THE CITY OF NEW YORK
OFFICE OF THE COMPTROLLER

JOHN C. LIU
COMPTROLLER

October 29, 2012

TO THE PEOPLE OF THE CITY OF NEW YORK

I am pleased to present The City of New York's Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2012. This report, the third issued under my administration, illustrates that The City of New York (City) completed its fiscal year with a General Fund surplus, as determined by Generally Accepted Accounting Principles (GAAP), for the 32nd consecutive year.

The General Fund remains a primary indicator of the financial activity and legal compliance for the City within the financial reporting model promulgated by the Governmental Accounting Standards Board (GASB). The General Fund had revenues and other financing sources in fiscal year 2012 of $66.982 billion and expenditures and other financing uses of $66.977 billion, resulting in a surplus of $5 million. These expenditures and other financing uses include transfers and subsidy payments of $2.462 billion to help eliminate the projected budget gap for fiscal year 2013. Fiscal year expenditures and other financing uses were $1.662 billion more than in fiscal year 2011, an increase of 2%. Excluding the transfers and subsidy payments to eliminate future fiscal year projected gaps, expenditures and other financing uses increased by $2.942 billion or 4.8%. A detailed analysis of the City's fund and government-wide financial statements is provided in Management's Discussion and Analysis (MD&A), which immediately precedes the basic financial statements contained in this report.

ECONOMIC CONDITIONS IN FISCAL YEAR 2012 AND OUTLOOK FOR FISCAL YEAR 2013

The City's Economy in Fiscal year 2012

After surging in fiscal year 2011, economic growth slowed in both the City and the nation in fiscal year 2012. The slowdown resulted primarily from the partisan stalemate in Washington, the inability of the Federal Reserve's stimulating policies to trickle down to businesses and individuals, and a general global slowdown.

The economy had benefited from the unprecedented fiscal and monetary actions undertaken by the President, Congress, and the Federal Reserve in fiscal year 2011, but 2012 lacked those actions. Any effort by the President to pass a jobs program or to change taxes was uncompromisingly blocked by Congress. Even the Federal Reserve's quantitative easing programs became less effective. While the Federal Reserve had helped to recapitalize the banks, the banks did not respond by loosening credit.

There was additional stress on the economy from the European debt crisis and the austerity programs pursued in the Euro Zone. Consumer spending was hampered by high debt burdens, a still-painful unemployment rate, lack of wage growth, and a rise in taxes.

The national economy grew 2% in fiscal year 2012 after growing 2.2% in fiscal year 2011. However, the City's pace of economic growth slowed more than the nation's. The City's economic growth, as measured by the change in real gross City product (GCP), grew 1% in fiscal year 2012, lower than the 3.7% in fiscal year 2011.

NYC private sector jobs reached a record peak of 3,333,800 in June of 2012. Total private jobs increased by 73,400 or 2.3% in fiscal year 2012. That was slightly below the 2.5% rise in fiscal year 2011, but it was higher than the 1.9% achieved nationally.

Except for construction, manufacturing, and government, all sectors experienced positive job growth in fiscal year 2012. Professional and business services had the biggest job gain, 26,600, surpassing the 19,300 in gains experienced in fiscal year 2011. Leisure and hospitality added 17,100 jobs, including 13,200 in restaurants and bars. Trade, transportation, and utility added 12,500 jobs, mainly because of the 12,900 jobs added in wholesale and retail trade. Finance and insurance added 8,800 jobs, the securities industry added 4,800, and banks added 2,400.

Information technology added 2,600 jobs and other services added 2,800 jobs. Education and health services added 5,500 jobs in fiscal year 2012, the lowest gain since 1990 and a third of the 17,200 added in fiscal year 2011. Education actually lost 2,100 jobs, the first decline since fiscal year 2000. Health services added 7,600 jobs, which was the lowest increase since 2008.

The City's unemployment rate rose to 9.4% in fiscal year 2012 from 9% in fiscal year 2011. However, the rise in unemployment could be attributed to more workers joining the labor force who could not find jobs. The labor force increased by 10,500 in fiscal year 2012 after falling by 32,300 in fiscal year 2011. The unemployed increased by 16,400 in fiscal year 2012.

The City's personal income data for fiscal year 2012 is not available since it is published with a two-year lag. However, Personal Income Tax (PIT) revenues, a proxy for personal income, rose 4.8% to $8.56 billion in fiscal year 2012, the highest level since fiscal year 2008. Also, withholding tax revenues, excluding audit, rose 1%.

Similarly, the City's wage data for the first half of fiscal year 2012 showed anemic growth across industries. The City's wage data is not available for the second half of fiscal year 2012. Overall wage rates in the City rose 0.7% in the first half of fiscal year 2012 compared with 1.5% for the nation and 2.9% in the first half of fiscal year 2011. Wages in the securities industry fell 1.5% in the first half of fiscal year 2012 after falling 5.5% in the first half of fiscal year 2011. However, since most bonuses are usually paid in the second half of the fiscal year, first half numbers are usually weaker than second half. Without the securities industry, total wage rate rose 1% in first half of 2012.

The City's wage rate rose less than inflation. New York City metro area inflation rate was 3.3%, almost five times the wage rate growth, in the first half of 2012. Even the core inflation rate, which includes all items less food and energy, was 2.3%, more than three times the growth in wages.

The City's residential market seems to be stabilizing. According to the Prudential Douglas Elliman report, Manhattan residential sales metrics in the last quarter of fiscal year 2012 declined on a year-over-year basis, but slightly improved on a quarter-over-quarter basis. Queens and Brooklyn data showed improvement on both a quarterly and annual basis.

The Outlook for the City's Economy

The Comptroller's Office foresees a weak and halting recovery for both the United States and New York City, with the unemployment rate not returning to acceptable levels for several more years. While the City's economy has shown some signs of resiliency in the fourth quarter of fiscal year 2012, there are still significant downside risks to the economy.

The biggest risk to the economy is the national election. Partisan stalemates in Washington will stall many pieces of critical economic policy. A failure to find consensus on key legislation casts a pall over economic forecasts. An unfortunate but realistic scenario is that a lasting and comprehensive economic recovery, both nationally and in New York City, won't occur until after November.

Another risk is the European debt crisis and its ongoing drag on many New York industries. European leaders and banking officials have engaged in a series of stopgap measures to quell the crisis, but have done very little to address the imbalances that produced the crisis or to stimulate growth in debt-stressed countries. A breakup of the Euro Zone, which now seems less likely than it did earlier this year, would have a deleterious effect on the economies of both the United States and New York City.

Bureau of Fiscal and Budget Studies

The Comptroller's Bureau of Fiscal and Budget Studies (FABS) monitors the City's finances, capital spending, and economy. In analyzing the City's budget and financial plan, FABS focuses on the City's debt capacity and economic outlook. After each budget modification, FABS conducts an in-depth analysis of the Mayor's budget proposal and releases a timely report to the general public that highlights the major findings. The report contains a thorough review of the main components of the City's budget, focusing on important concerns such as the soundness of the City's budgetary and economic assumptions, changes in expense and capital budget priorities, and potential developments affecting the City's fiscal outlook.

The City adopted a fiscal year 2012 budget of $65.91 billion on June 29, 2011. Towards the end of the fiscal year the City received $616 million from the settlements of two federal lawsuits — $466 million from the CityTime settlement and $150 million from the ING Bank settlement. In addition the City reduced its reserve of the disallowances for categorical grants by $180 million and increased its baseline revenue estimate by $118 million. As a result, fiscal year 2012 City-funds revenue estimates in the City's June 2012 Modification were $914 million more than projected in the fiscal year 2011 Adopted Budget. At the same time, the City implemented approximately $464 million of new gap-closing initiatives. These initiatives, together with adjustments to the General Reserve, recognition of prior-year-payable savings, and other expenditure adjustments, reduced fiscal year 2012 City-funds expenditures in the June 2012 Modification by $1.5 billion from the fiscal year 2012 Adopted Budget estimates. As a result, the June 2012 Modification projected a surplus of $2.44 billion. This surplus is presented in the Budget Stabilization Account (BSA) and Discretionary Transfers budget line and will be used to provide budget relief of $2.41 billion in fiscal year 2013 and $31 million in FY 2014.

Modification of the City's current year budget and four-year financial plan occurs quarterly during the fiscal year, which spans July 1 to June 30. Coinciding with the release of certain quarterly modifications, the budget preparation and review process adheres generally to the following cycle: (1) the Mayor's submission of a preliminary budget for the ensuing fiscal year in January; (2) the Mayor's presentation of the Executive Budget to the City Council in April; (3) budget adoption prior to July 1, the beginning of the new fiscal year; and (4) the first quarterly modification to the Adopted Budget which is typically released in November. As part of the budget process, FABS prepares a number of specific reports and letter statements that are mandated by the New York City Charter:

- An annual report to the City Council on the state of the City's economy and finances by December 15th, including evaluation of the City's updated financial plan.
- An annual report on the City's capital debt and obligations including the maximum amount of debt the City may soundly incur in subsequent fiscal years and the indebtedness against the General Obligation debt limit in the current and subsequent three fiscal years as stipulated in the State Constitution.
- A certified statement of debt service that the Comptroller submits to the Mayor and the City Council by March 1. The statement, which is published in The City Record, contains a schedule of the appropriations for debt service for the subsequent fiscal year.
- A letter statement certifying the Adopted Budget Resolutions in collaboration with the Mayor and filed with the City Clerk.

Bureau of Financial Analysis

The Bureau of Financial Analysis (BFA) monitors the daily cash balances in the City's Central Treasury to ensure that the City maintains adequate levels of cash-on-hand throughout the fiscal year. BFA forecasts the daily cash balances for the current fiscal year to determine the need and timing for seasonal borrowing. The Comptroller issues a *Cash Letter* showing these projections with regular updates throughout the year. BFA also prepares the *Quarterly Cash Report,* which provides an overview of the City's cash position and highlights major changes during the quarter. In addition, the Mayor's Office of Management and Budget (OMB) and BFA issue monthly *Financial Plan Statements for The City,* detailing variances between the City's revenue, expenditure, and capital financial plans and year-to-date results, as well as providing a monthly cash forecast. The Central Treasury carried an average daily cash balance of $5.15 billion during fiscal year 2012. For the eighth consecutive year, the City did not need to issue short-term notes.

GENERAL COUNSEL

The General Counsel's Office serves as the advisor to the Comptroller on all legal matters that impact the mission and operations of the Comptroller's Office. In the Comptroller's capacity as trustee on four of the five City pension funds and as investment advisor to all of the City pension funds, the General Counsel's Office provides legal advice and support on a variety of investment issues, proxy solicitation matters, shareholder initiatives, securities litigation, contract and commercial matters, and other pension fund-related issues. In the Comptroller's mandated role of registering all contracts and agreements executed by City agencies and other entities funded by the City treasury pursuant to the New York City Charter, the General Counsel's Office also works closely with the Comptroller's Bureau of Contract Administration in reviewing the solicitation and award of those contracts for legal compliance and eligibility for registration.

