New York City Police Department Police Officers' Variable Supplements Fund

Financial Statements as of for the
Years Ended June 30, 2009 and 2008 and
Independent Auditors' Report

NEW YORK CITY POLICE DEPARTMENT
POLICE OFFICERS'
VARIABLE SUPPLEMENTS FUND

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
New York City Police Department Police Officers'
Variable Supplements Fund

We have audited the accompanying statements of plan net assets of New York City Police Department Police Officers' Variable Supplements Fund (the "Plan") as of June 30, 2009 and 2008, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets of the Plan as of June 30, 2009 and 2008, and the changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board ("GASB"). This supplementary information is the responsibility of Plan management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of such required supplementary information. However, we did not audit this information and express no opinion on it.

Deloitte & Touche LLP

October 23, 2009

NEW YORK CITY POLICE DEPARTMENT
POLICE OFFICERS'
VARIABLE SUPPLEMENTS FUND

The narrative discussion and analysis of the financial activities of the New York City Police Officers' Variable Supplements Fund ("POVSF," the "Fund" or the "Plan") for the fiscal years ended June 30, 2009 and 2008 is presented by management as an introduction to the basic financial statements. It is meant to assist the reader in understanding the Fund's financial statements by providing an overall review of financial activities during the year and the effects of significant changes, as well as a comparison with the prior year's activities and results.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The basic financial statements are:

- **The Statement of Plan Net Assets —** presents the financial position of the Plan at fiscal year end. It indicates the assets available for payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.

- **The Statement of Changes in Plan Net Assets —** presents the result of activities during the year. All changes affecting the assets and the liabilities of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flow. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.

- **The Notes to Financial Statements —** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

The financial statements are prepared in accordance with Governmental Accounting Standards Board Pronouncements ("GASB").

FINANCIAL HIGHLIGHTS

- The Fund's total assets exceeded its liabilities by $628.4 million and $950.00 million as of June 30, 2009 and 2008, respectively.

- In fiscal year 2009, the Fund's Net Assets Held in Trust for Benefits decreased by $321.6 million or 34 % compared to fiscal year 2008 and decreased by $218.6 million or 19% compared to fiscal year 2007. Plan net assets held in trust for pension benefits decreased in fiscal year 2009 due to significant decrease in fair value of investments.

- Benefit payments totaled $137.1 million for fiscal year 2009 compared to $148.4 million fiscal year 2008. This reflects a decrease of 8%, which is primarily due to the reduction of number of the retirees. A total of $148.4 million paid in fiscal year 2008 represented an increase of 68% over year 2007. This is primarily due to the increase in additional pension benefits costs.

PLAN NET ASSETS

The Statements of Plan Net Assets for fiscal year 2009 and 2008 showed total assets exceeded total liabilities by $628.4 million and $950.0 million respectively. This represents total Fund Net Assets Held in Trust for Benefits. This amount is available to cover the Fund's obligation to pay benefits to the Fund's members.

This year the Fund's Net Assets Held in Trust for Benefits decreased by $321.6 million or 34% compared to fiscal year 2008. Last year the Fund decreased by $218.6 million or 19% compared to 2007.

The Fund's 2009 outstanding liabilities of $186 million decreased by 39% compared to fiscal year 2008. As of fiscal year ended 2008 liabilities decreased to $303 million or by 13% compared to fiscal year 2007. Total liabilities consist of outstanding securities lending transactions of 58%, accrued benefits payable 38% and payable for investment securities purchased of 4% for fiscal year 2009.

In fiscal years 2009 and 2008 the Plan experienced a 34% & 19% downward movement respectively, due to a significant decrease in fair value of investments.

Plan Net Assets
June 30, 2009, 2008 and 2007
(in thousands)

	2009	2008	2007
Cash	$ -	$ 3	$ 44
Receivables	8,886	16,069	11,792
Investments, at fair value	696,968	1,064,466	1,264,258
Collateral from Security Lending	108,140	172,047	238,668
Total Assets	813,994	1,252,585	1,514,762
Accounts Payable and Other Liabilities	77,435	130,509	107,500
Payables for Securities Lending Transactions	108,140	172,047	238,668
Total Liabilities	185,575	302,556	346,168
Plan Net Assets Held in Trust for Benefits	$ 628,419	$ 950,029	$ 1,168,594

The Plan's receivables and payables related to Investment Securities are primarily generated through the timing of the difference between the trade and settlement dates for investment securities purchased or sold.

Investment Summary
Fair Value
(in thousands)

	June 30, 2009	June 30, 2008	June 30, 2007
Short - term Investments	$ 13,322	$ 25,869	$ 10,393
US Debt Securities	218,179	319,818	348,349
Domestic Equity Securities	293,109	434,029	551,788
International Investment Fund-Equity	154,832	250,662	324,170
Treasury Inflation -Protective	17,526	34,088	29,558
Collateral from Security Lending	108,140	172,047	238,668
Total Investments	$ 805,108	$ 1,236,513	$ 1,502,926

CHANGES IN PLAN NET ASSETS

Additions — The overall activities of the Fund shown in the Statements of Changes in Plan Net Assets are reflected in the difference between total additions and total deductions resulting in a net decrease of $321.6 million for the fiscal year 2009 and $218.6 million for the fiscal year ended 2008. The following items represent the components of this difference, net investment loss of $184.5 million and benefit payments of $137.1 million for 2009, net investment loss of $70.1 million, and benefit payments of $148.4 million for fiscal year 2008.

