

Decorative flourish

New York City Police Pension Fund Subchapter 2

Decorative flourish



Comprehensive Annual Financial Report

A PENSION TRUST FUND OF THE CITY OF NEW YORK

Fiscal Year Ended
June 30, 1997
New York, New York

New York City Police Pension Fund
Subchapter Two
A Pension Trust Fund of The City of New York



Comprehensive Annual Financial Report

Fiscal Year Ended
June 30, 1997
New York, New York

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK
FOR THE
FISCAL YEAR ENDED JUNE 30, 1997**

Prepared By: Accounting Unit under the direction of:
Inspector Joseph F. Maccone - Commanding Officer
New York City Police Pension Fund - Subchapter 2

Actuary

ROBERT C. NORTH JR. - Chief Actuary

Custodian of the funds

ALAN HEVESI - Comptroller of the City of New York

Headquarters Address

One Police Plaza, New York, New York 10038

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NEW YORK CITY POLICE PENSION FUND – SUBCHAPTER TWO
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 A PENSION TRUST FUND OF THE CITY OF NEW YORK
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**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**INTRODUCTORY SECTION
PART 1**

FISCAL YEAR ENDED JUNE 30, 1997

Certificate of Achievement for Excellence in Financial Reporting

Presented to

New York City Police
Pension Fund,
Subchapter 2

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1996

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Linda K. Savitsky
President

Jeffrey L. Esall
Executive Director

December 15, 1997

To the Members of the Board of Trustees, Police Pension Fund Subchapter 2.

The Comprehensive Annual Financial Report, Police Pension Funds Subchapter 2 (the Plan) a Pension Trust Fund of the City of New York for the fiscal year ended June 30, 1997, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the fund. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of the operation of the Retirement System. All disclosures necessary to enable the reader to gain an understanding of the Pension System's Financial Activities have been included.

Our independent auditors, KPMG Peat Marwick LLP-Watson, Rice & Co., have audited our financial statements, and have submitted an independent auditor report which is included in this book. The audit was conducted in accordance with generally accepted auditing standards.

The report has been prepared in accordance with the principles of Governmental Accounting and Reporting promulgated by the Governmental Accounting Standards Board.

It is our objective to present fairly the financial statements, supporting schedules and statistical tables.

This report will be forwarded to the Government Finance Officers Association for the certificate of Achievement for Excellence in Financial Reporting. This report consists of five sections:

An Introductory Section, which contains the Commanding Officer's Letter of Transmittal and the identification of the Administrative Organization and consulting services utilized by the system; a Financial Section, which contains the opinion of the Independent Certified Public Accountants as well as the Financial Statements of the fund; an Investments Section, which includes reports on investments activities and policies; an Actuarial Section which contains the systems Actuarial Data and the systems Actuarial Certification Letter; and the last section contains statistical tables of significant data pertaining to the New York City Police Pension Fund Subchapter 2.

The New York City Police Pension Fund Subchapter 2 represents the Finest Police Officers in the world. During 1975 The City of New York experienced a fiscal crisis. The Police Pension Fund Subchapter 2 as well as the four other actuarial city employee pension funds, New York City Employees' Retirement System, Teachers' Retirement System, Fire Pension Fund Subchapter 2 and Board of Education Retirement System, purchased millions of dollars of bonds from The City, which helped The City avoid bankruptcy.

Economic Condition and Outlook

Unemployment dropped to a low of about 5% at the end of fiscal year ending June 30, 1997 and is continuing in that direction. The national economy continues to perform above average without showing signs of recession. Inflation remains at a low level, an average rate of 2.5 percent for most of fiscal year 1997. The Gross Domestic Product (GDP) has been above the 2.5 percent growth for most of the fiscal year. For the present time, the outlook for a low rate of inflation remains good as well as lower unemployment. The City economics has showed a good economic growth trend for fiscal year 1997 due to Wall Street incomes and profits. The City has regained a substantial number of jobs lost in the prior several years, however, it failed to keep pace with national growth. The securities industry, with very high revenues, was a leader in income growth. Jobs are growing in the City and welfare eligibility has been made very difficult. The City's inflation trend has remained as low as the national. The future looks very good; building permits and jobs increased significantly, unemployment claims also dropped. These factors show that the outlook is positive. Economic growth for the future looks very promising for the Nation, State and City.

Major Initiatives for the Year

Fiscal year 1997 was a good year for the City and the Pension System. The economy grew at a good rate and crime was reduced significantly. The quality of life in the City was greatly improved. Downsizing government has also played a major impact on the economy. The budget now reflects a surplus which is good news for the City, thus showing an indication of future prosperity. Providing safer and better schools and helping create more jobs are a high priority of the City. The City as well as our retirement system will ensure that our computer systems are year 2000 compliant. The Office of the Mayor continues to check and supervise the City's and Pension System's implementation of technology of new computer systems. The pension fund earned in excess well above the earnings assumed to calculate the City's future pension costs and ahead of the median public fund in the United States. As a result, the City can reduce contributions to the fund, thus saving taxpayers hundreds of millions of dollars. The pension fund also spent less for management fees than most of the other large funds outside the City of New York. The pension fund policy of investing in economically target areas within New York City has generated above average rates of return for the system, job creation, and economic progress for the City.

Financial and Budgetary Controls

The management of the plan is responsible for establishing and maintaining an internal control structure designed to ensure that the funds assets are protected from loss, theft, or misuse and that preparation of financial statements are done in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable but not absolute, assurance that these objectives are met. The plan also maintains budgetary controls. An annual examination of existing Internal Controls is performed in compliance with Directive #1 City Manager Financial Integrity Directive which is administered by the City Comptroller who is also the Treasurer of the Pension Funds. This study and evaluation disclosed no condition that is a material weakness. As a further quality control, the Audit Committee for the City of New York, which includes experts in Accounting and Municipal Finance from the private sector, oversees the independent audit process. This process includes the independent auditors' reports and the Auditors' Management Letter, as well as the Retirements' System response. The committee operates independently and issues its own annual report.