In addition, the General Counsel's Office oversees the Comptroller's Bureau of Labor Law in its enforcement and other responsibilities relating to New York State and City prevailing and living wage requirements; and, it also assists the Comptroller's Bureau of Public Finance in structuring and negotiating City bond and note sales. Similarly, legal issues that arise in the context of the Comptroller's audit responsibilities are reviewed by the General Counsel's Office. Furthermore, the General Counsel's Office supervises the Comptroller's Bureau of Law and Adjustment to settle and adjust all claims in favor of or against the City, including personal injury and property damage claims, contract disputes filed against the City, and referral of fraudulent claims to the appropriate District Attorney's Office for prosecution.

In performing its various responsibilities, the General Counsel's Office works with all departments within the Comptroller's Office and with the legal staff of many City agencies, most notably, the Law Department, OMB and the Mayor's Office of Labor Relations. The General Counsel's Office coordinates responses to all Freedom of Information Law requests from the public, and also ensures that the Comptroller's office complies with all applicable workplace laws. The General Counsel's staff also works closely with their counterparts at various public pension funds throughout the United States, with the State Comptroller's Office, and with various federal, state, and local government agencies.

Pension Fund Litigation

The Comptroller's Office and the City pension funds work continually to ensure that the companies in which they invest uphold the highest standards of integrity and business ethics. This work includes pursuing litigation against companies that have engaged in wrongdoing to the detriment of their shareholders. Notable securities litigation developments in fiscal year 2012 included the appointment on December 28, 2011 of the City pension funds as lead plaintiffs in the securities class action pending against Community Health Systems, Inc. in the United States District Court for the Middle District of Tennessee, relating to the company's alleged failure to disclose improper patient admission practices. On June 11, 2012, the City pension funds filed a derivative lawsuit against officers and directors of Wal-Mart Stores, Inc. in Delaware Chancery Court, in connection with their alleged failure to properly investigate and remedy a reported bribery scheme in Mexico; the City pension funds also filed a motion for appointment as lead plaintiff in the case. In a securities class-action lawsuit against Wachovia Corp. in which the City pension funds were lead plaintiff, the United States District Court for the Southern District of New York granted final approval on June 12, 2012 to a $75 million cash settlement of the action, which related to that company's alleged failure to disclose problems in the its issuance of residential mortgage loans.

BUREAU OF LABOR LAW

The Bureau of Labor Law (BLL) determines prevailing wage rates and enforces the prevailing wage laws on public works and building service contracts in New York City. BLL's statutory authority is contained in Sections 220 and 230 of the New York State Labor Law, which provides that the City's chief fiscal officer, the Comptroller of the City of New York, shall be the enforcer of these laws. BLL also enforces the living wage law, set forth in Section 6-109 of the New York City Administrative Code.

In fiscal year 2012, BLL collected $2.9 million in back pay and interest against private contractors who violated the Labor Law. In addition, BLL collected $138 thousand in penalty money against those contractors. During the same fiscal year, BLL opened up 112 new cases and resolved 90 cases.

In a case settled on February 9, 2012, BLL recovered just under $1.1 million for 3 workers and an unspecified amount of "ghost workers" employed by Mascon Restoration, a subcontractor on New York City Housing Preservation and Development (HPD) projects which involved rehabilitating derelict residential buildings seized by the City in tax foreclosure proceedings. BLL's investigation revealed that Mascon's owner had communicated to his employees that the Comptroller's investigators were immigration officials and could get them deported.

Mascon Restoration also paid just over $107,000 in civil penalties to the City of New York and reached a felony plea agreement with the Manhattan District Attorney's Office as a result of a referral from BLL.

BLL continues to work on a number of initiatives, including expanded educational outreach to immigrant workers, contractors, and City agency officials, enhanced field investigations, greater inter-agency cooperation in enforcing the Labor Law, increased communication with leaders in the construction industry, and the incorporation of new technologies into its operations.

BUREAU OF LAW AND ADJUSTMENT

The Bureau of Law & Adjustment (BLA) is responsible for carrying out the Comptroller's Charter-mandated responsibility of adjusting claims for and against the City.

Claims against the City arise out of the vast undertakings of City agencies and the Health and Hospitals Corporation (HHC). The City is self-insured with respect to risks, including, but not limited to, property damage, and personal injury claims. Generally, the cost of claims is paid out of the City's General Fund.

In fiscal year 2012, the City paid $588.6 million in settlements and judgments (tort and non-tort), representing a 3% increase from the prior year. These cases ranged from trip and fall to medical malpractice, police action, property damage, and contract claims.

Medicare Reporting

Section 111 of the Federal Medicare/Medicaid, and State Children's Health Insurance Program (SCHIP) Extension Act of 2007, is an unfunded mandate which requires the City to report to the federal government settlements being paid to Medicare-eligible claimants. The Comptroller's Office is now required to report pre-litigation and no-fault claim activity involving Medicare-eligible claimants to the Centers for Medicare and Medicaid Services ("CMS"). The reporting requirements are extensive and require the gathering and inputting of additional data not previously collected. The failure to comply with Section 111's requirements can result in severe financial penalties.

To comply with the reporting requirements, BLA established policies and procedures to gather and input required data. Modifications to existing technological systems were designed and implemented to collect new data and file the required reports.

The Comptroller's Office has either met or surpassed all CMS filing requirements and is in compliance with all Section 111 reporting requirements.

Property Damage Affirmative Claims Efforts

The Comptroller's Office continues to expand efforts to collect compensation from those who have damaged City property. In fiscal year 2012, the Comptroller's Office collected a record $1.98 million in property damage affirmative claims.

Recovery Program

In fiscal year 2012, the Comptroller's Office collected $9.2 million from claimants who received settlements from the City and who had outstanding obligations to the City for public assistance and child support. This achievement was made possible by partnering with other City agencies, particularly with the Human Resources Administration/Department of Social Services, to improve the automated City systems.

Renegotiation of Hearing Contract Fees

The New York General Municipal Law, §50(h) allows the City to conduct hearings of those who have filed claims against the City in order to investigate their claims prior to the start of any litigation.

BLA renegotiated 50(h) hearing contract fees to benefit from lower costs prior to the renewal of the contracts on July 1, 2012. As a result of our negotiations and the cooperation of our contractors, the City will save at least $1 million in expenses through June 30, 2013.

Son of Sam Law (New York State Executive Law § 632-a)

The Comptroller's Office has been successful working with the New York State Office of Victims Services and the New York State Attorney General's Office to identify settlements made to convicted persons which could be used to compensate crime victims. As of July 2012, the Comptroller's Office paid out $125,000 to such victims.

BUREAU OF PUBLIC FINANCE

In fiscal year 2012, the City and its Blended Component Units issued $10.10 billion of long-term bonds to finance the City's capital needs and to refinance certain outstanding bonds for interest savings. In addition, a New York City Tax Lien Trust, NYCTLT 2011-A, sold $69.748 million bonds to purchase various City tax liens on real property. The New York City Municipal Water Finance Authority (Water Authority) issued $3.51 billion of long-term bonds to finance the City's capital plan and to refinance certain of its outstanding bonds for interest savings.

Throughout fiscal year 2012, the municipal bond market experienced strong supply and demand fundamentals as investors sought the safety of municipal bonds amid news of European fiscal and banking turmoil and the slow global economic recovery. Strong investor demand and historically low interest rates created a favorable environment for the City's bond financings. Conditions were ideal for refinancing outstanding bond issues. The City issued a total of $4.28 billion of refunding bonds through the General Obligation, New York City Transitional Finance Authority (TFA), and Water Authority credits. This accounted for 31% of the total issuance for these credits and generated a total of $523.88 million in present value savings.

The City continued to benefit from the Qualified School Construction Bonds (QSCBs) program that was created by the American Recovery and Reinvestment Act. The City issued $400 million of QSCBs in fiscal year 2012. QSCBs proceeds must be used for constructing, rehabilitating, or repairing public school facilities, or acquiring land for public schools. In fiscal year 2012, the City sold taxable QSCBs through TFA, which will receive a 100% interest subsidy from the federal government.

General Obligation

- As of June 30, 2012, the City's outstanding General Obligation debt totaled $42.29 billion, consisting of $34.62 billion of fixed rate bonds and $7.67 billion of variable rate bonds.
- Of the $4.95 billion in General Obligation bonds issued by the City in fiscal year 2012, a total of $2.72 billion was issued for new money capital purposes and $2.23 billion was issued to refund certain outstanding bonds at lower interest rates. In fiscal year 2012, the City also converted $144.56 million outstanding bonds between interest rate modes.
- The proceeds of the refunding issues were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produced budgetary dissavings of $9.44 million in fiscal year 2012, due to the timing of debt service fund deposits, and budgetary savings of $222.15

million and $69.72 million in fiscal years 2013 and 2014 respectively. The refundings will generate $305.98 million in budgetary savings over the life of the bonds and approximately $277.06 million on a net present value basis.

- During fiscal year 2012, rating agencies Standard & Poor's and Fitch maintained the General Obligation rating at AA. Moody's Investors Service continued to rate General Obligation bonds Aa2.
- During fiscal year 2012, New York City General Obligation variable rate debt traded at the following average interest rates:

	Tax-Exempt	Taxable
Dailies	0.24%	—
Weeklies	0.18%	1.17%
Auction Rate Securities — 7 Day	0.51%	—

Transitional Finance Authority

Future Tax Secured Bonds

In 1997, in order to continue to fund the City's capital commitments in the face of an approaching General Obligation debt limit, the New York State Legislature created the New York City Transitional Finance Authority (TFA). The TFA, a bankruptcy-remote separate legal entity, was initially authorized to issue debt secured by the City's collections of personal income tax and, if necessary, sales tax. These TFA bonds are identified as Future Tax Secured Bonds. The TFA was initially authorized to issue up to $7.5 billion of Future Tax Secured Bonds. In fiscal year 2000, the debt incurring authorization for these bonds was increased by $4 billion to a total of $11.5 billion, and in fiscal year 2006, by $2 billion to a total of $13.5 billion. As of June 30, 2009, TFA had exhausted its debt incurring authorization for these bonds. In July 2009, however, Chapter 182 of the Laws of New York authorized the issuance of additional Future Tax Secured Bonds subject to certain limitations. First, the $13.5 billion debt authorization was changed to be based on outstanding debt and not debt issued. Second, the new authorization provides that the further Future Tax Secured Bonds issued over the $13.5 billion limit, together with the amount of indebtedness contracted by the City, will not exceed the debt limit of the City. As of July 1, 2012, the debt-incurring margin within the debt limit of the City was $24.17 billion on a combined basis for General Obligation and TFA Future Tax Secured Bonds.

In September 2001, the New York State Legislature approved a special TFA authorization of $2.5 billion to fund capital and operating costs relating to or arising from the events of September 11, 2001 (Recovery Bonds). The Legislature also authorized the TFA to issue debt without limit as to principal amount that would be secured solely by state or federal aid received as a result of the disaster. To date, the TFA has issued $2 billion in Recovery Bonds.