Deductions — All administrative and investment expenses are paid by The City of New York and not charged to the Fund. For fiscal year 2009 deductions totaled $137.1 million of which $148.4 million was paid in fiscal year 2008. This shows a decrease of $11.3 million or 8% this year compared to the prior fiscal year and an increase of $60.0 million or 68% in 2008 compared to 2007. In addition, benefit payments decreased substantially this year primarily as a result of a decrease in the number of retirees paid.

Changes in Plan Net Assets
Years Ended June 30, 2009, 2008 and 2007
(in thousands)

	2009	2008	2007
ADDITIONS:			
Investment income (loss):			
Interest income	$ 16,239	$ 18,550	$ 19,064
Dividend income	10,907	14,177	13,255
Net (depreciation) appreciation in fair value of investments	(213,377)	(104,392)	159,216
Total investment (loss) income	(186,231)	(71,665)	191,535
Less investment expenses	(74)	91	18
Net (loss) income	(186,157)	(71,756)	191,517
Securities lending transactions:			
Securities lending income	3,187	10,178	13,196
Securities lending fees	(1,537)	(8,557)	(12,705)
Net securities lending income	1,650	1,621	491
Net investment (loss) income	(184,507)	(70,135)	192,008
DEDUCTIONS — Benefits payments (Note 1)	137,103	148,430	88,572
NET (DECREASE) INCREASE IN PLAN NET ASSETS	(321,610)	(218,565)	103,436
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS:			
BEGINNING OF YEAR	950,029	1,168,594	1,065,158
END OF YEAR	$ 628,419	$ 950,029	$ 1,168,594

FUNDING AND PLAN BENEFITS

The New York City Police Pension Fund ("POLICE") is the source of funding for the Fund.

For fiscal years 2009, 2008 and 2007 there were no transfers from POLICE to the Fund.

Plan benefits are paid once a year, in December, according to a schedule which, in general, increases annually by $500 up to a maximum of $12,000. Tier A members, those hired before July 1, 1988, and Tier B members, those hired after June 30, 1988, are under different schedules. Tier A eligible Police Officer retirees began receiving the maximum scheduled benefit of $12,000 in December 2007. Tier B eligible Police Officer retirees began receiving the maximum $12,000 benefit in December 2008.

All data pertaining to benefits and other information concerning the Fund is discussed in detail in the notes to the financial statements.

The Administrative Code of The City of New York provides that POLICE transfer to the Fund an amount equal to certain excess earning on equity investments, limited to the unfunded accumulated benefit obligation ("ABO") of the Fund. Excess earnings are defined as the amount by which earnings on equity investments of POLICE exceed what those earnings would have been had such Funds been invested at a yield comparable to that available from Fixed-Income Securities (Hypothetical Fixed Income Security Earnings) less any cumulative deficiencies. The Fund also receives credit for investment earnings on Fund assets.

The calculation of the Hypothetical Fixed Income Security Earnings requires the determination of the Hypothetical Interest Rate ("HIR"), which is computed by the Comptroller (Note 4).

Effective fiscal year 2000, the Actuary recommended revision to the calculation of the HIR. This change in methodology would make ("HIR") for POLICE consistent with Chapter 255 of the Laws of 2000 (Chapter 255/00) that modified the methodology for the HIR used for developing the Transferable Earnings Payable from the New York City Employees' Retirement System ("NYCERS")to certain Variable Supplements Funds.

Specifically, in recognition that 30-years U.S. Treasury Securities may become less plentiful in the future and subject to market distortion, the Actuary proposed to determine the HIR for fiscal year 2000 and later by taking an average of the monthly yields of 10-year U.S. Treasury Notes as published in Federal Reserve Statistical Bulletin H.15 and increasing it by 15%.

At its March 14, 2001 meeting, the Board of Trustees of the POLICE adopted this revised methodology for use in connecting with the calculation of the HIR for fiscal year 2000 and later.

INVESTMENTS

The Board of Trustees of the Fund, in accordance with existing laws, has the authority to determine the manner in which the assets of the Funds are invested. Investments are made by the New York City Comptroller, who acts as custodian of the assets. The primary object of the Fund is to provide benefits for its members and provide for growth in membership and also be prepared for inflation. Investments are made with the objective of minimizing risks and maintaining a high competitive return. Diversification has increased investment results and provided security for the assets of the retirement system. The Comptroller of The City of New York utilizes several investment advisors to manage long-term debt and equity portfolios. Advisors must obtain prior approval before each purchase or sale of a particular security. Investments are valued at fair value. Purchase and sales of Securities are reflected on the trade date. No investment in any one security represents 5% or more of Plan Net Assets Held in Trust for Benefits.