Investment Policy

The investment policies are adopted by the Board of Trustees. Investments are made in a variety range of securities including Domestic and International Stocks and Bonds as well as Short-Term Investments as to minimize risks and maintain a high competitive return. Fiscal 1997 was a good year for domestic equity markets. Foreign markets performed well. The Pension Fund continued to diversify assets throughout various types of financial instruments. We also gave emerging markets of smaller developing countries consideration towards purchasing equity in their respective countries. The economies of these countries are expected to grow significantly in the near future.

The Pension Plan's securities lending program was increased to all assets including international assets. Securities on loan are fully collateralized with cash or treasury instruments. By increasing the funds return and providing greater safety for the funds assets, the city contributions to the plan may be reduced, thereby saving the City of New York millions of dollars. Programs were also developed and expanded for investments in economically targeted areas in New York City that will not only provide better than market returns but also provide economic growth in this city. Programs were also developed to improve the quality of life in New York City as well as the economy of our city.

Total fund performance was well above the assumed actuarial return and well ahead of the median public funds in this country. The Fund was also successful in achieving a reduction of Investment Manager fees thus keeping more investment income in the Plan. Data pertaining to investments is discussed in detail in the Investment Section.

The following table reflects increases and decreases in revenues and expenses for fiscal years 1997 and 1996 respectively. Amounts are in thousands.

<u>Description</u>	<u>Amount 1997</u>	<u>Amount 1996</u>	<u>Net Increase / (Decrease)</u>
Member Contributions	\$ 31,954	\$ 43,791	(27.03%)
Employer Contribution	529,777	554,961	(4.54%)
Total Contribution	561,731	598,752	(6.18%)
Interest Income	419,353	334,648	25.31%
Dividend Income	124,475	123,302	0.95%
Net Appreciation (Depreciation) in Fair Value of Investments	2,296,153	999,953	129.63%
Investment Expenses	148,412	63,813	132.57%
Net Investment Income	2,691,569	1,394,090	93.07%
Benefit Payments and Withdrawals	790,928	743,446	6.39%
Payments to Other Funds-Net	3,085	813	279.46%
Excess earnings to New York Police Department Variable Supplements Fund	0	400,000	0%
Total Deductions	\$ 787,843	\$ 1,144,259	(31.15%)

As a result net assets available for Pension Benefits increased from \$10,980,324,000 in fiscal year 1996 to \$13,463,933,000 in fiscal year 1997, reflecting a 22.6% increase.

The following are consultants for the various types of investments:

Fixed Income Advisors

Government

- Barclays Global
- Fischer, Francis
- Putman Companies

Mortgage

- Bear Sterns
- Miller Anderson
- Pimco

Corporate

- BEA
- T. Rowe Price
- Alliance Capital

Foreign

- Solomon Brothers
- Bank of Ireland
- Yankee
- Capital Guardian
- G.E. Investment
- Scudder
- BEA
- Schroder Capital
- Genesis Asset Managers
- T. Rowe Price

Equity Advisors

- Loomis Sayles
- Schroder Capital
- W.R. Huff
- Bankers Trust – Index
- J.W. Selligman
- IDS Advisory Group
- Fidelity Management
- Equinox Capital
- Smith Barney
- Barclays Global

The comptroller of the City of New York is the custodian of the pension fund assets and provides investment services through independent advisors. Actuarial services are provided to the system by the City's Chief Actuary employed by the Board of Trustees of the City's main pension systems. The City's Corporation Counsel provides legal services to the fund. All financial information is discussed in the financial section.

For the Future

It is the aim of our investment advisors to provide safe and high rates of return for all our investments. Trustees review the performance of the investment advisors periodically in order that maximum returns can be realized. As Custodian and Investment Manager of the Police Pension Fund, the Comptroller is responsible for the pension fund assets which are in excess of 16.1 billion dollars. The investment policy is to minimize credit and market risks while maintaining a competitive yield on the portfolio. The Comptroller continues to work with the Police Pension Fund to develop an innovative targeted investment program. The key leading indicators continue to point upward towards economic stability.

Inflation and unemployment are down and a rising stock market reflects good times to come. The school system is improving, welfare is reduced, and the crime rate is down, thus reflecting for a very good future.

Financial Overview and Fund Structure

This report includes all funds of the Police Pension Fund Subchapter 2 which are as follows:

1. The Annuity Saving Fund is composed of contributions received from active members usually through payroll deductions.
2. The Contingent Reserve Fund is employer contributions.

3. The Annuity Reserve Fund is member contributions transferred at retirement to provide the annuity portion retirement allowance.
4. The Pension Reserve Fund is employer contributions transferred at retirement to provide the pension portion at retirement.
5. The Group Life Insurance Fund is employer contributions used to provide death benefits. They are payable to the beneficiary or estate of a member. The part of the benefits derived from City contributions (not exceeding \$50,000) shall be paid as insurance from The Group Life Insurance Fund.

Other Information

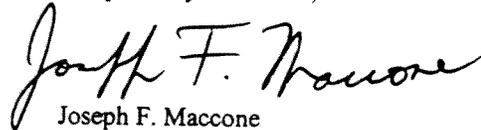
The Government Finance Officers Association of the United States and Canada (GFOA) awarded Certificates of achievement for Excellence in Financial Reporting to the New York City Police Pension Fund Subchapter 2 for its Financial Report for the fiscal years ended June 30, 1987 through June 30, 1996. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized financial report, whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The compilation of this report reflects the combined effort of the staff of the Pension Section, the Chief Actuary of the City of New York and the Comptroller's office. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of indicating stewardship of the assets contributed by the members of the system. I would like to take this opportunity to thank the staff, the advisors and the many people who have worked so diligently to assure the successful operation of the Fund. I also want to express my appreciation to the Pension Section's Accounting Unit, especially to our Chief Accountant Abraham Papilsky and Deputy Chief Accountant Louis Dory. I appreciate their efforts, which have continued to be of primary importance in preparation of all accounting and statistical data for this report.

In closing, without the leadership and support of the Board of Trustees, preparation of this report would not have been possible.

