New York City Police Department Police Superior Officers' Variable Supplements Fund

Financial Statements as of and for the Years Ended June 30, 2008 and 2007 and Independent Auditors' Report

NEW YORK CITY POLICE DEPARTMENT
POLICE SUPERIOR OFFICERS'
VARIABLE SUPPLEMENTS FUND

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of New York City Police Department Police Superior Officers' Variable Supplements Fund (the "Plan") as of June 30, 2008 and 2007, 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, 2008 and 2007, 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 28, 2008

NEW YORK CITY POLICE DEPARTMENT
POLICE SUPERIOR OFFICERS'
VARIABLE SUPPLEMENTS FUND

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
YEARS ENDED JUNE 30, 2008 AND 2007

The narrative discussion and analysis of the financial activities of New York City Police Superior Officers' Variable Supplements Fund (the "Fund" or the "Plan") for the fiscal years ended June 30, 2008 and 2007 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. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements.

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 assets and liabilities are determined on an accrual basis.

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

FINANCIAL HIGHLIGHTS

- The Fund's total assets exceeded its liabilities by $901 million as of June 30, 2008 and by $1.2 billion as of June 30, 2007.

  The Plan Net Assets Held in Trust for Benefits at June 30, 2008, decreased by $278.1 million or 24% compared to fiscal year 2007 and increased by $69.3 million or 6% compared to fiscal year 2006

- Benefit payments in fiscal year 2008 totaled $206.6 million; an increase of 47% over the prior year. For fiscal year 2007, a total of $ 140.3 million was paid, representing an increase of 17% over fiscal year 2006.

Changes in Plan Net Assets
Years Ended June 30, 2008, 2007 and 2006

	2008	2007	2006
Additions:			
Investment Income/(loss)	$ -	$ -	$ -
Interest Income	18,894,593	20,052,234	19,347,467
Dividend Income	15,726,274	12,957,009	11,458,538
Net depreciation in fair value of investments	(107,701,446)	176,082,405	96,474,880
Total investment income	(73,080,579)	209,091,648	127,280,885
Investment expense	(128,917)	(19,262)	(22,540)
Net Investment income/Loss	(73,209,496)	209,072,386	127,258,345
Securities lending transactions:			
Securities lending income	10,913,880	13,566,209	9,248,155
Securities lending Fees	(9,183,311)	(13,034,027)	(8,641,794)
Net Securities lending income	1,730,569	532,182	606,361
Net Investment Income (loss)	(71,478,927)	209,604,568	127,864,706
Deductions — Benefit Payments	206,633,222	140,311,078	120,299,764
Net Increase/(Decrease) in Plan Net Assets	$ (278,112,149)	$ 69,293,490	$ 7,564,942

Plant benefits increased from $120.3 million to $140.3 million and $206.6 million as of fiscal year ended June 30, 2006, 2007 and 2008 respectively. These increases are primarily due to the increase in additional pension benefits coast.

PLAN NET ASSETS

In fiscal year 2008, the Plan experienced a 24% downward movement due to a significant decrease in fair value of investment. In the fiscal year 2007 and 2006 the Plan experienced a 6% and 1% upward movement respectively, in net assets held in trust for pension benefits due to an increase in fair value of investments.

Plan Net Assets
June 30, 2008, 2007 and 2006
(in thousands)

	2008	2007	2006
Cash	$ -	$ -	$ 106
Receivables	16,457	14,794	27,446
Investments, at fair value	1,226,711	1,536,196	1,438,190
Other Assets	-	-	-
Total Assets	1,243,168	1,550,990	1,465,742
Accounts Payable	150,205	131,144	120,410
Payables for Securities Lending Transactions	192,348	241,119	235,898
Total Liabilities	342,553	372,263	356,308
Plan Net Assets Held in Trust for Benefits	$ 900,615	$1,178,727	$1,109,434

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

Investment Summary
Fair Value
(in thousands)

	June 30, 2008	June 30, 2007	June 30, 2006
Type of Investment			
Short-term Investments	$ 24,086	$ 12,141	$ 15,959
US Debt Securities	305,038	356,292	319,529
Domestic Equity Securities	419,204	560,984	485,207
International Equity	249,709	331,436	348,692
Treasury Inflation-Protected Securities	36,327	34,224	32,905
Collateral for Security Lending Transactions	192,347	241,119	235,898
Total	$1,226,711	$1,536,196	$1,438,190

