

deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency, as defined by the Internal Revenue Service. IRC 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.

The Plan's net assets increased from \$4,271 million as of December 31, 1999, to \$4,344 million as of December 31, 2000.

**Investment Policy**

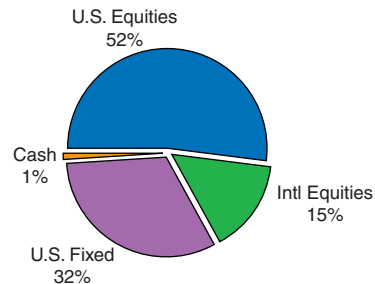
**Investment Policy—  
City Treasury**

Cash temporarily idle during the year is subject to conservative investment restrictions, and was invested in obligations of the U.S. Treasury and U.S. agency securities, commercial paper, medium term notes, and repurchase agreements. The maturities of the investments range from one day to seven years, with an average maturity of 38 days. The City earned an average yield of 5.78%, which compares with the average yield of 5.64% on three month Treasury bills and 5.74% for a representative institutional money market fund. The City earned \$213.8 million in its short-term accounts during fiscal year 2001. The average yield on investments was 6.08% for short-term investments of the pension trust funds. The higher return is attributable to the longer maturities of these investments—an average of 320 days.

**Investment Policy—  
Pension Systems**

Pension assets are invested long-term for the benefit of the plan participants and their beneficiaries. All funds are managed by registered investment advisors, pursuant to applicable law and to guidelines issued by the Comptroller. Collectively the pension funds utilize 17 domestic equity managers, 19 domestic fixed income managers, 16 international equity managers and 7 private equity partnerships. Assets are allocated in accordance with plans adopted periodically by each plan's board of trustees. The percentage in each category is determined based on a study indicating the probable rates of return and levels of risk for various asset allocations. The actual allocation may vary from this policy mix as market values shift and as investments are added or terminated. The chart below shows the actual allocation as of June 30, 2001.

CITY OF NEW YORK  
PENSION SYSTEMS - ASSET ALLOCATION



**As of June 30, 2001  
Summary (in Millions)**

U.S. Equities . . . . .	\$44,387
U.S. Fixed Income . . . . .	27,594
Int'l. Equities . . . . .	12,670
Cash . . . . .	<u>807</u>
Total . . . . .	<u><u>\$85,458</u></u>

The pension trust funds are expected to earn a higher long-term rate of return than short-term cash accounts, due to the long-term nature of their liabilities and the diversification of their investment holdings. For the ten-year period ending June 30, 2001 the plans had annualized returns of 11.87%. Investments in assets that are expected to produce higher returns are also subject to greater volatility—i.e., large differences from average returns—and may also produce negative returns. That was the case in fiscal year 2001, which was a difficult one for investors. Investments in stock markets within and outside the United States have generally lost value. For example, the Russell 3000 Index, a broad measure of the U.S. stock market, lost 13.94% during this period, and the Europe, Australia and Far East (EAFE) Index, the most commonly used measure of performance in developed international markets, lost 23.61%. Less developed international markets lost even more—25.82%. Bonds were the brightest spot in the broad investment universe. The index used by the NYC pension funds for these fixed income investments returned 11.65% for the year, while lower-rated bonds ended the year essentially unchanged in value. The returns of the pension funds have been consistent with these broad market trends, and as a result, the asset allocation followed by the pension funds produced a combined return of negative 8.25%. For the three-year period ending June 30, 2001 the combined return was 4.36%, and for the five-year period it was 10.76%. Our above-average allocation to stocks has also meant that in the short-run our pension fund return has been lower than many public funds, which lost an average of 5.42% for the past year. Our investment costs remain lower than those of other large public funds.

The markets continued to be difficult in the first quarter of fiscal year 2002, in part due to the terrorist attacks on America. The Russell 3000 Index lost 15.6% during the September quarter, and the EAFE international index lost 14.3%. The NYC bond index gained 4.8%. No prediction can be made as to the returns that will be achieved during the next fiscal year.

Additional pension fund activities include economically targeted investments within New York City, such as low- and moderate-income housing. Eight current programs have been allocated over \$1 billion. New investments or commitments this year totaled about \$53 million, bringing the aggregate to \$766 million. The ten-year performance of this program was 9.12% as of June 30, 2001.

### ***Risk Management***

The City is uninsured with respect to risks including, but not limited to, property damage, personal injury, and workers' compensation. Steps have been taken to raise the awareness of City management to the cost of judgments and claims. The Comptroller issues an annual Claims Report which details costs incurred by the City arising out of City agency operations. The Report forces agency heads to pay attention to these claims and to take action specifically aimed at reducing the City's claim exposure.

### ***Awards***

For the twenty-first consecutive year, the City of New York was awarded the prestigious Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association (GFOA). The Certificate signifies that the City's financial reporting meets the highest standards of governmental financial reporting. Approximately only 3,100 of some 87,000 local governmental units received the Certificate; the City is one of a select group of 169 to have received the award for twenty one or more consecutive years.

To be awarded a Certificate of Achievement for Excellence in Financial Reporting, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. The report for fiscal year 2000, again satisfied these requirements and is again presented in accordance with GAAP.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. I believe that this fiscal year 2001 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement for Excellence in Financial Reporting Program's requirements. I am submitting it to the GFOA to be considered for another certificate.

***Acknowledgements***

I want to thank the hundreds of accounting and financial personnel throughout the City who have cooperated with the Comptroller's Office all year, especially in the past four months. I appreciate their efforts, which have continued to be an important factor in our preparation of financial statements. Most of all, I want to thank my staff, Executive Deputy Comptroller Roger Liwer and Assistant Comptroller Warren Ruppel. They are ably supported by Chief Accountant Michael Spitzer, and Deputy Chief Accountant Eileen Moran. I am grateful for their dedicated efforts, as well as those of their staffs, particularly Maria Tavares who coordinated our early implementation of the new financial reporting model. In addition to the entire staff of the Comptroller's Office, I thank the Mayor for his assistance, as well as the Mayor's Office of Management and Budget, the Financial Information Services Agency, and accountants in agencies throughout the City. I also thank the City's independent auditors, KPMG LLP and Watson Rice LLP for their efforts throughout the audit engagement.