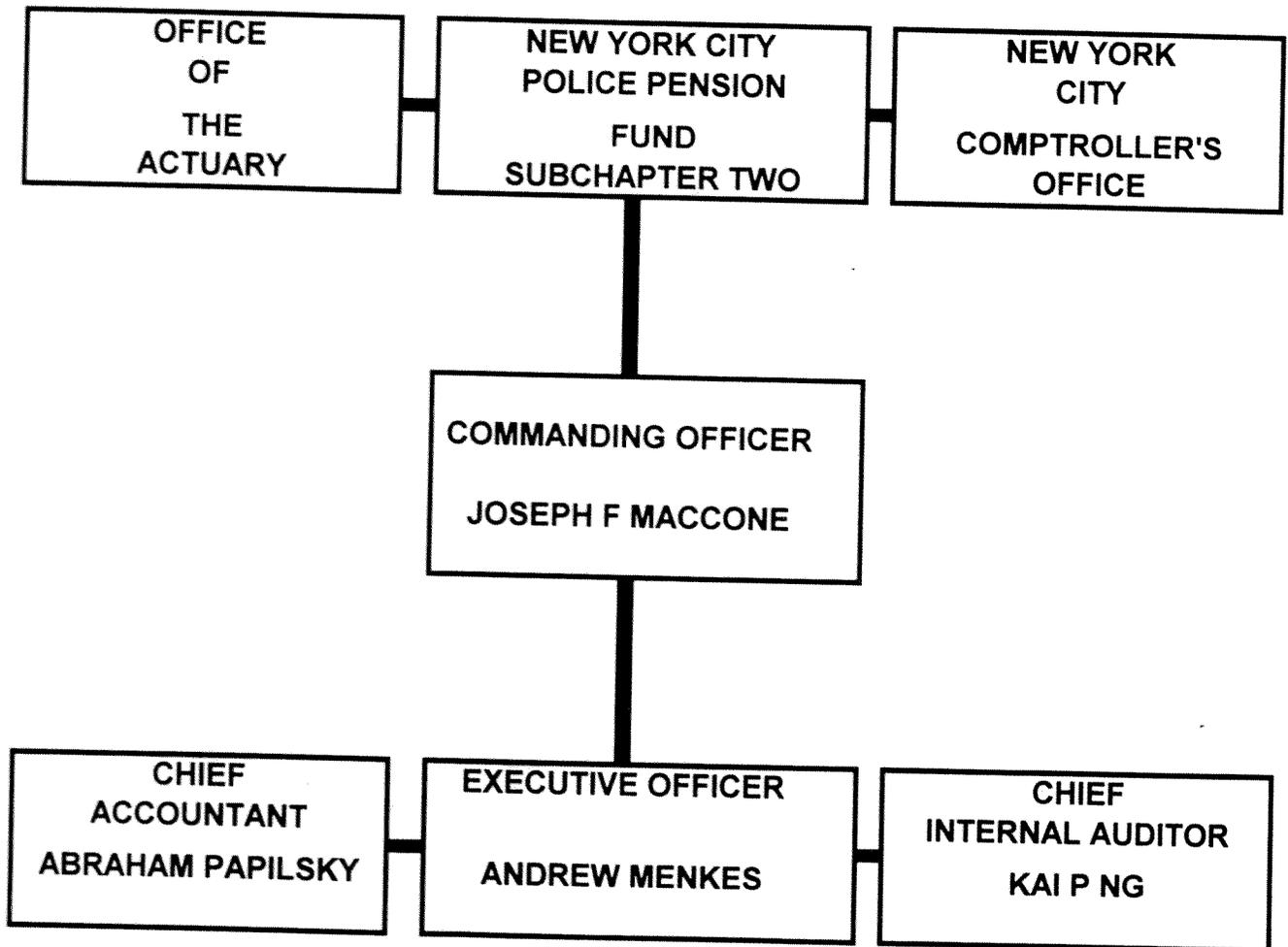
Respectfully submitted,



Joseph F. Maccone
Inspector
Commanding Officer
Pension Section

JFM:dd

**NEW YORK CITY POLICE PENSION FUND - SUBCHAPTER TWO
ADMINISTRATIVE ORGANIZATION**



**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**FINANCIAL SECTION
PART II**

FISCAL YEAR ENDED JUNE 30, 1997



Independent Auditors' Report

The Board of Trustees
New York Police Department
Pension Fund - Subchapter 2:

We have audited the accompanying statements of plan net assets of the New York Police Department Pension Fund - Subchapter 2 (the "Plan") as of June 30, 1997 and 1996, 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 generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, the financial statements referred to above present fairly, in all material respects, the net assets of the Plan as of June 30, 1997 and 1996, and the changes in plan net assets for the years then ended in conformity with generally accepted accounting principles.

The information on Schedules 1 through 3 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The information included in the Introductory, Investment, Actuarial and Statistical sections of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on it.

KPMG Peat Marwick LLP

December 12, 1997



NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Statements of Plan Net Assets

June 30, 1997 and 1996

(in thousands)

	<u>1997</u>	<u>1996</u>
Assets:		
Receivables:		
Receivables for investment securities sold	\$ 436,909	101,279
Accrued interest and dividends receivable	56,441	56,165
Employer contributions receivable - long term (note 6)	481,844	491,912
Employer contributions receivable - short term	-	13,912
Due from New York City Employees' Retirement System (note 1)	-	594
Total receivables	<u>975,194</u>	<u>663,862</u>
Investments, at fair value (notes 2 and 3):		
Securities purchased under agreements to resell	48,669	7,825
Other short-term investments:		
Commercial paper	45,033	26,286
Short-term investment fund	583,739	795,563
Debt securities:		
U.S. Government	2,272,442	1,978,387
Corporate	1,224,126	1,203,821
International investment fund - fixed income	121,401	118,944
Foreign	179,561	124,205
Equity securities	7,437,774	6,364,502
International investment fund - equities	1,739,125	987,397
Collateral from securities lending transactions	<u>1,543,285</u>	<u>1,235,203</u>
Total investments	15,195,155	12,842,133
Other assets	<u>3,343</u>	<u>2,791</u>
Total assets	<u>16,173,692</u>	<u>13,508,786</u>
Liabilities:		
Accounts payable (note 2)	19,163	354,924
Payables for investment securities purchased	1,088,143	521,173
Accrued benefits payable	16,852	17,162
Deferred employer contribution (note 5)	42,316	-
Due to variable supplements funds (note 4)	-	400,000
Securities lending transactions	<u>1,543,285</u>	<u>1,235,203</u>
Total liabilities	2,709,759	2,528,462
Contingent liabilities (note 9)	-	-
Plan net assets held in trust for pension benefits	\$ <u>13,463,933</u>	<u>10,980,324</u>