FINANCIAL ANALYSIS

The Statements of Plan Net Assets for fiscal years 2008 and 2007 showed total assets exceeded total liabilities by $901 million and $1.2 billion, respectively. The amounts represent total Plan Net Assets Held in Trust for Benefits; available to cover the Fund's primary obligation to pay benefits to the beneficiaries. Compared with the previous fiscal years; Plan Net Assets Held in Trust for Benefits as of June 30, 2008 decreased by $278.1 million or 24% and as of June 30, 2007 increased by $69.3 million or 6%. The Fund's Investment Portfolio decreased by 20% during fiscal year 2008 and increased by 7% during fiscal year 2007. Overall, performance of the Investment Portfolio was weak in the current year, compared to trends in the prior years, due to a downturn in the economy.

The Fund's outstanding liabilities of $343 million represents a decrease of 8% compared to fiscal year 2007. Last year the outstanding liabilities totaled $372 million, an increase of 4.5% compared to fiscal year 2006. Total liabilities as of June 30, 2008 consists of outstanding securities lending transactions of 56%, accrued benefits payable of 26%, and payable for investment securities purchased of 18%.

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 which resulted in a net decrease of $278.1 million and a net increase of $69.3 million for fiscal years ended June 30, 2008 and 2007, respectively. The changes consisted of investment loss of $71.5 million and benefit payments of $206.6 million in 2008, investment earnings of $209.6 million and benefit payments of $140.3 million for 2007.

Deductions — Deductions from the Fund consist mainly of benefit payments to members. All administrative and investment expenses are paid by The City of New York (The "City"). For fiscal year 2008 deductions totaled $206.6 million compared to $140.3 million in fiscal year 2007, which is an increase of $66.3 million or 47% in 2008 compared to 2007. Benefit payments increased substantially this year primarily as a result of an increase in the number of retirees paid. Added to this, Cost-of-Living Adjustment (COLA) to pensioners, which reduced benefits payable from the Fund, until age 62 or calendar year 2007 ended in the current fiscal year.

FUNDING AND PLAN BENEFITS

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

For fiscal years 2008, 2007 and 2006 there were no transfers from POLICE to the fund.

Eligible retirees were entitled to a benefit of $12,000 for calendar year 2007 payable during December 2007. This benefit will remain the same in calendar year 2008. These benefits are reduced by certain supplementations and Cost-of-Living Adjustments from POLICE.

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 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 (see note 4).

Effective fiscal year 2000, the Actuary recommended revisions to calculation of the HIR. This change in methodology makes the HIR for POLICE consistent with Chapter 255 of the Laws of 2000 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-year U.S. Treasury securities may become less plentiful in the future and subject to market distortions, the Actuary proposed to determine the HIR for fiscal year 2000 and later by taking an average of the monthly yields of 10-year Treasury notes as published in Federal Reserve Statistical Release Bulletin H.15 and increasing it by 15%.

At its March 14, 2001 meeting, the Board of Trustees of POLICE adopted this revised methodology for use in connection with the calculation of HIR for fiscal years 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 Funds. The primary objectives of the Fund are to provide benefits for its members and provide for growth in membership and also be prepared for inflation. Investments are made with the objective to minimize risks and maintain a high competitive return. Diversification has increased investment results and provided security for the assets of the Fund. 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 sale of securities are reflected on the trade date. No investment in any one security represents 5% or more of the 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, 2008, the Fund had an annualized return of 10.2%. Investments in assets that are expected to produce higher returns are also subject to greater volatility and may also produce negative returns. Fiscal year 2008 was not a good one for investors. Investments in stock markets within and outside the United States have generally declined in value. For example, the Russell 3000 index, a broad measure of the U.S. stock market, lost 12.68 % during this period, and the Europe, Australia and Far East (EAFE) Index, the most commonly used measure of performance in developed international markets, lost 10.61%. Less-developed international markets gained 4.14%. Lower-rated bonds ended the year with a gain of 0.76% in value. The returns of the Fund have been consistent with broad market trend; the asset allocation followed by the Fund produced a combined return of a loss of 5.25%. For the three-year period ending June 30, 2008 the combined gain 7.83% and for the five-year period a gain of 10.2%

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 these investments is 32 days. The Fund earned an average yield of 5.42% which compares with the average of 3.64% on the three month-Treasury Bills and 4.85% for a representative institutional money market Fund. The Fund earned $402,087 in its short-term accounts during FY2008.