The Fund is expected to earn a higher long-term rate of return than short-term cash accounts, due to the long-term nature of its liabilities and the diversification of its investment holdings. For the five-year period ended June 30, 2009, the Fund had an annualized return of 2.1%. Investments in assets that are expected to produce higher returns are also subject to greater volatility and may also produce negative returns. Fiscal year 2009 has not been a good year for investors. Investments in stock markets within and outside the United States have generally lost value. For example, the Russell 3000 index, a broad measure of the U.S. stock market, lost 26.57% during this period, and the Europe, Australia and Far East ("EAFE") Index, the most commonly used measure of performance in developed international markets, lost 31.36%. Lower-rated bonds ended the year essentially losing 1.66% in value. The returns of the Fund have been consistent with these broad market trends and as a result, the asset allocation followed by the Fund produced a combined return of a loss of 17.41%. For the three-year period ended June 30, 2009 the combined return was a loss of 2.74%, and for the five-year period it was a gain of 2.08%.

Cash temporarily idle during the year is subject to conservative investment restrictions, and was invested in obligations of the U.S. Treasury and U.S. agency securities, commercial paper, medium term notes, and repurchase agreements. The average maturity of the investments is 40 days. The Fund earned an average yield of 1.75% which compares with the average yield of 0.57% on three-month Treasury Bills and 2.58% for a representative institutional money market Fund. The Fund earned $24,779 in its short-term accounts during fiscal year 2009.

Assets are invested long-term for the benefit of the Fund's participants and their beneficiaries. All investments are managed by registered investments advisors, pursuant to applicable laws and to guidelines issued by the Comptroller. Collectively the investments utilize one domestic equity managers, four domestic fixed-income managers, three international equity managers, one emerging market manager, two enhanced yield managers, one internal manager and one treasury inflation- protected security investment manager. Assets are allocated in accordance with plans adopted periodically by the Fund's Board of Trustees. The percentage in each category is determined based on a study indicating the probable rates of return and levels of risk for various assets' allocations. The actual allocation may vary from this policy mix as market values shift and as investments are added or terminated.

Security Lending Transactions — The Board of Trustees permits the Fund to lend its securities to brokers, dealers and others with an agreement to return the collateral for the same securities in the future. In return, it receives collateral in the form of cash, treasury and US Government Securities at 100% to 105% of the principal, plus accrued interest for reinvestment.

Contact Information — This financial report is designed to provide our members and their beneficiaries and others with a general overview of the Fund's finances and show accountability for money it receives. Questions concerning any data provided in this report or request for additional information should be directed to the Chief Accountant, New York City Police Officers' Variable Supplements Fund, 233 Broadway 25th Floor, New York, NY 10279.

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NEW YORK CITY POLICE DEPARTMENT
POLICE OFFICERS'
VARIABLE SUPPLEMENTS FUND

STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2009 AND 2008

	2009	2008
ASSETS:		
Cash	$ 94	$ 2,691
Receivables:		
Receivables from investment securities sold	5,847,426	12,241,688
Accrued interest and dividends receivable	3,038,356	3,827,721
Total receivables	8,885,782	16,069,409
Investments, at fair value (Notes 2 and 3):		
Securities purchased under agreements to resell	491,757	1,941,048
Short-term investments	12,829,708	23,327,644
Discount notes	-	599,967
Debt securities:		
U.S. government	99,978,436	157,859,086
Corporate	112,750,863	155,080,863
Foreign	5,449,275	6,878,553
Equity securities	293,108,682	434,028,858
Mutual fund:		
International equity	154,832,468	250,662,389
Treasury inflation-protected securities	17,526,124	34,088,041
Collateral from securities lending transactions (Note 2)	108,140,315	172,046,821
Total investments	805,107,628	1,236,513,270
Total assets	813,993,504	1,252,585,370
LIABILITIES:		
Accounts payable	88,750	76,145
Payable for investment securities purchased	6,912,127	66,186,564
Accrued benefits payable (Note 2)	70,433,438	64,246,687
Securities lending transactions (Note 2)	108,140,315	172,046,821
Total liabilities	185,574,630	302,556,217
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS	$ 628,418,874	$ 950,029,153

See notes to financial statements.

NEW YORK CITY POLICE DEPARTMENT
POLICE OFFICERS'
VARIABLE SUPPLEMENTS FUND

STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
ADDITIONS:		
Investment income (Note 2):		
Interest income	$ 16,239,367	$ 18,549,898
Dividend income	10,907,126	14,176,768
Net (depreciation) appreciation in fair value of investments	(213,376,745)	(104,392,278)
Total investment (loss) income	(186,230,252)	(71,665,612)
Less investment (income)/expenses	(73,664)	90,681
Net (loss) income	(186,156,588)	(71,756,293)
Securities lending transactions:		
Securities lending income	3,186,703	10,178,250
Securities lending fees	(1,536,711)	(8,556,709)
Net securities lending income	1,649,992	1,621,541
Net (loss) investment income	(184,506,596)	(70,134,752)
DEDUCTIONS — Benefit payments (Note 1)	137,103,683	148,430,052
NET (DECREASE) IN PLAN NET ASSETS	(321,610,279)	(218,564,804)
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS:		
Beginning of year	950,029,153	1,168,593,957
End of year	$ 628,418,874	$ 950,029,153

See notes to financial statements.