- As of June 30, 2012, the TFA Future Tax Secured Bond total debt outstanding, including Recovery Bonds and Subordinate Lien Bonds, totaled approximately $20.96 billion.
- Of the $3.50 billion TFA bonds issued in fiscal year 2012, a total of $2.80 billion was issued for new money capital purposes and $700.00 million was issued to refund certain outstanding bonds at lower interest rates. In fiscal year 2012, the TFA also converted $1.48 billion outstanding bonds between interest rate modes.
- The proceeds of the refundings were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings produced budgetary dissavings of $2.00 million in fiscal year 2012 due to the timing of debt service fund deposits, and budgetary savings of $50.34 million in fiscal year 2013. The refundings will generate $58.77 million in budgetary savings over the life of the bonds and approximately $46.90 million on a net present value basis.
- Of the $3.50 billion of the TFA Future Tax Secured Bonds issued in fiscal year 2012, $300 million were QSCBs that will receive 100 percent interest subsidy from the federal government.
- As of June 30, 2012, the TFA's outstanding variable rate debt, which included $1.37 billion of TFA Recovery Bonds, totaled $3.30 billion. During fiscal year 2012, TFA's variable rate debt traded at the following average interest rates:

	Tax-Exempt	Taxable
Dailies	0.32%	—
Weeklies	0.29%	0.28%
Auction Rate Securities - 7 Day	0.53%	—
Index Floaters	1.02%	—
2-Day Mode	0.18%	—

- In fiscal year 2012, Standard & Poor's and Fitch maintained their respective ratings on both Senior Lien and Subordinate Lien TFA Bonds at AAA. Moody's Investors Service maintained its rating on Senior Lien Bonds at Aaa and Subordinate Lien Bonds at Aa1.

<u>Building Aid Revenue Bonds</u>

In fiscal year 2006, the New York State Legislature authorized the TFA to issue bonds and notes or other obligations in an amount outstanding of up to $9.4 billion to finance a portion of the City's educational facilities capital plan. The legislation further authorized the City to assign to the TFA all or any portion of the state aid payable to the City or its school district pursuant to Section 3602.6 of the New York State Education Law (State Building Aid) as security for the obligations. Pursuant to this authority, the TFA Building Aid Revenue Bond (TFA BARB) credit was created. The City assigned all the State Building Aid to the TFA.

- In fiscal year 2012, the TFA issued $650 million TFA BARBs to finance a portion of the City's educational facilities capital plan. As of June 30, 2012, the TFA BARBs outstanding totaled $5.31 billion.
- Of the $650 million the TFA BARBs bonds issued in fiscal year 2012, $100 million were issued as QSCBs that will receive 100% interest subsidy from the federal government.
- During fiscal year 2012, S&P and Fitch maintained the TFA BARBS rating at AA-, and Moody's maintained the TFA BARBs rating at Aa3.

TSASC, Inc.

TSASC, Inc. (TSASC) is a special purpose, bankruptcy-remote local development corporation created pursuant to the Not-for-Profit Corporation Law of the State of New York. TSASC is authorized to issue bonds to purchase from the City its future right, title, and interest under a Master Settlement Agreement (MSA) between participating cigarette manufacturers and 46 states, including the State of New York.

- TSASC had no financing activity in fiscal year 2012. As of June 30, 2012, TSASC had approximately $1.25 billion of bonds outstanding.
- TSASC bond ratings vary by maturity. As of June 30, 2012, Standard and Poor's rated TSASC bonds maturing June 1, 2022, 2026, 2034 and 2042 BB+, B+, B and B- respectively. Fitch rated TSASC bonds maturing on June 1, 2022 and 2026 BBB+ and BBB- respectively. Fitch rated bonds maturing on June 1, 2034 and 2042 BB. These ratings reflect downgrades by Fitch on July 27, 2011 and Standard and Poor's on January 27, 2012.

Water Finance Authority

The New York City Municipal Water Finance Authority (Water Authority), a bankruptcy-remote separate legal entity established in fiscal year 1986, has the power to issue bonds to finance the renovation and improvement of the City's water and sewer facilities. Capital projects are set forth in the City's capital plan and administered by the City's Department of Environmental Protection (DEP).

- As of June 30, 2012, the amount of long-term, fixed rate Water Authority debt outstanding, including second resolution debt, was $24.43 billion.
- During fiscal year 2012, the Water Authority issued $3.51 billion in revenue bonds. Of this total, $2.15 billion was issued for new money capital purposes and $1.35 billion was issued to refund certain outstanding bonds for interest savings. The proceeds of the refunding issues were placed in irrevocable escrow accounts to pay, when due, principal, interest, and applicable redemption premium, if any, on the refunded bonds. The refundings will generate $271.64 million of savings for rate payers over the life of the bonds and $199.92 million in net present value savings.
- Approximately $2.99 billion Water Authority bonds were issued as fixed rate debt and $525 million were issued as variable rate debt. The Water Authority issued all its debt as Second Resolution bonds.
- As of June 30, 2012, the amount of outstanding Water Authority variable rate debt was $3.44 billion, not including commercial paper. During fiscal year 2012, interest on the Water Authority's variable rate debt traded at the following average interest rates:

	Tax-Exempt
Dailies	0.21%
Weeklies	0.27%

- The Water Authority also maintained its tax-exempt commercial paper program, enabling it to access the short-term market at advantageous interest rates. The Water Authority's commercial paper authorization remained at $800 million in fiscal year 2012. At the end of fiscal year 2012, the Water Authority had $400 million of commercial paper outstanding.

- During fiscal year 2012, Standard & Poor's, Fitch, and Moody's Investors Service maintained their ratings for the Water Authority's General Resolution bonds at AAA, AA+ and Aa1 respectively. Bonds issued under the Water Authority's Second Resolution were rated AA+ by Standard & Poor's and Fitch, and Aa2 by Moody's Investors Service.

Sales Tax Asset Receivable Corporation

In May 2003, New York State statutorily committed $170 million of New York State Sales Tax to the City in each fiscal year from 2004 through 2034. The Sales Tax Asset Receivable Corporation (STAR) was formed to securitize these payments and to use the proceeds to retire existing Municipal Assistance Corporation for The City of New York (MAC) debt, thereby saving the City what was expected to be approximately $500 million per year for fiscal years 2004 through 2008.

- STAR had no financing activity in fiscal year 2012. As of June 30, 2012, STAR has $2.05 billion of debt outstanding.
- The bonds are rated AAA by Standard & Poor's, Aa2 by Moody's Investors Service, and AA by Fitch.

Fiscal Year 2005 Securitization Corporation

In fiscal year 2005, $498.85 million of taxable bonds were issued by the Fiscal Year 2005 Securitization Corporation (FSC), a bankruptcy-remote local development corporation established for the purpose of restructuring an escrow fund that was previously funded with General Obligation bonds proceeds.

- FSC had no financing activity in fiscal year 2012. As of June 30, 2012, FSC had $270.24 million of debt outstanding.
- As of June 30, 2012, the bonds were rated AA+ by Standard and Poor's, Aaa by Moody's and AAA by Fitch. The Standard and Poor's rating reflects a downgrade from AAA to AA+ which occurred on August 8, 2011.

Hudson Yards Infrastructure Corporation

The Hudson Yards Infrastructure Corporation (HYIC) is a local development corporation established to provide financing for infrastructure improvements to facilitate economic development on Manhattan's far West Side. Principal on the bonds is payable from revenues generated by the new development in the Hudson Yards District. To the extent that such revenues are not sufficient to cover interest payments, the City, subject to appropriation, has agreed to make interest support payments to HYIC. The interest support payments do not cover principal repayment of the bonds.

- During fiscal year 2012, HYIC issued $1 billion in revenue bonds. As of June 30, 2012, HYIC had $3 billion bonds outstanding.
- The bonds are rated A by Standard & Poor's, A2 by Moody's Investors Service, and A by Fitch.

New York City Educational Construction Fund

The New York City Educational Construction Fund (ECF) is a public benefit corporation, established to facilitate the construction and improvement of City elementary and secondary school buildings in combination with other compatible lawful uses such as housing, office, or other commercial buildings. The City is required to make rental payments on the school portions of the ECF projects sufficient to make debt service payments as they come due on ECF Bonds, less the revenue received by the ECF from the non-school portions of the ECF projects.

- ECF had no financings in fiscal year 2012. As of June 30, 2012, ECF had $274 million bonds outstanding.
- The bonds are rated AA- by Standard & Poor's and Aa3 by Moody's Investors Service.

Interest Rate Exchange Agreements

To lower borrowing costs over the life of its bonds and to diversify its existing portfolio, the City has from time to time entered into interest rate exchange agreements (swaps) and sold options to enter into swaps at future dates. The City received specific authorization to enter into such agreements under Section 54.90 of the New York State Local Finance Law. No new swaps were initiated in fiscal year 2012. As of June 30, 2012, the outstanding notional amount on the City's various swap agreements was $2.04 billion.

The Water Authority has also entered into interest rate exchange agreements from time to time in order to lower its borrowing costs over the life of its bonds and to diversify its existing portfolio. In fiscal year 2012, the Authority did not initiate any new swaps. As of June 30, 2012, the outstanding notional amount on the Water Authority's various swap agreements was $621 million.

BUREAU OF ASSET MANAGEMENT

Investment Policy

City Treasury

The Comptroller's Office invests the City's cash reserves subject to conservative investment guidelines. City Treasury and other Fiduciary Funds Assets were invested in obligations of the U.S. Treasury, various federal agencies, high-grade commercial paper, medium term notes, and repurchase agreements. The maturities of the investments range from one day to five years with an average of 185 days. Despite the Federal Reserve Bank maintaining a very low interest rate environment, the City earned an average of 0.43%, which compares with the average return of 0.04% on three month Treasury bills, and 0.25% for a representative institutional money market fund index. The City earned $57 million in its short-term accounts during fiscal year 2012. As an additional risk mitigator, the Comptroller's Office in the Fall 2011 reduced its exposure to commercial paper issued by European domiciled banking institutions due to concerns about the Euro and European financial institutions' creditworthiness.