Assets are invested long-term for the benefit of the participants and their beneficiaries. All investments are managed by registered investment advisors, pursuant to applicable law and to guidelines issued by the Comptroller. The Fund utilizes one domestic equity manager, four domestic fixed-income managers, two international equity managers, one emerging markets manager, two enhanced yields managers, one internal manager and one treasury inflation-protected 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 New York City Police Superior Officers' Variable Supplements Fund 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 Department Police Superior Officers' Variable Supplements Fund, 233 Broadway, 25th Floor, New York, NY 10279.

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NEW YORK CITY POLICE DEPARTMENT
POLICE SUPERIOR OFFICERS'
VARIABLE SUPPLEMENTS FUND

STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2008 AND 2007

	2008	2007
ASSETS:		
Cash	$ -	$ 527
Receivables:		
Investments securities sold	12,877,600	10,829,225
Accrued interest and dividends	3,578,897	3,964,928
Total receivables	16,456,497	14,794,153
Investments — at fair value (Notes 2 and 3):		
Commercial paper	3,217,004	3,446,435
Other short term investments	20,069,072	7,196,353
Discount notes	799,956	1,498,610
Debt securities:		
U.S. Government	150,539,613	179,678,479
Corporate	147,996,546	172,132,008
Foreign	6,502,074	4,481,123
Domestic equity securities	419,204,021	560,984,512
Mutual funds:		
International equity	249,709,317	331,435,612
Treasury inflation-protected securities	36,326,430	34,223,884
Collateral from securities lending transactions (Note 2)	192,347,393	241,119,102
Total investments	1,226,711,426	1,536,196,118
Total assets	1,243,167,923	1,550,990,796
LIABILITIES:		
Accounts payable and accrued liabilities	10,679	824,055
Payable for investment securities purchased	61,613,210	65,618,715
Accrued benefits payable (Note 2)	88,581,484	64,701,618
Securities lending transactions (Note 2)	192,347,393	241,119,102
Total liabilities	342,552,766	372,263,490
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS	$ 900,615,157	$1,178,727,306

See notes to financial statements.

NEW YORK CITY POLICE DEPARTMENT
POLICE SUPERIOR OFFICERS' VARIABLE SUPPLEMENTS FUND

STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
ADDITIONS:		
Investment income (Note 2):		
Interest income	$ 18,894,593	$ 20,052,234
Dividend income	15,726,274	12,957,009
Net (depreciation) appreciation in fair value of investments	(107,701,446)	176,082,405
Total investment (loss) income	(73,080,579)	209,091,648
Less investment expenses	128,917	19,262
Net (loss) income	(73,209,496)	209,072,386
Securities lending transactions:		
Securities lending income	10,913,880	13,566,209
Securities lending fees	(9,183,311)	(13,034,027)
Net securities lending income	1,730,569	532,182
Net investment (loss) income	(71,478,927)	209,604,568
DEDUCTIONS — Benefit payments (Note 1)	206,633,222	140,311,078
(DECREASE) INCREASE IN PLAN NET ASSETS	(278,112,149)	69,293,490
PLAN NET ASSETS HELD IN TRUST FOR BENEFITS:		
Beginning of year	1,178,727,306	1,109,433,816
End of year	$ 900,615,157	$ 1,178,727,306

See notes to financial statements.

1. PLAN DESCRIPTION

The New York City (the "City") Police Pension Fund administers the Police Superior Officers' Variable Supplements Fund (the "Fund" or the "Plan") and the Police Officers' Variable Supplements Fund ("POVSF"). 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 Superior Officers (including Sergeants or higher and Detectives). To be eligible to receive Fund benefits, Police Superior 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 forfeited 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 ("CAFR").