1. PLAN DESCRIPTION

The New York City ("The City") Police Pension Fund administers both the Police Officers' Variable Supplements Fund ("POVSF," the "Fund" or the "Plan") and the Police Superior Officers' Variable Supplements Fund ("PSOVSF"). The Fund operates pursuant to the provisions of Title 13, Chapter 2 of the Administrative Code of The City of New York ("ACNY") and provides supplemental benefits to retired Police Officers. To be eligible to receive Fund benefits, Police Officers must retire, on or after October 1, 1968, and be receiving a service retirement benefit from the New York City Police Pension Fund ("POLICE").

Except for service retirement, Fund benefits are forfeitable upon separation from service.

The Fund is included in the Pension and Other Employee Benefit Trust Funds section of The City's Comprehensive Annual Financial Report.

The PSOVSF is maintained as a separate fund and is not included in these financial statements.

Under current law, the Fund is not to be construed as constituting a pension or retirement system. Instead, it provides defined supplemental payments, other than pension or retirement system allowances, in accordance with applicable statutory provisions. While The City guarantees these payments, the New York State Legislature has reserved to itself and the State of New York (the "State") the right and power to amend, modify, or repeal the Fund and the payments it provides.

At June 30, 2008 and 2007, the dates of the Fund's most recent actuarial valuations, the Fund's membership consisted of:

	2008
Retirees currently receiving payments	10,993
Active members*	22,895
Total	33,888

* Represents the number of actively employed Police Officers as of the June 30 valuation dates.

The Fund provides a guaranteed schedule of supplemental benefits for Police Officers who retire (or have retired) as Police Officers on service retirement with at least 20 years of service as follows:

a. For those who retired prior to July 1, 1988, the annual benefit was $2,500 in Calendar Year 1988. For those who retired during Calendar Year 1988, the annual $2,500 benefit payment was prorated. The annual benefit increases $500 each year thereafter to a maximum of $12,000 in the Calendar Year 2007 and thereafter.

   For those who were members of POLICE prior to July 1, 1988 and who retire after Calendar Year 1988, the annual benefit payment is the scheduled amount described above prorated in the year of retirement and the full amount thereafter.

b. For those who become members of POLICE on or after July 1, 1988, the annual supplemental benefit is $2,500 for the first twelve months of retirement, which increases by $500 each year until a maximum of $12,000 is payable in the twentieth and later years of retirement. This was modified by Chapter 503 of the Laws of 1995 ("Chapter 503/95") as discussed below.

Chapter 503/95 amended the ACNY in relation to the transfer of assets, liabilities and administration of certain pension funds in the New York City Police Department. In addition, this law permits certain active employees with prior service credit before entering POLICE to utilize their original dates of hire for determining benefits from the Fund. It also provides that police officers who became members of POLICE on or after July 1, 1988 will receive the maximum $12,000 benefit beginning Calendar Year 2008 and thereafter.

Chapter 216 of the Laws of 2002 ("Chapter 216/02") provides that participants of the Fund who retire from POLICE on and after January 1, 2002 with 20 or more years of service are entitled to an additional one-time special lump sum payment in the first year following retirement equal to the cumulative Fund benefits that would have been paid after January 1, 2002 had they retired at the completion of their 20th year of service ("VSF DROP").

In the past, the New York State Legislature, in recognition of inflation, has increased retirement benefits to retirees of its public pension systems. Any increase in the amount of ad-hoc cost-of-living ("Supplementation") or automatic Cost-of-Living Adjustments ("COLA") payable from POLICE for retirees of the Fund under legislation enacted after 1988 will reduce benefits payable from the Fund until the later of: (a) age 62, or (b) Calendar Year 2007 (the twentieth year of retirement or Calendar Year 2008, if earlier, in the case of new members on and after July 1, 1988).

Chapter 119 of the Laws of 1995 ("Chapter 119/95") provides additional benefits for Supplementation payable from POLICE on and after December 1, 1996 for certain retirees of POLICE effective as elected by The City Council on October 25, 1995.

Chapter 390 of the Laws of 1998 ("Chapter 390/98") provides additional benefits for Supplementation payable from POLICE on and after September 1, 1998 (with a second increase commencing September 1, 1999).

Chapter 125 of the Laws of 2000 ("Chapter 125/00") provides Supplementation benefits from POLICE for certain retirees who retired before Calendar Year 1997 effective September 2000. In addition, Chapter 125/00 provides future COLA increases from POLICE beginning September 2001 and on each subsequent September to eligible retirees.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The Fund is accounted for on an accrual basis where the measurement focus is on the flow of economic resources. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred.

Method Used to Value Investments — Investments are valued at fair value. Trading securities are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold. Fair value is defined as the quoted market value on the last trading day of the period, except for the Short-Term Investment Fund (the "STIF") (a money market fund) and the International Investment Funds (the "IIF"). The IIF's are privately traded funds, which are managed by various investment managers on behalf of the Plan. Plan management determines fair value of the IIF's based on information provided by the various investment managers. Management records the STIF at cost, which approximates fair value.

Purchases and sales of securities are reflected on the trade date. Gains or losses on sales of securities are based on the average cost of securities.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

No investment in any one security represents 5% or more of the Fund's net assets held in trust for benefits.

Contributions — POLICE is the source of funding for the Fund. Section 13-232 of the ACNY states, among other things, how amounts transferred into the Fund shall be computed.

Income Taxes — Income earned by the Fund is not subject to Federal income tax.