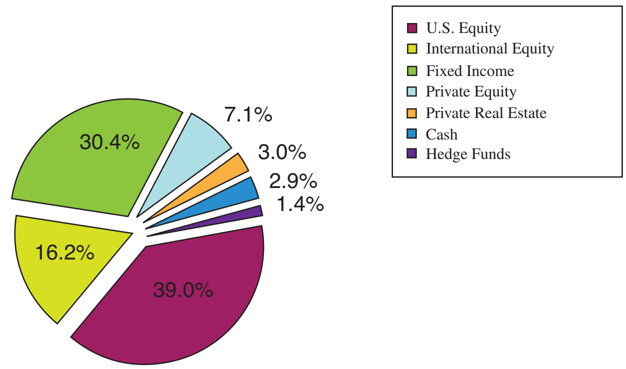
Pension Funds

The Comptroller's Office serves as the financial advisor to the City's pension funds. The City's primary pension funds are Teachers' Retirement System of the City of New York Qualified Pension Plan (TRS), New York City Employees' Retirement System (NYCERS), New York City Police Pension Fund (Police), New York City Fire Pension Fund (Fire), and the New York City Board of Education Retirement System Qualified Pension Plan (BERS). The City pension funds paid benefits totaling $11.5 billion during fiscal year 2012 which were funded from the sale of investments. Employer and employee contributions to the City pension funds were $9.1 billion and $1.0 billion, respectively. As of June 30, 2012, the City pension funds had aggregate investment assets, excluding cash from the settlement of pending purchases and sales, of $122.1 billion representing an increase of $2.1 billion from the June 30, 2011 value of $119.9 billion. During the fiscal year, the market value of the assets ranged from a low of $108.1 billion to a high of $123.8 billion.

The various Boards of Trustees of the City pension funds approved new asset allocations during fiscal year 2012. Assets are managed in accordance with investment policy statements adopted periodically by each of the City pension funds' Board of Trustees in consultation with the Comptroller's Office and each of the City pension funds' independent consultants. The allocation to each asset class is based in part on an analytical study indicating the expected rates of return and levels of risk and correlations for various asset allocations. The actual asset allocation typically varies from this policy mix and as market values shifts due to tactical and rebalancing shifts. In general, the asset allocations shifted from a targeted 70%/30% equity/debt mix to 65%/35% in order to reduce the volatility of the funds and enhance their performance. While varying by specific pension fund, Citywide public equities will be reducing its US Equities bias from 39.1% to 32.1%. It will also shift its international mix from 16.6% and 2.2% Europe/Asia/Far East (EAFE) and emerging markets to 9.9% and 7.0% EAFE and emerging markets. Opportunistic fixed income has been expanded from 1 to 5%. The fixed income program also expanded into bank loans with a 2 to 3% allocation. NYCERS, Police, and Fire have also begun to invest in hedge funds with targets ranging from 4 to 5% and private equity targets were also generally increased from 5.1% to 6.6%. These asset allocation changes are expected to be implemented over the next 2 or 3 years.

Collectively as of June 2012, the City pension funds utilize 33 domestic equity managers, 20 international equity managers, 50 fixed income managers, 174 private equity managers and 30 private real estate managers. The City pension funds' assets are invested for the benefit of the plan participants and their beneficiaries. Except for certain private equity and real estate investments where registration is not required, all Fund assets are managed by registered investment advisors pursuant to guidelines issued by the Comptroller's Office.

The chart below summarizes the City's pension funds' asset allocation (in millions) as of June 30, 2012.



U.S. Equity	$ 47,660
International Equity	19,809
Fixed Income	37,117
Private Equity	8,663
Private Real Estate	3,618
Hedge Funds	1,674
Cash	3,530
Total	$122,071

Due to the long-term nature of its liabilities, the City pension funds' assets are invested with a long-term investment horizon. The City pension funds' returns are compared to the weighted average of several major indices, discussed in the paragraphs below, by policy of which the Russell 3000 Index is the largest component of that average. The returns of the City's pension funds have been consistent with broad market trends. The City's pension funds produced a combined return of 1.37% for fiscal year 2012 compared to 23.23% for fiscal year 2011.

U.S. Equity

For the fiscal year ended June 30, 2012, the broad U.S. equity market, as measured by the Russell 3000 Index, returned 3.84% as compared to 32.37% for the fiscal year ended June 30, 2011. The total U.S. equity return for the City's pension funds for the fiscal year ended on June 30, 2012 was 2.29% as compared to 32.90% for the fiscal year ended June 30, 2011. Overall, approximately 17.1% of the city pension funds invested in U.S. equity are actively managed versus 82.9% passively managed by index managers, which compares to 16.6% and 83.4%, respectively during fiscal year 2011.

International Equity

The City's pension funds' total international equity returned (13.57%) for the fiscal year ended June 30, 2012 as compared to 31.07% on June 30, 2011. For the fiscal year ended June 30, 2012, the Morgan Stanley Capital International Europe/Asia/Far East (MSCI EAFE) Index returned (13.83%) as compared to 30.36% for the fiscal year ended June 30, 2011. New York City developed markets returned (12.80%) for the fiscal year ended June 30, 2012 as compared to 37.98% on June 30, 2011. In fiscal year 2012, EAFE and emerging markets assets as a percent of total fund assets were 10.2% and 6.1%, respectively, versus 14.0% and 4.3% in 2011.

For the fiscal year ended June 30, 2012, the MSCI Emerging Markets Index returned (15.67%) as compared to 28.17% for the fiscal year ended June 30, 2011. The City's emerging markets returned (15.08%) for the fiscal year ended June 30, 2012 as compared to 29.44% on June 30, 2011.

Fixed Income

The Fixed Income markets experienced positive returns during fiscal year 2012. The Citigroup Core+5 Investment Grade Index returned 9.35% for the fiscal year ended June 30, 2012, while the Barclays Aggregate Index returned 7.47%. The Euro Zone Crisis and weak labor market data in the U.S. caused investors to become more risk averse resulting in a general flight to safer, less risky bonds. The total overall U.S. fixed income return for the fiscal year ended June 30, 2012 was 7.19% as compared to 7.39% on June 30, 2011. Investment grade bonds saw positive returns for the year (9.14% for the Citigroup Investment Grade Credit Index, 5.05% for the Citigroup Mortgage Index, and 18.72% for the Citigroup Treasury/Agency +5 Index). Treasury Inflation-Protected

Securities (TIPS) also performed well, returning 11.66% for the fiscal year as measured by the Barclays Capital U.S. TIPS Index. Core +5, which consists of U.S. Government TIPS, investment grade debt, and mortgages, composed 16.3% and 17.8% of total Fixed Income in 2011 vs. 2012, respectively. High yield, TIPS, convertibles, and opportunistic fixed income accounted for 8.1% and 11.3% of fixed income in fiscal 2011 and 2012, respectively. For fiscal year 2012, the high yield sector as measured by the Citigroup BB/B Index returned 8.45% and convertible bonds sector returned (1.68%) as measured by the Bank of America All U.S. Convertibles ex-Mandatory Index. Convertibles saw more volatile returns due to their higher equity correlation. The City's pension funds committed to $2.9 billion of new opportunistic fixed income mandates in FY 2012 as part of the new asset allocation previously discussed. These flexible partnerships generally seek to profit from market dislocations and opportunities ranging from distressed debt, non-performing loans, Commercial Mortgage-Backed securities (CMBs), Residential Mortgage-Backed securities (RMBs), Collateralized Loan Obligations (CLOs) and other fixed income securities in the United States, Europe, and Asia. The partnerships are generally structured as commitments to be funded in the future when these types of opportunities arise.

Private Equity

As of June 30, 2012, the private equity program (PE Program) had approximately $15.0 billion in active commitments to 164 funds/98 managers. This compares to $12.7 billion/106 managers at the end of fiscal year 2011. During fiscal year 2012, the City's pension funds made $3.0 billion of new commitments to 12 funds vs. $265 million to two funds in the prior fiscal year. In addition, the City's pension funds sold 11 funds with $1.0 billion of commitments including $708 million of net asset value during fiscal year 2012 (including transactions that closed on July 2, 2012).

As of March 31, 2012, the Program represents 6.8% of the City's pension funds assets. The City's pension funds $5.5 billion of net invested capital had a market value of approximately $8.6 billion based on general partner estimates as of June 30, 2012, and unfunded capital commitments of $5.3 billion. The private equity portfolio remained diversified with 73.8% allocated to leverage buyouts, 13.2% to venture capital, and 13% to other, which includes co-investments, fund-of-funds, mezzanine, distressed debt, secondary, and other special situation funds.

Starting the first half of 2011 and continuing through 2012, U.S. private equity investment, exit, and fundraising activity improved from the previous years. The credit markets also improved, allowing private equity firms to strengthen capital structures and improve marked-to-market valuations, which positively impacted the Program's returns. The City's pension funds received distributions of $1.6 billion and funded $2.1 billion for new and existing investments as compared to $1.2 billion and $1.6 billion in fiscal 2011, respectively.

The Program generated a 6.4% Internal Rate of Return (IRR) for fiscal year 2012. Since inception, the Program's IRR decreased slightly to 8.9% as of March 31, 2012, compared to 9.2% as of March 31, 2011. The Program continues to strategically seek investment opportunities across most sub-asset classes, while the investment pace increased steadily since the first quarter of 2011.

Real Estate

As of June 30, 2012, the Real Estate Program (RE Program) had approximately $6.2 billion in active commitments to 48 investments/35 managers. This compares to $5 billion and 30 managers at the end of fiscal year 2011. During fiscal year 2012, the City's pension funds made $1.1 billion of new commitments to 5 funds vs. $665 million to 4 funds in the prior fiscal year.

The City's pension funds invest in real estate primarily through commingled funds but are developing the resources to accommodate investment structures that create stronger alignment of interest with its investment partners on a more cost-efficient basis.

As of June 30, 2012, the "RE Program" represents 2.7% of the City's pension funds' assets. The City's pension funds $3.26 billion of net invested capital had a market value of $3.63 billion based on general partner estimates as of June 30, 2012 and unfunded capital commitments of $1.60 billion. The portfolio is well diversified by geographic region and property type with allocations to all the major sectors including residential (20.5%), office (32.6%), industrial (10.3%), retail (14.8%), hotel (12.5%), and other (9.3%).

Despite the unevenness of the economic recovery, real estate fundamentals continue to moderately improve across all property types. Positive outliers include core real estate where competition is near peak levels due to the security inherent in and current income generated by high-quality assets in top locations. The increased availability of low cost senior debt enhances the attractiveness of core ownership, further driving pricing upwards. Distressed real estate opportunities continue to surface, albeit at a slower than forecasted pace, offering buyers value well below replacement pricing. The performance of the portfolio continues to stabilize from the credit crisis as evidenced by a one-year net return of 12.9% TWR as compared to its benchmark (NCREIF-ODCE) of 11.3%, reflecting improved market liquidity and strengthening real estate fundamentals.

The RE Program generated an IRR of 12.9% for fiscal year 2012. Since inception, the net return increased to 2.8% from (0.3%) year over year from June 30, 2011 to June 30, 2012. The RE Program continues to identify tactical opportunities and present best-in-class investments.

Hedge Funds

Three of the five New York City pension funds commenced direct hedge fund investments in fiscal year 2012, investing $1.7 billion in five funds. These direct investments are in addition to $450 million previously invested in a fund of funds program commenced at the end of fiscal year 2011. For the fiscal year ended June 30, 2012, the Hedge Fund Research Inc. (HFRI) Fund of Hedge Funds index returned (4.44%). The total Hedge Fund (HF) return for the City pension funds for the fiscal year ended on June 30, 2012 was (2.35%). Overall, approximately 71% of the City pension funds invested in HFs are in direct hedge fund investments versus 29% managed in fund of fund program.