See accompanying notes to financial statements.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Statements of Changes in Plan Net Assets

Years ended June 30, 1997 and 1996

(in thousands)

	<u>1997</u>	<u>1996</u>
Additions:		
Contributions (notes 5 and 6):		
Member contributions (net of loans to members - note 5)	\$ 31,954	43,791
Employer contributions	<u>529,777</u>	<u>554,961</u>
Total contributions	<u>561,731</u>	<u>598,752</u>
Investment income:		
Interest income	419,353	334,648
Dividend income	124,475	123,302
Net appreciation in fair value of investments	<u>2,296,153</u>	<u>999,953</u>
Total investment income	2,839,981	1,457,903
Less investment expenses (note 8)	<u>148,412</u>	<u>63,813</u>
Net investment income	<u>2,691,569</u>	<u>1,394,090</u>
Adjustment for prior year transfer to variable supplements funds (note 4)	18,152	18,207
Transfer from New York City Employees' Retirement System (note 1)	<u>—</u>	<u>15,084</u>
Total additions	<u>3,271,452</u>	<u>2,026,133</u>
Deductions:		
Benefits payments and withdrawals (note 1)	790,928	743,446
Payments to (from) other funds, net (note 1)	(3,085)	813
Excess earnings to New York Police Department Variable Supplements Funds (note 4)	<u>—</u>	<u>400,000</u>
Total deductions	<u>787,843</u>	<u>1,144,259</u>
Net increase	2,483,609	881,874
Plan net assets held in trust for pension benefits:		
Beginning of year	<u>10,980,324</u>	<u>10,098,450</u>
End of year	\$ <u>13,463,933</u>	<u>10,980,324</u>

See accompanying notes to financial statements.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements

June 30, 1997 and 1996

(1) **Plan Description**

The City of New York (the "City") maintains a number of pension systems providing benefits for employees and employees of its various agencies (as defined within plan documents). The City's main pension systems are the New York Police Department Pension Fund - Subchapter 2 (the "Plan"), the New York City Employees' Retirement System ("NYCERS"), the New York City Teachers' Retirement System, the New York City Board of Education Retirement System and the New York Fire Department Subchapter Two Pension Fund. Each pension system is a separate Public Employee Retirement System ("PERS") with a separate oversight body and is financially independent of the others.

The Plan is a single-employer PERS. The Plan provides pension benefits for full-time uniformed employees of the Police Department. All full-time uniformed employees of the New York Police Department are required to become members of the Plan upon employment.

The Plan functions in accordance with existing State statutes and City laws. It combines features of a defined benefit pension plan with those of a defined contribution pension plan. Contributions are made by the employer and the members. Employer contributions and investment income provide all benefits not provided by member contributions.

In June 1991, the Governmental Accounting Standards Board (the "GASB") issued Statement No. 14, "The Financial Reporting Entity." The definition of the reporting entity is based primarily on the notion of financial accountability. In determining financial accountability for legally separate organizations, the Plan considered whether its officials appoint a voting majority of an organization's governing body and is either able to impose its will on that organization or there is a potential for the organization to provide specific financial burdens to, or to impose specific financial burdens on, the Plan. The Plan also considered whether there are organizations that are fiscally dependent on it. It was determined that there are no component units of the Plan.

The Plan is included in the City's Comprehensive Annual Financial Report ("CAFR") as a pension trust fund in the Trust and Agency Funds.

At June 30, 1996 and 1995, the dates of the Plan's most recent actuarial valuations, the Plan's membership consisted of:

	<u>1996</u>	<u>1995</u>
	(A)	(B)
Retirees and beneficiaries receiving benefits*	35,435	35,285
Terminated vested members not yet receiving benefits	13	10
Active members**	<u>36,778</u>	<u>36,204</u>
Total	<u><u>72,226</u></u>	<u><u>71,499</u></u>

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(1), Continued

- (A) These figures include 3,455 former Police, Subchapter One participants as of June 30, 1996.
- (B) These figures exclude 3,830 former Police, Subchapter One participants as of June 30, 1995.
- * These figures exclude retirees and beneficiaries no longer receiving benefits who have not yet been cancelled from the retirement registers.
- ** These figures include only current active members receiving salary as of each June 30.

The Plan provides three main types of retirement benefits: service retirements, ordinary disability retirements (non job-related disabilities) and accident disability retirements (job-related disabilities).

- A service retirement benefit provides an allowance of one-half of "final salary" (as defined within plan documents) after 20 years or 25 years of service (as elected), with additional benefits equal to a specified percentage per year of service (currently approximately 1.67%) of "average salary" (as defined within plan documents) times number of years in excess of the 20-year or 25-year minimum. These additional benefits are increased, where applicable, by an annuity attributable to member contributions with respect to service over the 20-year or 25-year minimum and by any benefits attributable to the employer's contributions with respect to such service under the Increased-Take-Home-Pay ("ITHP") program.
- An ordinary disability retirement benefit generally provides a pension equal to 1/40 of final salary times the number of years of service but not less than one-half of final salary if ten or more years of service were completed or one-third of final salary if less than ten years of service were completed.
- An accident disability retirement benefit provides a pension of three-fourths of final salary plus an increment as described above under service retirement for years of service in excess of the 20-year or 25-year minimum plus an annuity based on the member's contributions with accumulated interest and the amount accumulated under the ITHP program.

Annuities attributable to member contributions are reduced on an actuarial basis for any loans with unpaid balances outstanding at the date of retirement.