Accrued Benefits Payable — Accrued benefits payable represent either: (1) benefits due and unpaid from the preceding payment date of December 15; or (2) benefits deemed incurred and unpaid (an accrual for a portion of the current Calendar Year benefit) for the Fiscal Year-end of June 30.

Securities Lending Transactions — State Statutes and the Fund Board of Trustees policies permit the Fund to lend its securities (the underlying securities) to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's custodian lends the following types of securities: short-term securities; common stock; long-term corporate bonds; U.S. Government and U.S. Government agency bonds; asset-backed securities; and international equities and bonds held in collective investment funds. In return, it receives collateral in the form of cash and treasury and U.S. Government agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. At year-end, the Fund had no custodian credit risk exposure to borrowers because the amounts the Fund owed the borrowers exceeded the amounts the borrowers owed the Fund. The contracts with the fund custodian require borrowers to indemnify the Fund if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities loaned or fail to pay the Fund for income distributions by the securities' issuers while the securities are on loan. All securities loans can be terminated on demand within a period specified in each agreement by either the Fund or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted average maturity of 90 days. The underlying securities (fixed income) which comprise these pools have an average maturity of ten years.

The securities lending program in which the Fund participates only allows pledging or selling securities in the case of borrower default. Accordingly, the Fund is fully indemnified against any loss of value between the securities loaned and the securities held as collateral.

Governmental Accounting Standards Board (GASB) Statement No. 28, *Accounting and Financial Reporting for Securities Lending Transactions*, requires that securities loaned as assets be reported in the statements of plan net assets. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. Securities received as collateral are also reported as assets if the government entity has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of fund net assets. Accordingly, the Fund recorded the investments purchased with the cash collateral as collateral from securities lending transactions with a corresponding liability as securities lending transactions. Securities on loan are carried at market value, the value as of June 30, 2009 and 2008 is $107 million and $168 million, respectively.

3. INVESTMENTS AND DEPOSITS

The Comptroller of The City of New York (the "Comptroller") acts as an investment advisor to the Plan. In addition, the Plan employs an independent investment consultant as an investment advisor. The Plan utilizes several investment managers to manage the long-term debt and equity portfolios. The managers are regularly reviewed, with regard to both their investment performance and for their adherence to investment guidelines.

Concentration of Credit Risk — The criteria for Plan investments are as follows:

The Plan does not have any investments in any one entity that represent 5% or more of plan net assets.

The legal requirements for Plan investments are as follows:

Fixed income, equity and other investments may be made as permitted by New York State RSSL §§ 176-178(a) and Banking Law § 235, the New York City Administrative Code, and the Legal Investments for New York Savings Banks list as published by The New York State Banking Department, subject to Note 3(b).

Investments up to 25% of total pension fund assets may be made in instruments not expressly permitted by the State RSSL.

Bank of New York Mellon ("BNYM") is the primary custodian for substantially all of the securities of the Plan.

Cash deposits are insured by the Federal Deposit Insurance Corporation for up to $250,000 per Plan member and are, therefore, fully insured.

Credit Risk— Portfolios other than U.S. Government and related portfolios have credit rating limitations. Investment Grade portfolios are limited to mostly ratings of BBB and above except that they are also permitted a 10% maximum exposure to BB & B rated securities. While Non Investment grade managers are primarily invested in BB & B rated securities, they can also invest up to 7% of their portfolio in securities rated CCC. Non-rated securities are considered to be non-investment grade. The quality ratings of investments, by percentage of the rated portfolio, as described by nationally recognized statistical rating organizations are as follows:

Investment Type *

	S&P Quality Ratings									
2009	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC& Below**	**Short Term**	**Not Rated**	**Total**
U.S. Government	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %
Corporate Bonds	10.77	6.40	18.22	20.54	14.99	11.29	2.12	-	1.41	85.74
Yankee Bonds	-	0.71	2.04	1.24	0.15	-	-	-	-	4.14
Short-term:										
Commercial Paper	-	-	-	-	-	-	-	0.37	-	0.37
Pooled Fund	-	-	-	-	-	-	-	-	9.75	9.75
Certificate of Deposit	-	-	-	-	-	-	-	-	-	-
U.S. Treasuries	-	-	-	-	-	-	-	-	-	-
U.S. Agencies	-	-	-	-	-	-	-	-	-	-
Percent of Rated Portfolio	10.77 %	7.11 %	20.26 %	21.78 %	15.14 %	11.29 %	2.12 %	0.37 %	11.16 %	100.00 %

2008	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC& Below**	**Short Term**	**Not Rated**	**Total**
U.S. Government	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %
Corporate Bonds	27.06	7.21	13.06	14.26	10.43	9.24	1.31	-	0.96	83.53
Yankee Bonds	-	1.10	1.51	0.99	0.10	-	-	-	-	3.70
Short-term:										
Commercial Paper	-	-	-	-	-	-	-	-	-	-
Pooled Fund	-	-	-	-	-	-	-	-	12.56	12.56
Certificate of Deposit	-	-	0.21	-	-	-	-	-	-	0.21
U.S. Treasuries	-	-	-	-	-	-	-	-	-	-
U.S. Agencies	-	-	-	-	-	-	-	-	-	-
Percent of Rated Portfolio	27.06 %	8.31 %	14.78 %	15.25 %	10.53 %	9.24 %	1.31 %	0.00 %	13.52 %	100.00 %

* U.S. Treasury Bonds, Notes and Treasury-inflation protected securities are obligations of the U.S. Government or explicitly guaranteed by the U.S. government and therefore not considered to have credit risk and are not included above.

