarial pension systems, in calculating the actual contributions in each of the following fiscal years, will include the following percentage of the increase in value for COLA benefits provided.

<u>Phase-In Percent</u>	<u>Fiscal Year</u>
20%	2001
40%	2002
60%	2003
80%	2004
100%	2005 and later

The City's actual contributions for the fiscal years ended June 30, 2001, 2000, and 1999 were as follows:

	<u>2001</u>	<u>2000</u> (in millions)	<u>1999</u>
NYCERS*	\$ 48.2	\$ 35.6	\$ 126.1
TRS*	437.9	178.6	444.6
BERS*	38.0	9.2	43.7
POLICE	413.2	250.0	502.1
FIRE	241.3	182.9	256.1
OTHER**	38.3	39.1	39.3
Total actual contributions	<u>\$1,216.9</u>	<u>\$695.4</u>	<u>\$1,411.9</u>

* NYCERS, TRS and BERS are cost-sharing multiple-employer public employee retirement systems. The City's actual contributions as a percentage of the total actual contributions (calculated on a statutory basis reflecting the phase-in of liabilities required under Chapter 125/00) for all employers participating in NYCERS, TRS, and BERS were:

	<u>2001</u>	<u>2000</u>	<u>1999</u>
NYCERS	48.18%	51.95%	70.41%
TRS	98.42	98.27	96.54
BERS	96.81	96.93	97.26

In accordance with Statement No. 27 of the Government Accounting Standards Board, the City's obligation for NYCERS, TRS, and BERS is fulfilled by paying its portion of the total actual contributions determined.

** Other pension expenditures represent contributions to other actuarial and pay-as-you-go pension systems for certain employees, retirees, and beneficiaries not covered by any of the five major actuarial pension systems. The City also contributes per diem amounts into certain union-administered annuity funds.

Net Pension Obligations

NYCERS, TRS, and BERS are cost-sharing, multiple-employer public employee retirement systems and the City has no net pension obligations to these systems.

POLICE and FIRE are single-employer public employee retirement systems and the City's net pension obligations for fiscal year 2001 are as follows:

	<u>POLICE</u>	<u>FIRE</u> (in millions)	<u>TOTAL</u>
Annual Required Contribution	\$543.8	\$298.9	\$842.7
Interest on Net Pension Obligation	0	0	0
Adjustment to Annual Required Contribution	0	0	0
Annual Pension Cost	<u>\$543.8</u>	<u>\$298.9</u>	<u>\$842.7</u>
Actual Contribution	413.2	241.3	654.5
Increase in Net Pension Obligation	<u>\$130.6</u>	<u>\$ 57.6</u>	<u>\$188.2</u>
Net Pension Obligation Beginning of Year	0	0	0
Net Pension Obligation End of Year	<u>\$130.6</u>	<u>\$ 57.6</u>	<u>\$188.2</u>

The following is a three-year trend information for the City's actuarially-funded, single-employer pension plans:

	<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
		(in millions)		
POLICE	6/30/01	\$543.8	76%	\$130.6
	6/30/00	250.0	100	0
	6/30/99	502.1	100	0
FIRE	6/30/01	298.9	81	57.6
	6/30/00	182.9	100	0
	6/30/99	256.1	100	0

Actuarial Assumptions and Methods

The more significant actuarial assumptions and methods used in the calculations of employer contributions to the actuarial pension systems for the fiscal years ending June 30, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>
<i>Valuation Date</i>	<i>June 30, 2000.</i>	<i>June 30, 1999.</i>
<i>Actuarial Cost Method⁽¹⁾</i>	<i>Frozen Initial Liability.</i>	<i>Frozen Initial Liability.</i>
<i>Amortization Method for Unfunded Actuarial Accrued Liabilities (UAAL)</i>	<i>Increasing dollar for FIRE⁽²⁾. Level dollar for UAAL attributable to NYCERS and TRS Early Retirement Incentive (ERI) 1999⁽³⁾. All outstanding components of UAAL are being amortized over closed periods.</i>	<i>Increasing dollar for FIRE⁽²⁾. All outstanding components of UAAL are being amortized over closed periods.</i>
<i>Remaining Amortization Period</i>	<i>10 years for FIRE⁽²⁾ and 5 years for ERI.</i>	<i>11 years for FIRE⁽²⁾.</i>
<i>Actuarial Asset Valuation Method</i>	<i>Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>	<i>Modified 5-year moving average of Market Value with Market Value Restart as of June 30, 1999.</i>
<i>Investment Rate of Return</i>	<i>8.0% per annum⁽⁴⁾ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>	<i>8.0% per annum⁽⁴⁾ (4.0% per annum for benefits payable under the variable annuity programs of TRS and BERS).</i>