Subject to certain conditions, the Plan also provides that members become fully vested as to benefits upon the completion of 15 years of service. In addition, the Plan includes provisions for death benefits.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(1), Continued

Finally, certain service retirees also receive supplemental benefits under the New York Police Department Variable Supplements Funds, which are not included in these financial statements.

The New York State Constitution provides that the pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, amendments were made to the State Retirement and Social Security Law ("RSSL") to modify certain benefits for employees joining the Plan on or after the effective date of such amendments. These amendments, which affect employees who joined the Plan after July 1, 1973, established certain benefit limitations relating to eligibility for retirement, the salary base for benefits and maximum benefits.

As of April 2, 1995, members of the Housing Police and, as of April 30, 1995, members of the Transit Police and their respective balances were transferred from NYCERS to the New York Police Department Pension Fund - Subchapter 2. The total assets transferred was approximately \$622 million.

As a result of Chapter 503 of the Laws of 1995, the assets and liabilities of the New York Police Department Subchapter One Pension Fund were transferred to the Plan retroactive to July 1, 1994.

(2) **Summary of Significant Accounting Policies and Plan Asset Matters**

(a) *Basis of Accounting*

The Plan is accounted for on the 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. Contributions from members are recorded when the employer makes payroll deductions from Plan members. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

(b) *Method Used to Value Investments*

Investments are valued at fair value. Traded 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.

Purchases and sales of securities are reflected on the trade date.

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

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(2), Continued

No investment in any one organization represents 5% or more of the net assets held in trust for pension benefits.

(c) *Income Taxes*

Income earned by the Plan is not subject to Federal income tax.

(d) *Other*

Accounts payable represents, principally, amounts due to banks for benefit payments made on or before June 30, 1997 and 1996; transfers to the appropriate bank accounts were made after those dates.

(e) *Securities Lending Transactions*

State statutes and board of trustees policies permit the Plan 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 Plan'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 investments funds. In return, it receives collateral in the form of cash, treasury and agency securities at 100% to 105% of the principal plus accrued interest for reinvestment. At year end, the Plan had no credit risk exposure to borrowers because the amounts the Plan owed the borrowers equaled or exceed the amounts the borrowers owed the Plan.

The contracts with the Plan custodian require borrowers to indemnify the Plan if the borrowers fail to return the securities and if the collateral is inadequate to replace the securities loaned or fail to pay the Plan 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 Plan or the borrowers. Cash collateral is invested in the lending agents' short-term investment pools, which have a weighted-average maturity of 90 days. The underlying securities (fixed income) have an average maturity of ten years.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(2), Continued

In May 1995, the GASB issued Statement No. 28, "Accounting and Financial Reporting for Securities Lending Transactions." The Statement requires that securities loaned as assets and related liabilities be reported in the statements of plan net assets. Cash received as collateral on securities lending transactions and investments made with that cash will be reported as assets. Securities received as collateral should also be reported as assets if the government entity has the ability to pledge or sell them without a borrower default. The provisions of the Statement are effective for financial statements for periods beginning after December 15, 1995. Accordingly, for the years ended June 30, 1997 and 1996, the Plan recorded the investments purchased with the cash collateral as collateral from securities lending transactions with a corresponding liability as securities lending transactions

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

(3) Deposits and Investments

The Administrative Code of The City of New York authorizes the investment of plan assets (other than equities) subject to the terms, conditions, limitations and restrictions imposed by law for investment by savings banks.

The criteria for the plan investments are as follows:

- (a) Fixed income investments may be made only in U.S. Government securities, securities of Government agencies backed by the U.S. Government, securities of companies rated BBB or better by both Standard & Poor's Corporation and Moody's Investors Service and any bond on the Legal Investments for New York Savings Banks list published annually by the New York State Banking Department.
- (b) Equity investments may be made only in those stocks that meet the qualifications of the RSSL.
- (c) Short-term investments may be made in the following instruments:
 - (i) U.S. Government securities or Government agencies' securities fully guaranteed by the U.S. Government.
 - (ii) Commercial paper rated A1 or P1 by Standard & Poor's Corporation or Moody's Investors Service, respectively.
 - (iii) Repurchase agreements collateralized in a range of 100% to 103% of matured value purchased through the primary dealers of U.S. Government securities.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements

(3), Continued

- (d) Investments in banker's acceptances and certificates of deposit may be made with any of the ten largest banks with either the highest or next to the highest rating categories of the leading independent bank rating firms.
- (e) Investments up to 7.5% of total pension fund assets may be made in instruments not specifically covered by the RSSL.

Cash deposits are insured by the Federal Deposit Insurance Corporation for up to \$100,000 per plan member and are, therefore, fully insured.

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

Investments owned by the Plan, including the collateral from securities lending transactions of \$1,543.3 million and \$1,235.2 million at June 30, 1997 and 1996, respectively, are listed according to their investment classification in the following table:

	<u>1997</u>	<u>1996</u>
	(in thousands)	
Categorized (A):		
Repurchase agreements	\$ 149,023	22,580
Commercial paper	498,606	404,278
U.S. Government securities	2,302,684	1,993,563
Corporate bonds	1,224,126	1,243,807
Equity securities	7,437,774	6,364,502
Foreign debt securities	<u>179,561</u>	<u>124,205</u>
Subtotal	<u>11,791,774</u>	<u>10,152,935</u>
Noncategorized (B):		
Short-term investment fund	583,739	795,563
International investment fund - fixed income	121,401	118,944
International investment fund - equities	1,931,893	987,397
Mutual funds	-	71,210
Other	<u>766,348</u>	<u>716,084</u>
Subtotal	<u>3,403,381</u>	<u>2,689,198</u>
Total	<u>\$ 15,195,155</u>	<u>12,842,133</u>

(A) All categorized investments are Category 1 risk.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(3), Continued

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

(4) Due to Variable Supplements Funds ("VSFs")

The Administrative Code of The City of New York provides that the Plan pay to the Police Officers' Variable Supplements Fund ("POVSF") and the Police Superior Officers' Variable Supplements Fund ("PSOVSF") amounts equal to certain excess earnings on equity investments of the Plan. Such transfers from the Plan to the POVSF and PSOVSF are limited to the unfunded accumulated benefit obligation ("ABO") of these VSFs. The excess earnings are defined as the amount by which earnings on equity investments of the Plan exceed what the earnings would have been had such funds been invested at a yield comparable to that available from fixed income securities, less any cumulative deficiencies of prior years' excess earnings that fell below the yield of fixed income investments.