Custodial Credit Risk — Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the Plan's name.

Consistent with the Plan's investment policy, the investments are held by the Plan's custodian and registered in the Plan's name.

No investment in any one security represents 5% or more of Plan Assets Held in Trust for Benefits.

All of the Plan's deposits are insured and/or collateralized by securities held by a financial institution separate from the Plan's depository financial institution.

All of the Plan's securities are held by the Plan's custodial bank in the Plan's name.

Interest Rate Risk — Interest rate risk is the risk that the fair value of investments could be adversely affected by the change in interest rates. Duration limits are used to control the portfolios exposure to interest rate changes. Duration is limited to a range of -1 to .75 years. Duration range is a measure of the overall portfolio, while statements of the stated maturity reflect the specific maturities of the individual securities held. The lengths of investment maturities (in years), as shown by the percent of the rated portfolio, are as follows:

Years to Maturity
Investment Type

		Investment Maturities			
2009	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	43.19 %	0.02 %	0.07 %	7.52 %	35.58 %
Corporate Bonds	48.70	1.06	14.68	18.21	14.75
Yankee Bonds	2.36	-	0.38	0.73	1.25
Short-term:					
Commercial Paper	0.21	0.21	-	-	-
Pooled Fund	5.54	5.54	-	-	-
Certificate of Deposit	-	-	-	-	-
U.S. Treasuries	-	-	-	-	-
U.S. Agencies	-	-	-	-	-
Percent of Rated Portfolio	100.00 %	6.83 %	15.13 %	26.46 %	51.58 %

2008	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	45.87 %	- %	0.36 %	6.87 %	38.64 %
Corporate Bonds	45.07	0.27	19.42	11.08	14.30
Yankee Bonds	2.00	-	0.27	0.49	1.24
Short-term:					
Commercial Paper					
Pooled Fund	6.78	6.78	-	-	-
Certificate of Deposit	0.11	-	-	-	0.11
U.S. Treasuries	-	-	-	-	-
U.S. Agencies	0.17	0.17	-	-	-
Percent of Rated Portfolio	100.00 %	7.22 %	20.05 %	18.44 %	54.29 %

Securities Lending Transactions:

Credit Risk — The quality ratings of investments held as collateral for Securities Lending are as follows (in thousands):

Investment Type and Fair Value of Securities Lending Transactions — **S&P Quality Ratings**

2009	AAA	AA	A	BBB	BB	B	CCC& Below	Short Term	Not Rated	Total
U.S. Government	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	22,750	10,417	22,235	-	-	-	-	-	42	55,444
Short-term:										
Repurchase Agreements	-	-	2,364	-	-	-	-	-	-	2,364
Reversal Repurchase Agreements	-	-	-	-	-	-	-	-	19,384	19,384
Certificate of Deposit	-	-	-	-	-	-	-	-	-	-
Certificate of Deposit-Floaters	-	-	4,573	-	-	-	-	-	-	4,573
Funding Agreements	-	24	-	-	-	-	-	-	-	24
Master Note	-	-	41	-	-	-	-	-	-	41
Medium Term Notes	-	-	218	-	-	-	-	-	-	218
Commercial Paper	-	-	-	-	-	-	-	-	-	-
Money Market Funds	31	-	-	-	-	-	-	-	25	56
Bank Note	-	3,998	20,301	-	-	-	-	-	-	24,299
US Treasury	179	-	-	-	-	-	-	-	-	179
Time Deposit	-	-	1,558	-	-	-	-	-	-	1,558
	$ 22,960	$ 14,439	$ 51,290	$ -	$ -	$ -	$ -	$ -	$ 19,451	$ 108,140
Percent of Securities Lending Porfolio	21.23%	13.35%	47.43%	- %	- %	- %	- %	- %	17.99%	100.00%

2008	AAA	AA	A	BBB	BB	B	CCC& Below	Short Term	Not Rated	Total
Corporate Bonds	$ 34,248	$ 37,933	$ 3,738	$ -	$ -	$ -	$ -	$ 23,665	$ -	$ 99,584
Short-term:										
Bank Note	179	15,587	9,201	-	-	-	-	9,110	-	34,077
Commercial Paper	-	-	510	-	-	-	-	-	-	510
Certificate of Deposit	-	9	-	-	-	-	-	1,021	-	1,030
Certificate of Deposit-Floaters	-	4,616	337	-	-	-	-	19,538	-	24,491
Funding Agreements	-	46	-	-	-	-	-	-	-	46
Repurchase Agreements	-	-	2,108	-	-	-	-	-	-	2,108
Reversal Repurchase Agreements	-	-	-	-	-	-	-	-	3,605	3,605
Mutual Fund	6,207	-	-	-	-	-	-	-	-	6,207
Master Note	-	-	133	-	-	-	-	-	-	133
Money Market Funds	60	-	-	-	-	-	-	-	-	60
Time Deposit	-	73	-	-	-	-	-	123	-	196
Total	$ 40,694	$ 58,264	$ 16,027	$ -	$ -	$ -	$ -	$ 53,457	$ 3,605	$ 172,047
Percent of Securities Lending Porfolio	23.65 %	33.87 %	9.32 %	- %	- %	- %	- %	31.07 %	2.10 %	100.00 %