	2001	2000
<i>Post-Retirement Mortality</i>	<i>Tables based on recent experience.</i>	<i>Tables based on recent experience.</i>
<i>Active Service Withdrawal, Death, Disability, Service Retirement</i>	<i>Tables based on recent experience.</i>	<i>Tables based on recent experience.</i>
<i>Salary Increases</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year⁽⁴⁾.</i>	<i>In general, Merit and Promotion Increases plus assumed General Wage Increases of 3.0% per year⁽⁴⁾.</i>
<i>Cost-of-Living Adjustments</i>	<i>1.3% per annum⁽⁴⁾.</i>	<i>Provided by the legislature on an ad-hoc basis.</i>

- (1) Under the Frozen Initial Liability Actuarial Cost Method, the excess of the actuarial present value of projected benefits of the membership as of the valuation date, over the sum of the actuarial value of assets plus present value of UAAL, if any, and present value of future employee contributions is allocated on a level basis over the future earnings of members who are on the payroll as of the valuation date. The Initial Liability has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than \$0. Actuarial gains and losses are reflected in the employer normal contribution rate.
- (2) In conjunction with Chapter 85 of the Laws of 2000, there is an amortization method. However, the initial UAAL of NYCERS, TRS, BERS, and POLICE equal \$0 and no amortization periods are required.
- (3) Laws established UAAL for Early Retirement Incentive Programs to be amortized on a level dollar amount over a period of 5 years.
- (4) Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.

Pursuant to Section 96 of the New York City Charter, a study of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems (NYCRS) is conducted by an independent actuarial firm every two years. The most recent such study was completed in October, 1999 and, based upon the results and recommendations of that study, the Actuary for NYCRS proposed changes in actuarial assumptions and methods to be used for fiscal years beginning on and after July 1, 1999 *i.e.*, fiscal year 2000. Where required, the Boards of Trustees of NYCRS adopted those changes to the actuarial assumptions and methods that required Board approval and the New York State Legislature and Governor enacted Chapter 85 of the Laws of 2000 to provide for those changes to the actuarial assumptions and methods that required legislation, including the investment rate of return assumption of 8.0% per annum.

The Actuarial Asset Valuation Method (AAVM) was changed as of June 30, 1995 and 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1995 and 1999, respectively.

Under this AAVM, the Actuarial Asset Value (AAV) was reset to Market Value *i.e.*, Market Value Restart as of June 30, 1995. Prior to June 30, 1995, this AAVM recognized expected investment returns immediately and phased in investment returns greater or less than expected, *i.e.* Unexpected Investment Returns (UIR) over five years at a rate of 20% per year (or at a cumulative rate of 20%, 40%, 60%, 80%, and 100% over five years).

The AAVM used as of June 30, 1996 is a modified version of that used prior to June 30, 1995.

Under this modified AAVM, any UIR for fiscal years 1997 or later are being phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years). The UIR for fiscal year 1996 was phased into AAV beginning June 30, 1996 at a cumulative rate of 20%, 35%, 45%, 70%, and 100% over five years.

Under the AAVM, any UIR for fiscal year 2000 or later will be phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

For the June 30, 1999 actuarial valuations used to determine fiscal year 2000 employer contributions, the Frozen Initial Liability Actuarial Cost Method (where the Initial Liability has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than \$0) is utilized by the Actuary to calculate the contributions required of the employers.