For fiscal year 1997, the estimated potential earnings on equity investments of the Plan, as limited by the estimated unfunded ABOs of the VSFs, result in no transfers due to the Plan.

For fiscal year 1996, \$400 million in excess earnings on equity investments of the Plan was estimated to be transferable to the respective VSFs as of June 30, 1996. Actual excess earnings on equity investments related to fiscal year 1996 were approximately \$18 million less than estimated. The \$18 million is reflected as an increase in the Plan's net assets in fiscal year 1997. The actual excess earnings of \$382 million were transferred to the VSFs during fiscal year 1997.

The excess earnings on equity investments of the Plan transferable from the Plan as of June 30, 1997 and 1996 are as follows:

<u>Variable Supplements Fund</u>	<u>Estimated 1997</u>	<u>Estimated 1996</u>	<u>Actual 1996</u>
	(A)	(A)	
	(in millions)		
Police Officers	\$ -	-	-
Police Superior Officers	<u>-</u>	<u>400</u>	<u>382</u>
Total	<u>\$ -</u>	<u>400</u>	<u>382</u>

(A) The excess earnings of the Plan payable to the VSFs are limited to the Unfunded ABOs of the VSFs.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements, Continued

(5) Contributions

The financial objective of the Plan is to fund members' retirement benefits during their active service and to establish contribution rates which, expressed as a percentage of active payroll, will remain approximately level from generation to generation.

(a) *Employee Contributions*

Members who joined prior to July 27, 1976 contribute by salary deductions on the basis of a normal rate of contribution which is assigned by the Plan at membership. The normal rate, which is dependent upon age and actuarial tables in effect at the time of membership, is determined so as to provide approximately one-third of the service retirement allowance at the earliest age for service retirement.

Members who joined on or after July 27, 1976 are mandated to contribute 3% of annual wages. In addition, certain Tiers 2 and 4 members contribute additional amounts for optional retirement programs.

Member contributions are made on the basis of a normal rate of contribution that is assigned by the Plan at the time of membership. The normal rate, which is dependent upon the member's age and plan, as well as the tables in effect at the time of membership, is determined so as to provide an annuity that will be approximately one-quarter of the service retirement. Members may voluntarily increase their rates of contribution by 50% for the purpose of purchasing an additional annuity. Members are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such member's contribution accounts. Contributions from members are recorded when the employer makes payroll deductions from Plan members.

Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any loans outstanding. The amount of member loans outstanding as of June 30, 1997 was approximately \$297 million and as of June 30, 1996, approximately \$281 million.

(b) *Employer Contribution*

The employers are required to contribute the remaining amounts necessary to finance the coverage of its employees through periodic contributions at actuarially determined rates.

The Frozen Entry Age Actuarial Cost Method of funding is utilized by the Plan's actuary to calculate the contributions from the employers.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(5), Continued

Under this method, the excess of the actuarial present value of projected benefits of members as of the valuation date, over the sum of the Actuarial Value of Assets plus the Unfunded Actuarial Accrued Liability ("UAAL"), is allocated on a level basis over the future earnings of members who are on payroll as of the valuation date.

The UAAL was reestablished in accordance with the Actuarial Cost Method as of June 30, 1995 as provided by Chapter 598 of the Laws of 1996 ("Chapter 598/96"), which also provided for schedules of payments toward the UAAL, including the Balance Sheet Liability ("BSL") portion of the UAAL. The BSL is the Employer Contribution Receivable - Long Term described in note 6.

The schedules of payments toward the UAAL and BSL established by Chapter 598/96 provide that the UAAL and BSL as of June 30, 1995 be amortized over a period of 15 years beginning fiscal year 1996, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

In addition, two UAAL were established under Chapter 119 of the Laws of 1995 ("Chapter 119/95") and Chapter 157 of the Laws of 1997 ("Chapter 157/97").

Chapter 119/95 established a UAAL as of June 30, 1996 for retiree supplementation and is being amortized on a level basis over an effective period of 10 years from December 1996.

Chapter 157/95 established a UAAL as of June 30, 1997 which is being amortized on a level basis over a period of 14 years beginning fiscal year 1997, where the amount of each annual credit after the first is equal to 103% of the preceding annual credit.

The actuarial assumptions and methods utilized to determine the fiscal year 1996 employer contribution differed from that used to determine the fiscal year 1995 employer contribution. The fiscal year 1996 employer contribution increased by approximately \$29 million compared to what it would have been utilizing the former assumptions and methods. The change in fiscal year 1996 employer contribution equals the difference between the fiscal year 1996 employer contribution and the June 1995 estimates of fiscal year 1996 employer contribution. The June 1995 estimate of fiscal year 1996 employer contribution was based on actuarial assumptions and methods in effect on June 30, 1994. It is also based on June 30, 1994 census data and covered payroll projected forward to June 30, 1995 on an estimated basis. The fiscal year 1996 employer contribution is based on the actuarial assumptions and methods in effect on June 30, 1995. It is also based on actual June 30, 1995 census data and covered payroll.

The Actuarial Interest Rate ("AIR") assumption utilized to determine the fiscal year 1997 employer contribution differed from that used to determine the fiscal year 1996 employer contribution. The fiscal year 1997 employer contribution decreased by approximately \$42 million compared to what it would have been utilizing the former assumption. Accordingly, the \$42 million, which had been contributed by the employer as of June 30, 1997, is recognized as deferred employer contribution as of that date.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements, Continued

(5), Continued

The change in assumptions and methods used to determine fiscal year 1996 employer contribution reflects proposals made by the actuary, adopted by the Board of Trustees, and where applicable, enacted into law as discussed in note 9.