Interest Rate Risk — The lengths of investment maturities (in years) of the collateral for Securities Lending are as follows (in thousands):

Years to Maturity
Investment Type

	Investment Maturities				
2009	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	55,444	20,639	34,805	-	-
Yankee Bonds	-	-	-	-	-
Short-term:					
Repurchase Agreements	2,364	2,364	-	-	-
Reversal Repurchase Agreements	19,384	19,384	-	-	-
Certificates of Deposits	-	-	-	-	-
Certificates of Deposits-Floaters	4,573	4,573	-	-	-
Funding Agreements	24	24	-	-	-
Master Note	179	179	-	-	-
Medium Term Notes	218	218	-	-	-
Commercial Paper	-	-	-	-	-
Money Market Funds	56	56	-	-	-
Bank Notes	24,299	20,301	3,998	-	-
US Treasury	41	41	-	-	-
Univested	-	-	-	-	-
Time Deposit	1,558	1,558	-	-	-
	$ 108,140	$ 69,337	$ 38,803	$ -	$ -
Percent of Securities Lending Portfolio	100.00%	64.12%	35.88%	- %	- %

2008	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	99,584	34,893	64,691	-	-
Yankee Bonds	-	-	-	-	-
Short-term:					
Bank Notes	34,077	9,536	24,541	-	-
Commercial Paper	510	510	-	-	-
Certificates of Deposits	1,030	1,030	-	-	-
Certificates of Deposits-Floaters	24,491	19,538	4,953	-	-
Funding Agreements	46	46	-	-	-
Repurchase Agreements	2,108	2,108	-	-	-
Reversal Repurchase Agreements	3,605	3,605	-	-	-
Mutual Funds	6,207	6,207	-	-	-
Master Note	133	133	-	-	-
Money Market Funds	60	60	-	-	-
Time Deposit	196	196	-	-	-
Total	$ 172,047	$ 77,862	$ 94,185	$ -	$ -
Percent of Securities Lending Portfolio	100.00%	72.00%	87.10%	- %	- %

4. FUNDING

The ACNY provides that POLICE transfer to the Fund an amount equal to certain excess earnings on equity investments, limited to the unfunded Accumulated Benefit Obligation (“ABO”) of the Fund. Excess earnings are defined as the amount by which earnings on equity investments of POLICE exceed what those earnings would have been had such funds been invested at a yield comparable to that available from fixed-income securities (“Hypothetical Fixed Income Security Earnings”) less any cumulative deficiencies. The Fund also receives credit for investment earnings on Fund assets.

The calculation of the Hypothetical Fixed Income Security Earnings requires the determination of the Hypothetical Interest Rate (“HIR”), which is computed by the Comptroller.

For Fiscal Year 2009, the excess earnings of POLICE, inclusive of prior year’s cumulative deficiencies, are estimated to be equal to zero and, therefore, no transfer will be due from POLICE to the Fund as of June 30, 2009.

For Fiscal Year 2008, the excess earnings of POLICE, inclusive of prior year’s cumulative deficiencies, were estimated to be equal to zero and, therefore, no transfer was due from POLICE to the Fund as of June 30, 2008.

In addition, Chapter 247 of the Laws of 1988 states that if the assets of the Fund are less than the amount required to pay the retirees’ guaranteed scheduled annual supplemental benefit payments, then The City is required by law to fund the difference.

The amount shown below as the ABO is the measure of the present value of scheduled supplemental benefits estimated to be payable in the future as a result of employee service-to-date. The ABO is calculated as the actuarial present value of credited projected benefits, prorated on service and is intended to help users assess the funded status of the Fund on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due and make comparisons among variable supplements funds.

Actuarial valuations of the Fund are performed annually as of June 30.

A comparison of the ABO as calculated by the Actuary with the Fund net assets held in trust for benefits as calculated by the Actuary as of June 30, 2008 and June 30, 2007 follows:

	Amounts as of June 30 2008	2007
	(In millions)	
Accumulated benefit obligation for:		
Retirees currently receiving benefits	$ 1,149.4	$ 1,155.7
Active members	384.7#	359.6
Total accumulated benefit obligation*,**	1,534.1	1,515.3
Net assets held in trust for benefits***	950.0	1,168.6
Unfunded accumulated benefit obligation	$ 584.1	$ 346.7

The June 30, 2008 ABO includes approximately $10.4 million due to a refinement in the methodology used to value the benefits payable to those members retiring with 20 or more years of service who would meet the eligibility criteria for ordinary disability retirement.

* The June 30, 2008 and 2007 ABOs decreased by approximately $16.9 million and $17.4 million, respectively, compared to those projected prior to the enactment of Chapters 119/95, 390/98 and 125/00.

** These total ABOs have been reduced by accrued benefits payable. This basis of reporting the total ABO is consistent with that used to report Plan net assets held in trust for benefits in these financial statements, but may differ from the bases used for other purposes.