Economically Targeted Investments

In April of 2012, the **Bureau of Economic Development** was established with the mission of leveraging the authority and responsibilities of the Office of the Comptroller to create new and sustainable opportunities for the economic growth and development of the City of New York and its people. The Bureau is responsible for the administration of the Economically Targeted Investment (ETI) program

Economically Targeted Investments (ETIs) are prudent investments that provide risk-adjusted market rates-of-return to the City pension funds. ETIs seek to fill capital gaps and provide collateral benefits to the five boroughs of the City, such as affordable housing and job creation. The City pension funds have successfully invested in ETIs since 1981. ETIs have an allocation of 2% of the total assets of the City pension funds and consists of mortgages and direct real estate investments . The current market value of the ETI Program is $1.25 billion (1% of total assets) with an additional $600 million committed to specific ETI investments.

As of June 30, 2012, the ten-year overall performance of ETIs was 6.31% net of fees as compared to the benchmark performance of 5.63% (Barclays Capital U.S. Aggregate Bond Index).

During fiscal year 2012, the ETI program made cumulative investments of $60 million in individual multifamily projects through its Public/Private Apartment Rehabilitation (PPAR) program. These investments financed the rehabilitation or new construction of 1,178 units of affordable housing. The PPAR program also issued additional commitments for $104 million for new loans financing 3,172 units. The City pension funds' commitments to provide permanent financing insures that construction will go forward on these projects. Since the inception of the PPAR program in 1982, more than $757 million has been invested.

The City pension funds increased their investment in the AFL-CIO Housing Investment Trust (HIT) by $57 million. The June 30, 2012 cumulative market value of HIT investments was $595 million. Since 2002, the HIT has invested $653 million to preserve over 24,000 units of the City's affordable housing stock, which generated jobs and provided for the long-term affordability of the units.

ETI investments also include the City pension funds' $100 million separate account managed by Access Capital Strategies (Access), a division of Royal Bank of Canada. The Access portfolio invests in mortgage-backed securities comprised of loans issued to homeowners making 200% and below Area Medium Income that have been screened for compliance with safe lending practices.

Corporate Governance

The Comptroller's Office, as investment adviser to the City's five pension funds, is responsible for voting the City pension funds' domestic proxies and developing and implementing the City pension funds' shareowner initiatives. Consistent with the fiduciary obligations of the City pension funds' boards of trustees, the proxy voting and shareowner initiatives programs actively promote sustainable business practices at portfolio companies in order to enhance the long-term value of the City pension funds' investments and reduce potential risks.

Proxy Voting

During fiscal year 2012, the Comptroller's Office voted at 3,359 annual and special meetings for portfolio companies. Of all votes cast, 76.1% were for the management-recommended vote. Major proxy voting issues included: (a) management proposals to elect directors, ratify auditors, approve executive compensation, and approve mergers and acquisitions; and (b) shareowner proposals on a wide range of environmental, social and governance (ESG) policies and practices.

In accordance with the City pension funds' proxy voting guidelines, the Comptroller's Office generally votes in favor of proposals to strengthen board of director independence and accountability, align executive pay with long-term performance, and promote sustainable and responsible business practices. During fiscal 2012, these included, but were not limited to, shareowner proposals calling on companies to adopt majority voting in director elections, repeal a classified board of directors, disclose corporate political and lobbying spending, prepare an annual sustainability report, enhance disclosure relating to hydraulic fracturing and other environmental risks, and uphold basic human and worker rights.

Shareowner Initiatives

In addition to proxy voting, the City pension funds also proactively advance corporate governance and corporate social and environmental responsibility reforms at select companies in which the City pension funds are shareowners. The City pension funds are among the most active institutional investors in terms of filing shareowner proposals and also engage with portfolio companies through letters and dialogue, often in collaboration with other institutional investors. Finally, in certain circumstances of egregious board failure, the City pension funds may publicly oppose the election of directors by leading "vote no" campaigns or publicly supporting "vote no" efforts led by other shareowners.

The Comptroller's Office, on behalf of the City pension funds, submitted 56 shareowner proposals to a total of 55 portfolio companies with annual meetings scheduled during fiscal 2012. The Comptroller's Office withdrew one additional proposal submitted during fiscal 2012 for a fiscal 2013 annual meeting after the company agreed to adopt the requested reform. The proposals requested that the companies adopt various environmental, social or governance reforms.

Corporate governance proposals requested that companies: grant substantial long-term shareowners the right to nominate directors using the corporate proxy statement; conduct an independent review of their mortgage and foreclosure practices; adopt majority voting in director elections; declassify the board of directors to allow all directors to stand for election annually; or adopt a policy requiring an independent board chairman.

Additional corporate governance proposals sought to curb excessive executive compensation and better align executive compensation with long-term, sustainable performance. These included proposals requesting that companies: adopt stronger "clawback" policies enabling them to recover compensation from executives who take excessive risks or engage in improper conduct; adopt multiple performance metrics in setting executive compensation; or limit change-in-control payments to 2.99 times five-year average total compensation.

Corporate social and environmental responsibility proposals requested that companies: disclose data on the race and gender of their workforce across major job categories, including senior management; prohibit employment discrimination based on sexual orientation and gender identity; disclose corporate political spending; disclose steps they are taking to address mounting public and government concern with the hidden, high costs they impose on households by distributing grossly inefficient television set-top boxes; adopt quantitative goals for greenhouse gas emissions reductions; prepare a sustainability report disclosing performance on relevant environmental and social risks and practices, including labor and human rights; or require suppliers to prepare a sustainability report.

The Comptroller's Office withdrew 23 proposals after the companies agreed to adopt the requested reform, either in whole or in part, or took steps to address the City pension funds' underlying concerns. An additional firm agreed to adopt a requested reform in response to a written request from the Comptroller, negating the need to submit a shareowner proposal. Seven of the proposals that went to a vote received majority support.

Among the more significant outcomes:

- Goldman Sachs, JP Morgan, and Morgan Stanley agreed to clarify that their clawback policies authorize the board of directors to recover compensation not only from executives who take excessive risks or engage in improper conduct that causes significant financial or reputational harm to the firm, but also from their supervisors. The objective of the policies is to both ensure financial accountability and strengthen the incentive for senior management to set a proper tone at the top with respect to ethical conduct and legal and regulatory compliance. Significantly the three banks are among the eight U.S. financial institutions deemed to be Globally Systemically Important Financial Institutions in November 2011 by the Financial Stability Board of the Group of 20 industrial and developing nations.
- Goldman Sachs and MetLife agreed to provide annual disclosure detailing the composition of their workforce by race and gender across major job categories, including senior management.
- Apple, Dell, Hewlett Packard, Intel, and Microsoft agreed to require or encourage key suppliers to prepare annual sustainability reports using Global Reporting Initiative protocols, establishing an important precedent for U.S. Companies. Companies' supply chains can be especially vulnerable to labor, human rights, and environmental abuses.

- Two proposals, at Chesapeake Energy and Nabors Industries, seeking shareowner access to the corporate proxy to nominate directors, both received majority shareowner support. The funds submitted the two "proxy access" proposals in response to longstanding concerns with each board's independence from management and history of approving excessive CEO compensation and ignoring shareowner concerns (the funds subsequently took additional actions against Chesapeake Energy's board of directors, as detailed below).

In addition to the above, three companies adopted majority voting for director elections; two companies adopted policies prohibiting discrimination based on gender identity and sexual orientation; one company agreed to disclose all of its direct and indirect political spending; one company agreed to take steps to declassify its board of directors; one company agreed to eliminate tax gross ups with its change-in-control payments; and one company agreed to adopt multiple performance metrics in setting executive compensation.

Finally, the Pension funds led "vote no" campaigns opposing the election of directors at two companies, Wal-Mart Stores and Chesapeake Energy, with particularly acute governance failures and a history of unresponsiveness to shareowners. In each case, I detailed the funds' concerns with the individual directors in letters to the companies' shareowners and the Comptroller's Office conducted direct outreach to major institutional shareowners.

- At Wal-Mart, the funds opposed five directors-including the Chairman, CEO, former CEO, and two audit committee members-following an April 2012 report of a cover-up in 2005 and 2006 of alleged widespread bribery in Mexico, which occurred at the same time the audit committee ignored repeated demands from an investor group led by the Comptroller's Office for a comprehensive, independent compliance review. Excluding the Walton family, which controls almost 50 percent of the company, unaffiliated shareowners cast about 31 percent to 38 percent of their votes against the directors, an unprecedented opposition vote at the company that signaled significant investor concerns with the board.
- At Chesapeake Energy, the funds opposed the only two directors standing for election, both of whom sat on the audit committee, following revelations in April 2012 of substantial, previously unreported related-party transactions involving the CEO that the board had neither reviewed nor approved. The revelations exacerbated existing concerns with the board and fueled a 27 percent decline in the company's share price in one month. The City pension funds' campaign added to pressure from two investment firms that ultimately secured four seats on the board. Despite positive last-minute governance and board changes, shareowners cast 73 percent and 74 percent of their votes, respectively, against directors Richard Davidson and V. Burns Hargis, the highest opposition vote against directors in an uncontested election at an S&P 500 company. The board accepted Mr. Davidson's resignation but rejected Mr. Hargis's resignation.

Additional information on the City pension funds' shareowner initiatives is included in the 2012 Postseason Report available on the Comptroller's website.

BUREAU OF AUDIT

The City Charter requires that the Comptroller's Office perform an audit of some aspect of every City agency at least once every four years. The City Charter also requires that these audits be conducted in accordance with generally accepted government auditing standards promulgated by the Comptroller General of the United States.

In Fiscal Year 2012, the Bureau of Audit issued 92 audits and special reports. Many of these audits focused on the effectiveness and service quality of City programs. Others focused on financial issues, identifying approximately $304.3 million in actual and potential revenue and savings. Reviews of claims filed against the City identified another $25.6 million in cost avoidance.

Below is a brief synopsis of some of the audits that had a significant impact on City finances and quality of service delivery.

Revenue and Cost Savings

- An audit of the Senior Citizen Rent Increase Exemption (SCRIE) program examined the adequacy of controls in place to ensure that property tax abatement credits (TAC) are appropriately issued to landlords by the Department of Finance (DOF). The SCRIE program provides an exemption to eligible tenants from future rent increases and offers the landlords a corresponding credit on their property taxes. In return for the exemptions, the City pays property owners an amount equal to the difference between the last amount of rent paid by the tenant prior to applying for SCRIE and the current legal regulated rent. This amount is paid in the form of TACs issued on behalf of the tenant to the landlord against the landlord's real estate taxes six months in advance.

  The audit found that DOF has inadequate controls to ensure that all TACs are appropriately issued to landlords. As a consequence of the weak internal controls, during the audit review period (July 1, 2009-November 30, 2010), DOF issued more than $11.8 million in TACs on behalf of 3,801 tenants who were reported as deceased as early as January 2000 and had TACs issued on their behalf. DOF recouped only $3.3 million of the TACs, leaving $8.5 million that still needs to be investigated. As a result of these inadequate controls, the auditors could not determine how much of the $171.2 million in TACs issued during the audit's 17-month scope period was made on behalf of eligible tenants.