Beginning with the June 30, 1991 actuarial valuation (used to determine fiscal year 1992 employer contributions), the Actuarial Asset Valuation Method ("AAVM") recognized expected investment returns immediately and phased in investment returns greater or less than expected returns over a period of five years. To implement this new method, a Market Value Restart was used which reset the Actuarial Asset Value to market value as of June 30, 1991. For the June 30, 1992 to June 30, 1994 actuarial valuations, investment returns greater or less than expected rates of return were phased in as they arose.

In conjunction with all of the other changes in actuarial assumptions and methods as of June 30, 1995, the actuary again used a Market Value Restart and set the Actuarial Asset Value ("AAV") to equal market value as of June 30, 1995.

The AAVM used as of June 30, 1995 recognized expected investment returns immediately and phased in investment returns greater or less than expected (i.e., Unexpected Investment Returns ("UIR")) over five years at a rate of 20% per year (or at a cumulative rate of 20%, 40%, 60%, 80% and 100% over five years). The AAVM used as of June 30, 1996 is a modified version of the typical five-year average of market values used previously.

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

The modification in the AAVM as of June 30, 1996 had no impact on fiscal year 1997 employer contributions but will impact employer contributions beginning fiscal year 1998.

Employer contributions were equal to the actuary's recommendations.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Notes to Financial Statements

(6) Employer Contribution Receivable - Long Term

As a result of State legislation in 1982, the City made certain revisions, effective July 1, 1980, to the Plan. Among other provisions, the legislation changed the timing of pension contributions by the City. Prior to enactment, pension contributions were made on a statutory basis which reflected pension costs incurred two years earlier. The law provides that the adjusted accrued pension contributions receivable ("Employer Contribution Receivable - Long Term") from the City at June 30, 1980, as adjusted, must be amortized over 40 years beginning in fiscal year 1982, with interest at 7.5% per annum (8% beginning in fiscal year 1983, 8.25% beginning in fiscal year 1989, 8.5% beginning in fiscal year 1991 and 8.75% beginning in fiscal year 1997). The interest is included in employer contributions each year.

Chapter 598 of the Laws of 1996 continues the payment schedule to provide that the accrued pension contribution receivable from the City as of June 30, 1995 be amortized over a period of 15 years beginning fiscal year 1996, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

(7) Investment Advisors

The Comptroller of The City of New York (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.

(8) Related Parties

Administrative and investment expenses (\$4,805,132 in fiscal year 1997 and \$15,426,852 in fiscal year 1996), except for certain investment expenses, are paid by the City.

The Comptroller is custodian of plan assets. The Comptroller also provides cash receipt and cash disbursement services to the Plan. Actuarial services are provided to the Plan by the City's Office of the Actuary employed by the Boards of Trustees of the City's main pension systems. The City's Corporation Counsel provides legal services to the Plan. Other administrative services are also provided by the City.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements

(9) **Contingent Liabilities and Other Matters**

Contingent Liabilities

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

Other Matters

During 1997, 1996 and 1995, certain events described herein took place which, in the opinion of plan management, could have the effect of increasing obligations of the Plan to members and beneficiaries. The effect of such events has not been fully quantified; however, it is the opinion of Plan management that such developments would not have a material effect on Plan net assets or changes in Plan net assets.

New York State Legislature

Chapter 119 of the Laws of 1995 provides for supplemental retirement allowances for certain retirees of the actuarially-funded New York City Retirement Systems and Closed Pension Funds. It was effective December 1, 1996 as elected by the City Council on October 25, 1995.

Chapter 503 of the Laws of 1995 amended the Administrative Code of the City of New York in relation to the transfer of assets, liabilities and administration of certain pension funds in the New York Police Department. See note 1 for more details.

Chapter 598 of the Laws of 1996 amends the Administrative Code of the City of New York. It continues the current statutory interest rate for New York Police Department, Subchapter 2 Pension Fund and cancels certain unfunded accrued liability payments. It makes provisions regarding the rate of regular interest used in the actuarial valuation of liabilities for the purpose of calculating contributions, the making of contributions to the Plan, the crediting of special interest and additional interest to members and the allowance of supplementary interest on the fund. It provides for:

1. An actuarial interest rate assumption of 8.50% per annum.
2. Revising the methodology used to finance benefits attributable to ITHP reserves and service credits for Military Service.
3. Inclusion of member contributions in the actuarial value of assets.

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Notes to Financial Statements

(9), Continued

4. Reestablishing total unfunded actuarial accrued liabilities as of June 30, 1995 and consolidating most amounts as of that date.
5. Amortizing the consolidated unfunded actuarial accrued liabilities, including the balance sheet liability portion of the total sum, over a period of 15 years from June 30, 1995, where each payment after the first annual payment equals 103% of its preceding annual payment.

The following chronology outlines significant benefit and funding changes during fiscal year 1997:

Chapter 157 of the Laws of 1997 provided for an increase of the actuarial interest rate assumption from 8.50% to 8.75% per annum.

Chapter 601 of the Laws of 1997 amends the Administrative Code of the City of New York and the RSSL to bring the Plan into compliance with the requirement of the Federal Older Workers' Benefit Protection Act of 1990 ("OWBPA").

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Schedule of Funding Progress
(In conformity with the Plan's funding method)

(Unaudited)

(in thousands)

	(1)	(2)	(3)	(4)	(5)	(6)
Actuarial valuation date <u>June 30</u>	Actuarial value of <u>assets</u>	Actuarial accrued liability (AAL) frozen <u>entry age</u>	Unfunded AAL (<u>UAAL</u>)	Funded <u>ratio</u>	Covered <u>payroll</u>	UAAL as a percentage of covered <u>payroll</u>
(A)	(B)	(B&C)	(D)(2)-(1)	(1)÷(2)		(3)÷(5)
1996	\$ 10,342,907	11,603,367	1,260,460	89.1%	\$ 1,919,993	65.6%
1995*	9,632,930**	10,955,850	1,322,920	87.9%	1,844,885	71.7%
1994	8,137,414	9,537,538	1,400,124	85.3%	1,478,485	94.7%
1993	7,658,405	8,973,327	1,314,922	85.3%	1,379,928	95.3%
1992	7,088,879	8,446,542	1,357,663	83.9%	1,332,598	101.9%
1991	6,618,932**	8,016,563	1,397,631	82.6%	1,303,589	107.2%

* Revised economic and non-economic assumptions due to experience review.