The POVSF 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, 2007 and 2006, the dates of the Fund's most recent actuarial valuations, the Fund's membership consisted of:

	2007	**2006**
Retirees currently receiving payments	14,745	13,981
Active members*	11,860	12,409
Total	26,605	26,390

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

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

a. A Police Superior Officer hired before July 1, 1988, who retires from service as a Police Superior Officer on or after October 1, 1988, receives a defined schedule of benefits starting at an annual rate of $5,000 payable during December 1993 for the Calendar Year 1993 payment.

The 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 1993, the benefit for the first year of retirement is a proportion of the annual scheduled amount as described above for 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, increasing by $500 each year until a maximum of $12,000 is payable in the twentieth and later years of retirement. This was later modified by Chapter 444 of the Laws of 2001 ("Chapter 444/01") as discussed below.

Chapter 503 of the Laws of 1995 ("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.

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 Supplementation benefits or automatic Cost-of-Living Adjustments ("COLA") payable from POLICE for retirees of the Fund under legislation enacted after 1993 will reduce benefits payable from the Fund until the later of: (a) age 62, or (b) Calendar Year 2007 (the twentieth year of retirement in the case of new members on and after July 1, 1988).

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

Chapter 444/01 provided that Police Superior Officers who became members of the Fund on and after July 1, 1988, will receive the maximum $12,000 benefit beginning Calendar Year 2008.

Chapter 390 of the Laws of 1998 ("Chapter 390/98") provided 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") provided Supplementation benefits from POLICE for certain retirees who retired before Calendar Year 1997 effective September 2000. In addition, Chapter 125/00 provided future COLA increases from POLICE beginning September 2001 and on each subsequent September to eligible retirees.

Chapter 152 of the Laws of 2006 ("Chapter 152/06") provided for those changes in actuarial assumptions and methods proposed by the Actuary, including the continuation of the Actuarial Interest Rate ("AIR") assumption of 8% per annum, for determining employer contributions to POLICE.

Chapter 216 of the Laws of 2002 ("Chapter 216/02") provided 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").

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 private 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 approximated 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 plan 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 Board of Trustees policies permit the Fund to lend its 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 agencies 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 credit risk exposure to borrowers because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe 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 fixed income securities 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 lent 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 will be reported in the Statements of Plan 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, 2008 is $188 million.

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 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 ("BONY") 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 $100,000 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**									
June 30, 2008	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC & Below**	**Short Term**	**Not Rated**	**Total**
U.S. Government	- %	- %	- %	- %	- %	- %	- %	- %	- %	- %
Corporate Bonds	24.02	7.26	14.47	14.48	10.80	9.67	1.44	-	0.93	83.07
Yankee Bonds	-	0.82	1.64	1.08	0.11	-	-	-	-	3.65
Short Term:										
Commercial Paper	1.81	-	-	-	-	-	-	-	-	1.81
Pooled Fund	-	-	-	-	-	-	-	-	11.27	11.27
Certificate of Deposit	-	-	0.20	-	-	-	-	-	-	0.20
U.S. Treasuries	-	-	-	-	-	-	-	-	-	-
U.S. Agencies	-	-	-	-	-	-	-	-	-	-
Percent of Rated Portfolio	25.83 %	8.08 %	16.31 %	15.56 %	10.91 %	9.67 %	1.44 %	- %	12.20 %	100.00 %
June 30, 2007	**AAA**	**AA**	**A**	**BBB**	**BB**	**B**	**CCC & Below**	**Short Term**	**Not Rated**	**Total**
U.S. Government	16.41 %	- %	- %	- %	0.05 %	- %	- %	- %	- %	16.46 %
Corporate Bonds	25.94	7.87	10.94	13.37	8.27	9.89	1.13	-	0.74	78.15
Yankee Bonds	-	-	0.81	0.66	0.51	-	-	-	-	1.98
Short Term:										
Commercial Paper	-	-	-	-	-	-	-	-	-	-
Pooled Fund	-	-	-	-	-	-	-	2.73	-	2.73
Certificate of	-	-	-	-	-	-	-			
Deposit	-	-	-	-	-	-	-	-	-	-
U.S. Treasuries	-	-	-	-	-	-	-	0.68	-	0.68
U.S. Agencies	-	-	-	-	-	-	-	-	-	-
Percent of Rated Portfolio	42.35 %	7.87 %	11.75 %	14.03 %	8.83 %	9.89 %	1.13 %	3.41 %	0.74 %	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.