- The New York City Industrial Development Agency (NYCIDA) was established in 1974 to promote, retain, and develop an economically sound commerce and industry base to advance job opportunities in the City and its five boroughs. The organization and powers of NYCIDA are governed by the General Municipal Law (GML) of New York State. Key provisions of the GML allow NYCIDA to establish its own Uniform Tax Exemption Policy (UTEP) guidelines to make project approval or denial decisions. In addition, NYCIDA has the ability to create payments in lieu of taxes (PILOT) and grant Mortgage Recording Tax (MRT) and Sales Tax exemptions. An audit determined whether: NYCIDA appropriately evaluated, approved, and monitored project performance; accurately determined and reported the benefit and incentive amounts such as the project employment data and other benefits due to the City; and complied with the provisions of the GML and the reporting requirements established under the Public Authority Accountability Act.

  The audit concluded that NYCIDA did not follow its own internal procedures. If followed, these procedures would have helped NYCIDA to properly monitor project compliance to determine whether companies reported accurate employment data and Sales Tax exemption benefits and whether the projects were operating as intended. As a result, NYCIDA could not be assured that certain significant projects have fulfilled their promises and were entitled to retain their City benefits.

  Further, NYCIDA did not initiate the benefits recapture process and ensure that projects were terminated in a timely manner and according to provisions of the project agreements. As a result, the City did not receive the anticipated return on the benefits it invested in the projects and continued to provide benefits to projects in default. Based on our review of NYCIDA's financial records and related project files, we estimate that at least $16.2 million in unclaimed recapture benefits involving five companies was lost.

- An audit determined whether the New York City Economic Development Corporation (NYCEDC) collects and disburses public purpose funds in accordance with its trustee custodial responsibilities under the fund agreements and returns any unused fund balances due the City. Public purpose funds comprise restricted assets designated by NYCEDC in connection with project agreements among various project developers, the City, and NYCEDC. Under these agreements, NYCEDC acts as trustee for the City regarding amounts received from the developers of certain projects in the City. NYCEDC's custodial duties regarding the public purpose funds are also governed in part by NYCEDC's Master and Maritime Contracts with the City.

  The audit found that NYCEDC has not been able to disburse $9.4 million in public purpose funds created from developer contributions and maintained by NYCEDC as a trustee on behalf of the City or the project developers. As a significant amount of time has elapsed since these funds were created, the audit recommended that NYCEDC should reconsider whether the original purposes of the funds are still viable or whether the $9.4 million funding should be remitted to the City because the funds represent City tax savings and other City benefits.

- An audit of the Emergency Communications Transformation Program (ECTP) examined whether the expenditures of Hewlett-Packard Company (HP), the contractor, were reasonable and justified and the scope of services was met. ECTP was initiated in 2004 to transform and consolidate the City's 911 Emergency Dispatch System. The contract includes, but is not limited to, development of two Public Safety Answering Center (PSAC) facilities and a unified Computer-Aided Dispatch (CAD) system. The ECTP system integration contract has a not-to-exceed amount of $380 million over a five-year term with two additional options to extend the contract for an additional year through June 30, 2012. On January 6, 2012, the projected contract expenditures were $346 million, and as of April 17, 2012, the City expended approximately $309 million of the $346 million.

  The auditors found that New York City's Department of Information Technology and Telecommunications (DoITT) was dissatisfied with HP's performance during the first three years of the contract (from 2005 to 2008). Yet DoITT did not take action to recoup any portion of the $113 million spent during this period. A review of a sample of HP's invoices and supporting documentation found that HP did not ensure that: the consultants were qualified for their titles; billings of consultants' hours were appropriate and accurate; the timesheets submitted reflected actual work performed; and the timesheets were approved in a timely manner. The auditors calculated based on the sample alone that total billing errors resulted in overpayments to HP of at least $2.5 million. However, due to the unreliable billing documents submitted by HP and the lengthy approval process, the audit questions the validity of the entire $106 million HP billed (as of December 31, 2010) for its time and material services. Therefore, DoITT could potentially seek to recoup $163 million ($113 million paid to HP for unsatisfactory performance from April 2005 to April 2008 plus $50 million of the $106 million in questionable consultant billings paid for time and material services after 2008).

- An audit of the New York City Housing Authority (NYCHA) determined whether contractors participating in the construction management/build program (CM/Build) are being adequately monitored. NYCHA's Five-Year Capital Plan for Fiscal Years 2011-2015 provides for $2.4 billion for infrastructure, modernization, and other systemic improvements to NYCHA housing. To complete some of these improvements, NYCHA implemented the CM/Build program in 2003 "to improve the quality of construction projects and ensure that they are administered effectively and efficiently." Under the current phase of the program, NYCHA awarded CM/Build requirement contracts totaling $425 million to 10 construction management companies. NYCHA uses a computerized project management system, Primavera, to track critical project information such as budgets, project schedules, project updates, critical issues, requests-for-information, change orders, and payments to ensure that projects are completed on time.

The audit found that NYCHA's senior officials are hampered in their ability to adequately oversee contractors in the CM/Build program because of problems with obtaining accurate and complete information from Primavera. In addition, NYCHA does not have a process for tracking and identifying those change orders, and that tardy resolution led to delays in completing construction and closing out project work. As a result, senior officials were unable to respond promptly to delays in completing construction and closing out projects. NYCHA properly assigned in-house staff to the project locations to oversee the CM/Build program. However, it could save $1.5 million annually if the in-house staff were assigned to project locations on a part-time basis. Moreover, delays in completing and closing out projects required NYCHA to expend an additional $6.1 million to pay for construction management personnel.

- The DOF is responsible for collecting City revenues efficiently and encouraging compliance with City tax and other revenue laws. One such revenue DOF collects is the Hotel Room Occupancy tax (HROTX), which is imposed upon the occupancy of a hotel room in the City of New York. DOF collected $369.1 million in HROTX revenue for Fiscal Year 2010. This audit determined whether DOF had adequate controls over its tax collection practices to ensure that hotel operators and room remarketers collect and pay the Hotel Room Occupancy tax due to the City as required.

  The audit found that DOF had significant internal control weaknesses regarding its HROTX collection practices that, if corrected, could increase revenue. DOF did not maintain a complete list of all hotels that are required and authorized to collect the HROTX. Also, DOF did not ensure that all hotel operators and room remarketers commencing business or opening new hotels file a Certificate of Registration within three days after the commencement or opening. We noted several internal control weaknesses regarding DOF's HROTX collection practices, resulting in 92 hotels owing $8.9 million in HROTX.

- In 1985, HPD received permission from the New York City Department of Finance (DOF) to establish a bank account in order to make loans available to homeowners through the 8A Loan Program which was originally federally funded. Currently, the Article 8A Loan Program provides rehabilitation loans to correct substandard or unsanitary conditions and to prolong the useful life of multiple dwellings in New York City. As of October 2010, HPD maintained $16.9 million in the 8A Section 17 account.

  HPD did not properly administer its 8A Section 17 account. As of October 2010, HPD maintained nearly $17 million in funds administered under various loan programs that were not used and should have been returned to the City unrestricted. Previously, these funds would revert directly back to the City and not the 8A Section 17 account. However, since 2007, these funds have been redirected to this account. The accumulation of funds allocated to this account may affect the budget and finances of the City because they are not available for other purposes. Furthermore, an undetermined amount of these funds do not comply with the original purpose of the account because they belong to other programs outside of the 8A loan program and are not federal funds.

Asset Management and Internal Controls

- This audit determined the adequacy of The New York City Department of Education (DOE) and School Construction Authority (SCA) controls over the collection, analysis, and reporting of school capacity information to ensure the accuracy and reliability of the utilization data reported in the Enrollment-Capacity-Utilization Report, also referred to as the Blue Book. The Blue Book is issued annually and is intended to identify "the maximum physical capacity of all DOE buildings to serve students, compared to actual enrollments, which together allow for a standard framework with which to assess the utilization" of DOE's schools.

  The audit concluded that controls over the collection and reporting of school capacity data in the Blue Book need to be improved. It identified some deficiencies in the data collection process leading up to the reporting of capacity figures and utilization rates in the Blue Book. Principals have not been adequately informed by DOE and SCA about the importance of their roles in the collection of school capacity data. In addition, SCA needs to improve its monitoring of the principals' reporting of this data. As a result of these weaknesses, the reliability of the school capacity and utilization information reported in the Blue Book is diminished.

- An audit determined the adequacy of the DOE efforts over the planning and allocation of funds to its DOE-contracted community-based organizations (CBOs) for the Universal Prekindergarten Program (UPK).

UPK is a voluntary New York State-funded program designed to provide comprehensive early childhood education at no charge to parents who choose to enroll their eligible children who are four years of age. The program operates in all five boroughs in public and non-public school settings through CBOs. In Fiscal Year 2010, DOE had 398 contracts with 368 CBOs providing UPK services to approximately 18,500 children at 448 separate sites. In addition, UPK services were provided to another 15,500 students at 444 The New York City Administration for Children's Services (ACS) CBO sites through an ACS/DOE Memorandum of Understanding (MOU) agreement, while an additional 22,700 students received UPK services at 549 public schools. For Fiscal Year 2010, the State's UPK appropriation to the City totaled \$248 million, of which \$99 million was spent on DOE UPK programs by the public schools, \$65 million by DOE-contracted CBOs, and \$51 million by ACS. Additional general programmatic expenditures totaled almost \$4 million.

The audit found that DOE has not adequately planned for and distributed all the funds appropriated by the State for the pre-kindergarten program. Further, the audit found that \$29 million, which could potentially have been used to place 8,000 additional children in a UPK program, was unused by DOE and returned to the State in Fiscal Year 2010. During Fiscal Years 2007 to 2010, \$133 million in State funds went unused by DOE for the UPK program.

- An audit was conducted to determine the adequacy of the DOE payment and contract management controls concerning the provision of food distribution services. Through a competitive bidding process, DOE entered into contracts with four food distribution vendors to procure and distribute about 550 food items to City schools. The contracts for Manhattan, Brooklyn, Queens, and Staten Island began on May 1, 2006, and have been renewed through August 31, 2012. The combined contract total is \$278.2 million for this period. The contract for the Bronx started on August 4, 2004, and has been renewed through August 31, 2012, for a total amount of \$75.2 million. Payments to food distributors for deliveries to schools in Fiscal Year 2010 totaled \$113.9 million.

  The audit revealed that DOE's payment and contract management controls over its procurement of food distribution services were insufficient. The audit identified weaknesses in the food delivery payment process and in the monitoring of food distributor performance.