Chapter 85 of the Laws of 2000 reestablished a UAAL and eliminated the Balance Sheet Liability (BSL) for actuarial purposes as of June 30, 1999. The BSL is the Employer Contributions Receivable-Long-Term (see Note D.5.). The schedules of payment toward the reestablished UAAL provides that the UAAL, if any, be amortized over a period of 11 years beginning fiscal year 2000, where each annual payment after the first annual payment would equal 103% of its preceding annual payment.

Other Employee Benefit Trust Funds

Fund Descriptions

Per enabling State legislation, certain retirees of POLICE, FIRE, and NYCERS are eligible to receive scheduled supplemental benefits from certain Variable Supplements Funds (VSFs).

Under current law, VSFs are not to be construed as constituting pension or retirement system funds. Instead, they provide scheduled supplemental payments, other than pension or retirement system allowances, in accordance with applicable statutory provisions. While a portion of these payments are guaranteed by the City, the Legislature has reserved to itself and the State of New York, the right and power to amend, modify, or repeal the VSFs and the payments they provide.

The New York City Police Department maintains the Police Officers' Variable Supplements Fund (POVSF) and the Police Superior Officers' Variable Supplements Fund (PSOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 2 of the Administrative Code of The City of New York.

1. POVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as police officers of the New York City Police Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.
2. PSOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) holding the rank of sergeant or higher, or detective, of the New York City Police Department, Subchapter One or Subchapter Two, Pension Fund and who retired on or after October 1, 1968.

The New York City Fire Department maintains the Firefighters' Variable Supplements Fund (FFVSF) and the Fire Officers' Variable Supplements Fund (FOVSF). These funds operate pursuant to the provisions of Title 13, Chapter 3 of the Administrative Code of The City of New York.

3. FFVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as firefighters (or wipers) of the New York City Fire Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.
4. FOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) holding the rank of lieutenant or higher and all pilots and marine engineers (uniformed) of the New York City Fire Department, Subchapter One or Subchapter Two Pension Fund and who retired on or after October 1, 1968.

The New York City Employees' Retirement System maintains the Transit Police Officers' Variable Supplements Fund (TPOVSF), the Transit Police Superior Officers' Variable Supplements Fund (TPSOVSF), the Housing Police Officers' Variable Supplements Fund (HPOVSF), the Housing Police Superior Officers' Variable Supplements Fund (HPSOVSF) and the Correction Officers' Variable Supplements Fund (COVSF). These funds operate pursuant to the provisions of Title 13, Chapter 1 of the Administrative Code of The City of New York.

5. TPOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as Transit Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of calculations performed by the Actuary during November 1993. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the TPOVSF whenever the assets of TPOVSF are not sufficient to pay benefits.

6. TPSOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as Transit Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000, became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the TPSOVSF whenever the assets of TPSOVSF are not sufficient to pay benefits.
7. HPOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as Housing Police Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that became guaranteed by the City as a consequence of Chapter 719 of the Laws of 1994. With the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the HPOVSF whenever the assets of HPOVSF are not sufficient to pay benefits.
8. HPSOVSF provides supplemental benefits to retirees who retire for service (with 20 or more years) as Housing Police Superior Officers on or after July 1, 1987. This plan provides for a schedule of defined supplemental benefits that, effective calendar year 2001, as a result of the enactment of Chapter 255 of the Laws of 2000, became guaranteed by the City. In addition, with the passage of Chapter 255 of the Laws of 2000, NYCERS will be required to transfer assets to the HPSOVSF whenever the assets of HPSOVSF are not sufficient to pay benefits.
9. COVSF provides supplemental benefits to retirees who retire for service (with 20 or 25 years of service, depending upon plan) as members of the Uniformed Correction Force on or after July 1, 1999. However, prior to calendar year 2019, when this plan provides for a guaranteed schedule of defined supplemental benefits, total supplemental benefits cannot exceed the assets of the fund.

Funding Policy and Contributions

The Administrative Code of The City of New York provides that POLICE, FIRE, and NYCERS pay to their respective VSFs amounts equal to certain excess earnings on equity investments, generally limited to the unfunded accumulated benefit obligation for each VSF. The excess earnings are defined as the amount by which earnings on equity investments exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies.