*** See Note 2 for valuation of investments in the calculation of Fund net assets held in trust for benefits.

The June 30, 2008 actuarial valuation, used to determine the ABO, is based on the same actuarial assumptions and methods as were used in the actuarial valuation as of June 30, 2007.

The June 30, 2007 actuarial valuation, used to determine the ABO, is based on the same actuarial assumptions and methods as were used in the actuarial valuation as of June 30, 2006.

For purposes of the June 30, 2008 and 2007 actuarial valuations of the Fund, Chapter 125/00 has been taken into account in the determination of the unfunded ABO relative to the Supplementation benefit increases that began Fiscal Year 2001 and to the automatic COLA benefits provided for Fiscal Year 2002 and each future year (Note 1).

Section 13-270 and 13-280 of the ACNY provide that the Boards of Trustees of the Fund and the PSOVSF shall adopt, upon the recommendation of the Actuary, actuarial assumptions as to interest rate, mortality of retirees and estimated number of active members of POLICE in service as of each June 30 who will retire for service with 20 or more years of service as Police Officers and Police Superior Officers, for use in making annual valuations of liabilities.

The following actuarial assumptions represent the recommendations of the Actuary that were used in the actuarial calculations to determine the ABO as of June 30, 2008 and June 30, 2007:

	June 30, 2008	**June 30, 2007**
Investment rate of return	8.0% per annum.[1]	8.0% per annum.[1]
Post-retirement mortality	Tables adopted by POLICE during Fiscal Year 2006.	Tables adopted by POLICE during Fiscal Year 2006.
Active service: withdrawal, death, disability.	Tables adopted by POLICE during Fiscal Year 2006.	Tables adopted by POLICE during Fiscal Year 2006.
Service retirement	Tables adopted by POLICE during Fiscal Year 2006.	Tables adopted by POLICE during Fiscal Year 2006.
Percentage of all active POLICE members estimated to retire for service with 20 or more years of service as Police Officers	50%.	50%.
Percentage of all active Police Superior Officers estimated to retire for service with 20 or more years of service as Police Superior Officers	100%.	100%.
Cost-of-Living Adjustments	1.3% per annum.[1]	1.3% per annum.[1]
Actuarial Asset Valuation Method	Fair Market Value.	Fair Market Value.

[1] Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year.

5. INVESTMENT ADVISORS

The Comptroller of The City (the "Comptroller") utilizes several investment advisors to manage long-term debt and equity portfolios. Advisors must obtain prior approval before each purchase or sale of a particular security. To be eligible for consideration, investments must meet criteria set forth in governing laws and regulations.

6. RELATED PARTIES

Administrative expenses are paid by The City. The Comptroller provides certain administrative services to the Fund. The Actuary is appointed to be the technical advisor to the Fund and the Office of the Actuary provides related actuarial services to the Fund. The City's Corporation Counsel provides legal services to the Fund. The City also provides other administrative services.

The Comptroller has been appointed by law as custodian for the monies and assets of the Plan with revocable discretionary authority. Securities are held by certain banks under custodial agreements with the Comptroller.

7. CONTINGENT LIABILITIES

From time to time, the Fund has a number of claims pending against it and has been named as defendant in a number of lawsuits. The Fund also has certain other contingent liabilities. Management of the Fund, on the advice of legal counsel, believes that such proceedings and contingencies generally do not have a material effect on the Plan net assets or changes in the Plan net assets of the Fund. Under the State statutes and City laws that govern the functioning of the Fund, increases in the obligation of the Fund to members and beneficiaries ordinarily result in increases to the future potential obligations of POLICE.

8. OTHER ACTUARIAL INFORMATION

Actuarial Audit — Pursuant to Section 96 of the New York City Charter, a study of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems ("NYCRS") is conducted by an independent actuarial firm every two years. The most recent study was published by The Segal Company ("Segal") dated November 2006 and analyzed experience for Fiscal Years 2002 through 2005. Segal made recommendations to the actuarial assumptions and methods based on their analysis. The Actuary is currently reviewing those recommendations. A study of experience for Fiscal Years 2006 and 2007 is underway.

Revised Actuarial Assumptions and Methods — In accordance with the ACNY and with appropriate practice, the Boards of Trustees of the five actuarially-funded NYCRS are to periodically review and adopt actuarial assumptions proposed by the Actuary for use in the determination of employer contributions.

Based upon a review of an October 2003 experience study by Gabriel, Roeder, Smith & Company ("GRS"), the Actuary issued an August 24, 2005 Report entitled "Proposed Changed in Actuarial Assumptions and Methods for Determining Employer Contributions for Fiscal Years Beginning on and After July 1, 2005 for the New York City Police Pension Fund" ("August 2005 Report"). Where required, the Board of Trustees of POLICE adopted those changes to actuarial assumptions that required Board approval and the State Legislature and the Governor have enacted Chapter 152/06 to provide for those changes to the actuarial assumptions and methods that required legislation, including the AIR assumptions of 8.0% per annum. Chapter 211 of the Laws of 2009 extended the AIR assumption for one year to June 30, 2010 from June 30, 2009.

For the actuarial valuations of the Fund beginning June 30, 2005, the Actuary used actuarial assumptions that were adopted during Fiscal Year 2006 by the Board of Trustees of POLICE.

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