  The weak controls resulted in unsupported payments to distributors, failure to receive prompt-payment discounts, and overpayments for donated food. An analysis of payments made to food distributors in Fiscal Year 2010 identified a total of about \$410,000 that should be recouped. (This finding is the result of the focused testing conducted for this audit and does not suggest that the remaining amount that DOE paid for food distribution services in Fiscal Year 2010 is fully supported and accurate.) In addition, DOE is not closely monitoring the prices charged by manufacturers/suppliers for the food items they provide to the distributors. As a result, DOE is hindered in identifying opportunities to negotiate with the distributors for lower food prices.

- The DOF is responsible for billing and collecting City property tax revenues, determining property assessed value for tax purposes, and maintaining accurate property records. As required by the Real Property Tax Law, DOF assigns every property to one of four tax classes. Tax Class 2 property, the focus of this audit, consists of certain residential properties, including multi-family cooperatives and condominiums. Each year, DOF determines the market value of the properties, from which the taxable value is calculated. For Tax Class 2 residential properties, market value is based on current value of the projected future income stream from the building. To calculate the market values of the properties, DOF uses two different methods. These methods are Gross Income Multiplier (GIM) and Net Income Capitalization. DOF uses mass appraisal techniques to determine market value for assessment purposes. For initial valuation of its residential properties, DOF uses a Computer Assisted Mass Appraisal System (CAMA 2). CAMA 2 collects property-related information, selects comparable properties to be used to value cooperatives and condominiums, and performs valuation calculations. This audit determined whether DOF properly calculated Tax Class 2 property values.

  DOF's changes in property valuation methodology and the use of inconsistent criteria to determine the market values of Class 2 residential properties resulted in large fluctuations in market values that, in turn, significantly affected some properties' tax liability in Fiscal Year 2011/2012. Before Fiscal Year 2008/2009, DOF valued Class 2 properties using the Net Income Capitalization methodology. In Fiscal Year 2008/2009, DOF changed this methodology to the GIM method. In Fiscal Year 2011/2012, DOF reverted to the Net Income Capitalization method. Although both methods are permissible, DOF did not provide a basis for this latest change in methodology. DOF's change in valuation methodology resulted in significant market fluctuations for Class 2 properties with 11 or more units. Further, changes in the criteria DOF used to develop market values for Class 2 properties with less than 11 units in Fiscal Year 2011/2012 also significantly affected the calculated market value of these properties.

- This audit determined whether The New York City Human Resources Administration (HRA) had adequate controls relating to the awarding of contracts on a non-competitive or limited-competition basis and whether HRA evaluated contractor performance before awarding such contracts. Renewals and negotiated acquisition extensions are methods used to continue existing contracts for limited periods of time. Renewals and extensions are considered to be awarded on a non-competitive basis. Negotiated acquisitions are used in time-sensitive situations in which vendors must be retained quickly or when there are only a few vendors available to provide the goods and services needed. Since the agency need not negotiate with each qualified vendor, negotiated acquisition contracts are considered to be awarded on a limited-competition basis. According to the New York City Financial Management System (FMS), 302 HRA-related contracts valued at approximately $618 million were awarded in Fiscal Year 2010.

The audit concluded that HRA had insufficient controls relating to the awarding of contracts on a non-competitive or limited-competition basis. Specifically, HRA: did not have an effective central tracking system for monitoring contract expirations to ensure that new Requests For Proposals (RFPs) were issued in a timely manner; did not ensure the use of contract extensions was limited; did not always conduct performance evaluations of vendors prior to contract renewals or extensions; did not publish notices to renew contracts in accordance with The New York City Procurement Policy Board (PPB) Rules; and lacked its own written procurement policies and procedures.

- An audit of the New York City Department of Environmental Protection (DEP) determined whether it adequately monitors prime contractors' compliance with Local Law 129 (LL129) with regard to monitoring their use of Minority- and Women-owned Business Enterprises (M/WBEs). LL129 was enacted to address significant disparities in contracting opportunities afforded to certain M/WBE groups in the City procurement process. LL129 establishes M/WBE certification requirements, contract-participation goals, technical assistance, administrative, and enforcement procedures to promote the use of M/WBE firms for City contracting and subcontracting procurement opportunities under $1 million.

  The auditors identified weaknesses in DEP's monitoring activities that limit the agency's ability to effectively assess its prime contractors' overall compliance in attaining their M/WBE subcontracting goals. DEP's primary monitoring activities included performing job site visits, requiring that its prime contractors submit certain periodic reports, and performing reconciliation near the end of the contract term. In mid-2011, DEP implemented a new procedure requiring a spot check review of prime contractors' files early on to assess and track issues related to their compliance. Even though these procedures addressed some deficiencies, DEP still did not contact M/WBE subcontractors on a regular basis to verify their use by prime contractors nor did it require proof of prime contractors' payment to their subcontractors until near the end of the contract and the closeout reconciliation was performed. Further, DEP does not periodically audit its contractors' books and records to verify payments made to subcontractors.

Service Delivery and Program Performance

- We conducted a joint audit with the New York State Comptroller's Office. The audit of the Metropolitan Transportation Authority (MTA)-New York City Transit Authority (Transit) was to determine whether subway service diversions are effectively managed and the riding public is adequately informed of service diversions. A "service diversion" takes place when Transit must close all or part of a subway line for capital projects or maintenance. For the period January 1, 2009, through July 14, 2010, Transit records show 3,332 service diversions were underway in various phases. Although necessary, service diversions can be an inconvenience to riders and can have an adverse economic impact on businesses. Moreover, the frequency and duration of Transit's service diversions are increasing due to projects necessary to restore and modernize an aging subway system.

  The audit found that Transit has a number of policies and procedures for managing and controlling subway diversions. However, these policies and procures were not effective at producing the most efficient results. Of particular concern was: diversion costs were not adequately monitored, daily work on diversions often started late and ended early, and the public was not adequately informed about diversions. As a consequence, project costs rise, riders are inconvenienced, and there is acute economic hardship to affected businesses.

- This audit determined whether the DOE efforts to assist Absent Teacher Reserve (ATR) Pool teachers in finding permanent positions were effective and how teachers in this pool are being utilized. The primary audit scope was School Year 2010-2011. Teachers for whom there is no full-time teaching position in their current building for the upcoming school year are considered to be excess. Excessed teachers include those from closing or phasing-out schools, those returning from reassignment, and those who are in excess from their home school due to changing conditions at the school (e.g., budget reductions). Excessed teachers who do not find a permanent position at a school by the start of the upcoming school year are placed in the ATR pool. As of March 1, 2011, there were 1,219 teachers in the ATR pool.

  The audit revealed that teachers in the ATR pool are primarily assigned to schools and that most of them appear to be working in teaching and teaching-related positions. In addition, the auditors noted that DOE has various resources, information, and support services available to its teachers offering a wide array of assistance designed to help them find new positions within DOE's school system. DOE has also attempted to add incentives and remove disincentives so that school administrators would be more inclined to offer permanent positions to teachers in the ATR pool. However, the auditors concluded DOE is significantly hindered in evaluating the effectiveness of these efforts because the agency does not collect and track the data needed for such an evaluation. For instance, DOE does not track all applications made by ATR teachers nor does it assess which of its efforts are most effective in helping teachers find permanent teaching positions. This information would enable DOE to reallocate its resources more efficiently to methods that are most effective and afford it the opportunity to create new initiatives to assist teachers who remain in the ATR pool.

- An audit was conducted that determined whether New York City School Districts were in compliance with key provisions of the New York State Education Department's (SED) Physical Education Regulations for students in elementary schools. The audit scope was School Year 2010-2011.

  Chapter 11 of the Regulations of the Commissioner of the SED requires all schools under the jurisdiction of the SED to provide a program of health, physical education, and recreation. Section 135.4 of Chapter 11 (Physical Education Regulations) requires the trustees and boards of education to develop and implement school district plans to provide physical education to all pupils. The current plans should be kept on file in the school district office and should be filed with the SED. In addition, the Physical Education Regulations provide the minimum frequency and time requirements of physical education that is to be provided to students in kindergarten through Grade 12.

  The audit found that DOE is not in compliance with the SED's Physical Education Regulations for elementary-level students and middle-level students in elementary schools. DOE does not have an overall written physical education plan nor does it monitor schools' compliance with the regulations. Therefore, DOE has no assurance that students in elementary schools are receiving the minimum required physical education. In fact, the audit's review of a sample of 31 elementary schools found limited evidence that any of the sampled schools were in compliance with the SED physical education requirements for all of its students.

Information Technology

Given the amount of taxpayer money spent on computer systems, the Comptroller's Office has dedicated a portion of the resources of the Bureau of Audit to conduct audits of computer systems implemented and maintained by City agencies. Audits conducted by the Information Technology unit have documented instances of mismanagement of systems and lack of adequate oversight of computer development projects. These instances of mismanagement have included: excessive cost overruns; missed deadlines; systems not developed as planned; and systems that did not meet agency needs and were abandoned.

- An audit determined whether the DoITT overall project management of the ECTP was reasonable, justified, and allowed for project completion on a timely basis.

  The auditors found DoITT's overall project management of the ECTP lacking. This was due to its initial underestimation of the time and technical constraints involved in implementing the multi-agency mission-critical ECTP. This, therefore, did not allow for project completion on a timely basis. The cost to complete the project is now estimated at $2.3 billion, nearly $1 billion over the initial estimate to complete the project.

- An audit was initiated of the DOF with the objectives to determine whether the agency's implementation of the CAMA system as a finished product will meet the overall goals as stated in the system justification and meet the initial business and system requirements.

  DOF encountered problems during system development and testing. As a result, the implementation was delayed until August 2010, which was three years behind schedule. DOF has also identified numerous changes necessary for system enhancement. We found that CAMA used inappropriate comparable properties to assess the valuation of condominiums and cooperatives, which may affect their current market value assessments.

  Additionally, the result of our user satisfaction survey revealed that 80 percent of the regular users stated they would like to see changes made to CAMA. We found 33 percent of the respondents rarely or never used CAMA, but these inactive users were not disabled or deleted from the system. Finally, we found DOF does not have a formal business continuity plan to bring the system up in the event of emergency or system failure.

- The audit determined whether the DOE Achievement Reporting and Innovation System (ARIS) has positively affected student performance, is user-friendly, and met its intended goals. ARIS was developed under the Department's "Children First Intensive" professional development program. In 2007, the City awarded an $81 million contract to the International Business Machines, Corp. (IBM) to develop and implement the ARIS system. ARIS would allow data analysis and collaboration tools to permit knowledge sharing across City schools, track student and school performance, and enable data integration and data quality assurance. Additionally, ARIS was intended to enable City educators to improve student performance by viewing student data, exploring instructional resources, sharing effective practices, and collaborating with colleagues within schools and City-wide. The system was placed in service in October 2008.

  Despite spending more than $80 million on system design and development, DOE lacks effective measurements for gauging whether ARIS is an efficient tool for enhancing and improving student performance. In addition, educators are not using ARIS to the extent for which it was intended. According to our survey of teachers and principals, many educators are not using the ARIS system to collaborate with other teachers as was intended, are using alternative computer systems to obtain information in place of, or in conjunction with, ARIS, and are not utilizing the system to its fullest extent. Therefore, we believe that DOE is not completely attaining all the benefits for which the ARIS system was intended.