For fiscal years 2001 and 2000, no excess earnings on equity investments are estimated to be transferable to the VSFs except to the COVSF for fiscal year 2000 which received approximately \$96.7 million.

Benefit Enhancements

During the Spring 2000 session, the New York State Legislature approved and the Governor signed laws which provide a COLA for retirees (Chapter 125 of the Laws of 2000), additional service credits for certain Tier I and Tier II members, and reduced member contributions for certain Tier III and Tier IV members (Chapter 126 of the Laws of 2000) and several other changes in benefits for various groups. These benefit enhancements are not reflected in the actuarial valuations as of June 30, 1999, but are reflected in the actuarial valuations as of June 30, 2000.

Required Supplementary Information (Unaudited)

The following schedule of funding progress is presented as required supplementary information for the five major actuarial pension systems as of June 30, 2000, 1999, and 1998:

		(1)	(2)	(3)	(4)	(5)	(6)
	Fiscal Year Ending	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)*	Unfunded AAL (UAAL)(C)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
		(A)	(A) & (B)	(2) - (1) (in millions)	(1) ÷ (2)		(3) ÷ (5)
NYCERS	6/30/00	\$42,393.6	\$42,418.7	\$25.1	99.9%	\$7,871.0	0.3%
	6/30/99	40,936.0	40,936.0	0.0	100.0	7,593.2	0.0
	6/30/98	29,334.7	28,805.3	(529.4)	101.8	6,935.2	(7.6)
TRS	6/30/00	36,142.4	36,147.5	5.1	100.0	4,721.5	0.1
	6/30/99	34,626.1	34,626.1	0.0	100.0	4,217.6	0.0
	6/30/98	27,069.8	28,793.1	1,723.3	94.0	3,873.2	44.5
BERS	6/30/00	1,749.4	1,749.4	0.0	100.0	666.0	0.0
	6/30/99	1,705.4	1,705.4	0.0	100.0	592.2	0.0
	6/30/98	1,252.9	1,368.1	115.2	91.6	579.8	19.9
POLICE	6/30/00	17,601.9	17,601.9	0.0	100.0	2,465.7	0.0
	6/30/99	16,877.8	16,877.8	0.0	100.0	2,332.0	0.0
	6/30/98	12,397.8	13,812.5	1,414.7	89.8	2,091.1	67.7
FIRE	6/30/00	6,388.1	6,530.6	142.5	97.8	741.5	19.2
	6/30/99	6,179.8	6,328.7	148.9	97.6	729.7	20.4
	6/30/98	4,537.7	5,926.0	1,388.3	76.6	676.1	205.3

* Frozen Entry Age (1998), Frozen Initial Liability (1999 - 2000).

- (A) Revised economic and noneconomic assumptions due to experience review as of June 30, 1995 and 1999, respectively. The Actuarial Asset Valuation Method (AAVM) was changed as of June 30, 1995 and 1999 to reflect a market basis for investments held by the Plan and was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1995 and 1999, respectively.

Under this AAVM, the Actuarial Asset Value (AAV) was reset to Market Value i.e., Market Value Restart as of June 30, 1995. Prior to June 30, 1995, AAVM recognized expected investment returns immediately and phased in investment returns greater or less than expected i.e., Unexpected Investment Returns (UIR) over five years at a rate of 20% per year (or a cumulative rate of 20%, 40%, 60%, 80%, and 100% over five years).

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Under the AAVM, any UIR for fiscal year 2000 or later will be phased into the AAV beginning the following June 30 at a rate of 10%, 15%, 20%, 25%, and 30% per year (or at a cumulative rate of 10%, 25%, 45%, 70%, and 100% over five years).

- (B) To effectively assess the funding progress of the Plan, it is necessary to compare the actuarial value of assets and the AALs calculated in a manner consistent with the Plan's funding method over a period of time. The AAL is the portion of the actuarial present value of pension plan benefits and expenses which is not provided for by future normal costs and future member contributions.
- (C) The UAAL is the excess of the AAL over the actuarial value of assets. This is the same as unfunded frozen actuarial accrued liability which is not adjusted from one actuarial valuation to the next to reflect actuarial gains and losses.

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