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 changes in interest rates will adversely affect the fair value of the investment. 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 length of investment maturities (in years) are as follows:

Years to Maturity Investment Type	**Investment Maturities**				
June 30, 2008	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	45.69 %	- %	0.68 %	7.10 %	37.90 %
Corporate Bonds	44.92	0.32	18.65	11.14	14.81
Yankee Bonds	1.97	-	0.28	0.53	1.17
Short Term:					
Commercial Paper	0.98	0.98	-	-	-
Pooled Fund	6.09	6.09	-	-	-
Certificate of Deposit	0.11	-	-	-	0.11
U.S. Treasuries	-	-	-	-	-
U.S. Agencies	0.24	0.24	-	-	-
Percent of Rated Portfolio	100.00 %	7.63 %	19.61 %	18.77 %	53.99 %

June 30, 2007	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	49.38 %	0.01 %	37.66 %	8.77 %	2.94 %
Corporate Bonds	47.36	12.70	19.32	10.74	4.60
Yankee Bonds	1.20	-	0.58	0.17	0.45
Short Term:					
Commercial Paper					
Pooled Fund	1.65	1.65	-	-	-
Certificate of Deposit					
U.S. Treasuries	0.41	0.41	-	-	-
U.S. Agencies	-	-	-	-	-
Percent of Rated Portfolio	100.00 %	14.77 %	57.56 %	19.68 %	7.99 %

Securities Lending Transactions —

Credit Risk — The quality ratings of investments held as collateral for Securities Lending as of June 30, 2008 and 2007, are as follows (in thousands):

Investment Type and Fair Value of Securities Lending Transactions	S&P Quality Ratings									
June 30, 2008	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S Government	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	33,178	41,701	4,648	-	-	-	-	26,841	-	106,368
Yankee Bonds	-	-	-	-	-	-	-	-	-	-
Short term:										
Commercial Paper	-	-	-	-	-	-	-	-	-	-
Pooled Funds	-	-	-	-	-	-	-	-	-	-
Reverse Repurchase Agreements	-	-	-	-	-	-	-	-	5,166	5,166
Certificates of Deposits	-	-	-	-	-	-	-	1,431	-	1,431
Cert of Deposits-Floaters		4,515	510					25,044		30,069
Mutual Funds	8,432	-	-	-	-	-	-	-	-	8,432
Bank Notes	3,284	17,887	8,771	-	-	-	-	10,768	-	40,710
Time Deposits	-	-	-	-	-	-	-	172	-	172
Other	-	-	-	-	-	-	-	-	-	-
Total	$ 44,894	$ 64,103	$ 13,929	$ -	$ -	$ -	$ -	$ 64,256	$ 5,166	$ 192,348
Percent of securities lending portfolio	22.33 %	33.33 %	7.24 %	- %	- %	- %	- %	33.41 %	2.69 %	100.00 %

	S&P Quality Ratings									
June 30, 2007	AAA	AA	A	BBB	BB	B	CCC & Below	Short Term	Not Rated	Total
U.S Government	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	19,757	19,212	12,556	-	-	-	-	26,947	755	79,227
Yankee Bonds	-	-	-	-	-	-	-	3,700	-	3,700
Short term:										
Commercial Paper	-	-	-	-	-	-	-	7,170	-	7,170
Pooled Funds	30,122	-	-	-	-	-	-	-	-	30,122
Repurchase Agreements	-	-	-	-	-	-	-	1,090	43,380	44,470
Certificates of Deposits	-	14,932	2,126	-	-	-	-	23,820	-	40,878
Bank Notes	3,472	12,163	9,805	-	-	-	-	7,276	-	32,716
Other	20	78	-	-	-	-	-	2,738	-	2,836
Total	$ 53,371	$ 46,385	$ 24,487	$ -	$ -	$ -	$ -	$ 72,741	$ 44,135	$ 241,119
Percent of securities lending portfolio	22.13 %	19.24 %	10.16 %	- %	- %	- %	- %	30.17 %	18.30 %	100.00 %