BUREAU OF INFORMATION SYSTEMS

The Bureau of Information Systems (BIS) provides a full range of technology services to the Comptroller's Office. These services include: technology strategic planning, web site development and administration, disaster recovery, business continuity, systems development, communications and network administration, end user computing, business process re-engineering, change management, program management, security administration, help desk, and training.

BIS provides systems and technology support for key business functions and Charter-mandated responsibilities of the Comptroller's Office. A primary focus of BIS is developing and deploying technology solutions that enhance the services provided by the Comptroller's Office to the people living, working, visiting, and doing business in and with the City.

Automating Critical Business Functions

During the past year, BIS worked closely with all of the bureaus in the Comptroller's Office to re-engineer and automate critical business processes within their operations. Examples include:

- **Omnibus Automated Image Storage and Information System (OAISIS) Access from Courtrooms** – The BLA processes claims filed against the City. This past year, BLA personnel were equipped with laptop computers configured to access the OAISIS from the City's courtrooms. OAISIS contains all of the claims-related documents to support their courtroom activities.
- **TeamMate Audit Management Systems** – TeamMate Audit software was implemented for the Audit Bureau to assist in the planning, execution, and documentation of their audits. TeamMate automates most of the functions associated with the audit life cycle.
- **Contracts Workflow Enhancements** – The Bureau of Contract Administration uses the OAISIS system to support their review of all City contracts for registration. The OAISIS automated workflow functionality was significantly enhanced to optimize the automated distribution of specific contract documents to the appropriate work units in Contract Administration.
- **MyMoney Checkbook NYC** – This web-based application provides unprecedented access and transparency on the way the City spends billions of dollars. It was expanded to include the administrative expenses of the Police Pension Fund.
- **Comptroller Internal University** – BIS assisted the Bureau of Administration to establish the Comptroller's Internal University (CIU) as an intranet site available online to all personnel in the Comptroller's Office. The site outlines the curriculum for employees to pursue ongoing learning and professional growth. It also provides online registration for all course offerings.
- **Medicare Claims Reporting** – The U.S Department of Health & Human Services introduced new requirements for a federally-mandated program to identify potential fraud situations when an individual files a personal injury claim against the City and also tries to collect on the same claim from the Federal Government. To assist the BLA in compliance with the program, BIS developed a series of interface programs and reports between the Federal Medicare system and the Comptroller's OAISIS system which supports the City's claims processing.
- **Delegation of Authority Database** – BIS assisted the General Counsel's office to develop an on-line database which outlines the delegation functions of the Comptroller's Office with electronic links to the specific source documents/laws providing the delegation powers.

The Comptroller's Website

BIS maintains the official website (www.comptroller.nyc.gov) for the Comptroller's Office. The website provides the public with important information and assistance. The website, which averages approximately 37,000 visits each month, is continually updated to reflect current issues and to facilitate navigation and use. The website also contains a series of transparency applications, which provide detailed views of key financial, pension, contract, and Minority- and Women-owned Business Enterprises (MWBE) data for the City. These applications are: MyMoney Checkbook NYC, Pension NYC, ClearView NYC, and MWBE Report Card NYC.

The website also contains important information about City government, including: the City's annual financial statements, audits of agencies, reports on the budget and economy, data on bond and note sales, prevailing wage schedules for trade workers, and policy reports issued by the Comptroller's Office. The public can also contact the Comptroller's Community Action Center via the website to obtain assistance on a variety of issues and access useful links to connect to other government agencies. Individuals can also obtain information regarding the purchase of City bonds, report City-related fraud, find job openings at the Comptroller's Office, obtain forms to file claims against the City, or file the claim electronically through the website. Descriptions of each department and bureau in the Comptroller's Office are included on the website with appropriate contact information. This site also contains links to the City Hall Library for additional information.

Continuity of Business Operations

The Comptroller's Office maintains an agency-wide disaster recovery and business continuity plan, which ensures that the Office's mission critical and mandated functions are restored with minimal interruption in the event of a major incident or disaster. The plan was developed and is maintained by BIS. It addresses incident management, technology restoration, and process continuity for all critical business functions within the Office. Communications are critical to disaster and incident management. In addition to "Send Word Now," a system used to send communications blasts to all personnel in the agency, BIS recently installed Voice-Over Internet Protocol (VOIP) at the Office's remote processing location. The plan also includes the real time replication of critical transactions to the remote computer processing location. In addition to housing the required technology and infrastructure components, this remote location will also provide key personnel with systems access, and provide an emergency operations center for the Comptroller. The plan itself is continuously maintained to reflect organizational, business, and technology changes, and is tested on six-month cycles.

In conjunction with these significant technology initiatives within the Comptroller's Office, BIS has implemented procedures and methodologies to establish itself as a leading technology organization. These procedures cover numerous areas including: Technology Planning, Security, IT Governance and Project Management, Training, Metrics, Change Management, System Development Life Cycle, Business Case Development, Technology Procurement, and Web Site Administration.

Affecting "Greener" Technology Operations

Conservation of power resources and caring for the environment continue to be critical global issues for all technology operations. This past year, the Comptroller's Office continued technology infrastructure upgrades and in doing so implemented best practices for a "greener" technology operation. This included: the procurement and installation of energy-efficient servers; configuring data center racks in a "hot-aisle" "cold-aisle" model; implementing server virtualization models; employing power-management on all hardware devices; and complying with e-waste disposal standards.

THE COMPTROLLER'S COMPREHENSIVE ANNUAL FINANCIAL REPORT

The Comprehensive Annual Financial Report is required by Section 93.1 of the New York City Charter. The Comprehensive Annual Financial Report is presented in three sections. This transmittal letter serves as an introduction and summary. The financial section includes the basic financial statements, combining fund financial statements and schedules and other required supplementary information. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

The City is responsible for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the City and its various funds. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City is required to undergo an annual Single Audit in conformity with the provisions of the Single Audit Amendments Act of 1996 and the United States Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations." Information related to the Single Audit, including the Schedule of Expenditures of Federal Awards, findings and recommendations, and auditors' reports on internal controls and compliance with applicable laws and regulations, are issued as a separate report.

Budgetary and Financial Controls

The City is responsible for establishing and maintaining internal controls designed to ensure that municipal assets are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with GAAP. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. These internal controls are subject to continuous evaluation by the City.

Budgetary Controls

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the Annual Appropriated Budget approved by the City's governing body. Activities of the General Fund are included in the Annual Appropriated Budget. The City also makes appropriations in the Capital Budget to authorize the expenditure of funds for various capital projects. A level of budgetary control, i.e., the level at which expenditures cannot legally exceed the appropriated amount, is established within each individual fund. As reported in the schedules to the financial statements, several agencies have expended more than legally appropriated amounts. The City also maintains an encumbrance accounting system as another technique of accomplishing budgetary control. Encumbrances lapse at the end of each fiscal year.

Financial Controls

The City maintains financial controls through the use of an integrated accounting and budgeting system, referred to as the Financial Management System FMS. The City's FMS maintains the City's centralized accounting and budgetary controls. FMS is also used by the City to maintain information on City contracts as well as capital projects. FMS provides the ability for the Comptroller's, Mayor's, and individual agencies' financial managers to access, analyze, and utilize the City's financial data. These capabilities are continuously improved to meet new information needs.

Section 93 of the New York City Charter grants the Comptroller broad powers for establishing accounting and internal control policies and procedures for the City. To ensure the adequacy of the City's internal controls, directives and memoranda that outline appropriate policies and procedures for all City agencies and Component Units are issued and periodically updated. These directives and memoranda establish internal controls and accountability, which safeguard City assets. The Comptroller's Office and agency auditors periodically check City agencies' and component units' adherence to internal control policies and procedures.

Each year, in accordance with the "Principles of Internal Control" Directive, every City agency is required to prepare a report on its internal control. Each agency's report must include an "Agency Financial Integrity Compliance Statement" signed by the agency head. The statement must include the agency head's opinion as to whether the agency's internal control provides reasonable assurance that internal control objectives were achieved during the fiscal year and can continue to achieve those objectives in the future.

The Comptroller's Office Audit Bureau administers the "Agency Financial Integrity Compliance Statement" program that is part of the "Principles of Internal Control" Directive and collects agency responses. In addition, the auditors collate these responses and use the results as part of a risk assessment to identify future audits. This approach helps to ensure that agencies genuinely assess their internal control, rather than just examine them perfunctorily. The Comptroller's Office also asks agencies to assess the adequacy of their internal audit functions.

Should a control weakness prevent any significant control objective from being achieved, the agency head must describe management's plans for correcting it. Agencies must also explain and describe planned corrective action for any outstanding weakness described in audit reports prepared by the City Comptroller's Office auditors, the City's independent auditors, the State Comptroller, or other oversight or audit bodies.

In addition, a directive providing City agencies with guidance for the presentation and recognition of revenues and receivables in the City's financial statements, guidance for the billing, collection, and control over City revenues and receivables, and an accounts receivable write-off policy was drafted and is being reviewed by the agencies. Revisions to the directives regarding audits of requests for payments received under contracts for construction, equipment, and construction-related services and vendor maintenance and tax reporting requirements were issued in fiscal year 2012 to update and clarify the previous guidance. In order to implement GASB No. 61, *The Financial Reporting Entity: Omnibus,* the Comptroller's Office reclassified its Fiduciary, Other Trust Funds, *New York City Tax Lien Trusts* as Blended Component Units.

Independent Audit

The City Charter requires an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in the City Charter, the audit also is designed to meet the requirements of the Federal Single Audit Amendments Act of 1996 and related OMB Circular A-133. The auditors' report on the financial statements and on other financial information is included in the financial section of this report. The auditors' report, which relates specifically to the single audit, is included in a separately issued report.

AWARDS

For the 32nd 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. Although the GFOA's Comprehensive Annual Financial Report review has not yet been completed for the fiscal year ended 2011, only 2,286 of some 39,044 governmental counties, municipalities, and townships received the Certificate thus far; the City is one of a very select group of 108 to have received the award for 32 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 Comprehensive Annual Financial Report for fiscal year 2011 again satisfied these requirements.

A Certificate of Achievement for Excellence in Financial Reporting is valid for a period of one year only. I believe that this fiscal year 2012 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 my office this past year. I appreciate your efforts on behalf of the people of The City of New York. I also want to thank my staff who have worked so diligently in the preparation of these financial statements. I offer special thanks to Deputy Comptroller Simcha Felder, Assistant Comptroller Maria L. Tavares, and Chief Accountant Joseph Consolazio, who were ably supported by Deputy Bureau Chiefs Nancy Brunner and Jacqueline Thompson. I also want to acknowledge the Mayor's Office of Management and Budget and the Financial Information Services Agency. Finally, I want to thank the City's independent auditors, Deloitte & Touche LLP, for their efforts throughout this audit engagement.