Interest Rate Risk — The lengths of investment maturities (in years) of the collateral for Securities Lending as of June 30, 2008 and 2007, are as follows (in thousands):

Securities Lending Years to Maturities		**Investment Maturities**			
June 30, 2008	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	106,368	39,972	66,396	-	-
Yankee Bonds	-	-	-	-	-
Short-term:					
Commercial Paper	-	-	-	-	-
Pooled Funds	-	-	-	-	-
Reverse Repurchase Agreements	5,166	5,166	-	-	-
Certificates of Deposits	1,431	1,431	-	-	-
Cert of Deposits-floaters	30,069	25,044	5,025	-	-
Mutual Funds	8,432	8,432	-	-	-
Bank Notes	40,710	11,365	29,344	-	-
Time Deposits	172	172			
Other	-	-	-	-	-
Total	$ 192,348	$ 91,582	$ 100,765	$ -	$ -
Percent of securities lending portfolio	100.00%	47.61%	52.39%	- %	- %

June 30, 2007	**Fair Value**	**Less than one year**	**One to five years**	**Six to ten years**	**More than ten years**
U.S. Government	$ -	$ -	$ -	$ -	$ -
Corporate Bonds	79,226	23,235	55,991	-	-
Yankee Bonds	3,700	1,513	2,187	-	-
Short-term:					
Commercial Paper	7,170	7,170	-	-	-
Pooled Funds	30,122	30,122	-	-	-
Repurchase Agreements	44,471	44,471	-	-	-
Certificates of Deposits	40,877	23,820	17,057	-	-
Bank Notes	32,716	6,625	26,091	-	-
Other	2,837	2,181	656	-	-
Total	$ 241,119	$ 139,137	$ 101,982	$ -	$ -
Percent of securities lending portfolio	100.00%	57.70%	42.30%	- %	- %

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 2007, 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, 2007.

For Fiscal Year 2006, 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, 2006.

In addition, Chapter 479 of the Laws of 1993 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. However, it is not anticipated that the City will be required to contribute directly to the Fund.

The amount shown below as the ABO is the measure of the present value of 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 Plan net assets held in trust for benefits as calculated by the Actuary as of June 30, 2007 and 2006, follows (in millions):

	Amount as of June 30	
	2007	2006
Accumulated benefit obligation for:		
Retirees currently receiving benefits	$ 1,651.5	$ 1,527.7
Active members	850.4	856.1
Total accumulated benefit obligation*, **	2,501.9	2,383.8
Plan net assets held in trust for benefits***	1,178.7	1,109.4
Unfunded accumulated benefit obligation	$ 1,323.2	$ 1,274.4

* The June 30, 2007 and 2006, ABOs decreased by approximately $28.7 million and $60.4 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 Plan net assets held in trust for benefits.

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, 2007 and 2006, 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 provided for Fiscal Year 2002 and each future year (see Note 1).

Sections 13-270 and 13-280 of the ACNY provide that the Boards of Trustees of the POVSF and the Fund shall adopt, upon the recommendation of the Actuary, actuarial assumptions as to interest rate, mortality of beneficiaries 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, 2007 and 2006, respectively:

	June 30, 2007	**June 30, 2006**
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, and 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 Superior 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 the custodian for monies and assets of the Plans 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, studies of the actuarial assumptions used to value liabilities of the five actuarially-funded New York City Retirement Systems ("NYCRS") are conducted 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 reviewing those recommendations.

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 as 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 Changes 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 assumption of 8.0% per annum.

For the actuarial valuations of the Fund from June 30, 1999 to June 30, 2004, the Actuary used actuarial assumptions that were adopted during Fiscal Year 2000 by the Board of Trustees of POLICE.

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.

9. SUBSEQUENT EVENTS

The systemic risk elevation in global financial markets that first became apparent in the latter half of 2007 continued in 2008 and accelerated in September 2008 with significant financial institution stresses and failures and world-wide government interventions. This market downturn was dominated by the collapse of the sub prime mortgage markets and the credit crisis in capital markets.

The equity markets have been particularly impacted by the current market conditions, which have had a negative effect on the market value of the assets of the Plan.

The assets consist of public market securities; as such the assets are available to meet liquidity needs.

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