** Re-established the Actuarial Asset Value to equal market value.

(A) For the year ended June 30, 1995 and later, the valuation method was changed from an end of year to a beginning of year convention.

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

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

The AAVM used as of June 30, 1996 is a modified version of the typical five-year average of market values used previously.

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Schedule of Funding Progress, Continued
(In conformity with the Plan's funding method)

(Unaudited)

(in thousands)

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

The modification in the AAVM as of June 30, 1996 had no impact on fiscal year 1997 employer contributions but will impact employer contributions beginning fiscal year 1998.

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

NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2

Schedule of Employer Contributions

(Unaudited)

(in thousands)

<u>Annual fiscal year ended June 30</u>	<u>Required contribution</u>	<u>Percentage contributed</u>
1997	\$ 529,777	100%
1996	554,961	100
1995	414,928	100
1994	414,446	100
1993	448,767	100
1992	421,322	100

**NEW YORK POLICE DEPARTMENT
PENSION FUND - SUBCHAPTER 2**

Actuarial Methods and Assumptions

(Unaudited)

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the last two actuarial valuations follows:

<u>Valuation date</u>	<u>June 30, 1996</u>	<u>June 30, 1995</u>
Actuarial cost method	Frozen entry age.	Frozen entry age.
Amortization method for Unfunded Actuarial Accrued Liabilities	Increasing Dollar, except for UAAL attributable to Retiree Supplementation.	Increasing Dollar.
Remaining amortization period	14 years for consolidated unfunded accrued liability and BSL. 10 years beginning fiscal year 1997 for UAAL attributable to Retiree Supplementation.	15 years for consolidated unfunded accrued liability.
Actuarial asset valuation method	Modified 5-year average of market values with market value restart as of June 30, 1995.	5-year average of market values with market value restart as of June 30, 1995.
Actuarial assumptions: Assumed rate of return on investments	8.75% per annum.	8.50% per annum.
Postretirement mortality	Tables based on recent experience.	Tables based on recent experience.
Active service withdrawal, death, disability, service retirement	Tables based on recent experience.	Tables based on recent experience.
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 4.0% per year.	In general, merit and promotion increases plus assumed general wage increases of 4.0% per year.
Cost-of-living adjustments	Provided by the legislature on an ad hoc basis.	Provided by the legislature on an ad hoc basis.

**NEW YORK CITY POLICE DEPARTMENT
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**INVESTMENT SECTION
PART III**

FISCAL YEAR ENDED JUNE 30, 1997

Investment Policy

Investment policies are approved by the Police Board of Trustees. The New York City Comptroller acts as custodian and investment advisor to the Board. Plan assets are diversified across various asset classes, including domestic stock and bonds and in international securities through collective fund investment vehicle. Fiscal year 1997 was a good year for financial markets. The overall investment return of pension assets was 22.23%. This is well above the assumed actuarial return of 8.75% and ahead of the median public fund in America, which returned 20.0%.

The Pension fund continues to diversify plan assets. Investments in international securities increased to 14%, including \$90 million in the emerging markets. Emerging markets consist of smaller stock markets in developing countries. These markets and their economies are expected to grow rapidly over the next decade.

Securities are made available for lending through various programs. Revenues for fiscal year end 1997 were \$3.2 million. Securities loaned are fully collateralized and all programs provide for indemnification. Proxies are voted by the Comptroller's Office, pursuant to guidelines developed by the Comptroller and approved by the Board of Trustees. The Police Pension fund is active in promoting good corporate governance practices within portfolio companies, such as independent boards of directors, confidential proxy voting and shareholder rights issues. In addition, the Police fund supports good corporate social practices, including fair employment in Northern Ireland and issues impacting the environment.

Background

The New York City Police Pension Fund, Subchapter 2 was incorporated on March 1, 1940 and commenced business on March 29, 1940. On January 30, 1940 the fund operated on an actuarial basis covering persons appointed to the police force after June 1, 1940. The fund succeeded Subchapter 1(Article1) pension fund established for New York City Police prior to 1940.

In 1995, Legislation was enacted merging Subchapter 1 with Subchapter 2 Pension. In addition, during 1995, Legislation was passed allowing the New York City Transit Authority and Housing Authority Police officers to transfer out of New York City Employees Retirement System (NYCERS) and merge with the fund. Three different police departments became one unified police force under the direct control of the Police Commissioner. The New York City Police Pension Fund, Subchapter 2 was arranged primarily to provide retirement and disability benefits for all members of the service of the New York City Police Department. Also death benefits are provided for the dependents of slain police officers. This purpose is sustained by the members and employers contributions and returns realized from investment of those contributions.

Management

A twelve member board of trustees administers the fund. The board consists of representatives of the Police Commissioner, the Mayor, the City Comptroller and the Commissioner of Finance each with one and one-half votes, four specified officers of the Patrolmen's Benevolent Association with one vote each, and four presidents of certain other police associations, each with one half vote. Meetings are held every month. Special meetings may be called by the chairman or by a request of members of the board with a combined vote of not less than five.

Investment Philosophy

The Board of trustees realized that its primary objective is to assure that the pension plan meet its responsibilities for providing retirement and other benefits. The Board shall always act to assure that the level of investment risk in the portfolio shall be conservative and prudent. It is felt that a moderate level of risk associated with investments is reasonable in order to enhance potential long term investment results. Diversification of assets and investments is sought in order to reduce overall portfolio risk. The plan anticipates positive cash flow and therefore liquidity is not an important factor for the immediate future.

Investment Objective

The Board seeks to enhance the investment returns of the fund in order to permit higher benefits and to achieve lower costs. The performance objective is to maximize total return on

assets and the preservation of principal of investments during adverse market conditions. Having broad and prudent diversification of assets will reduce risks and produce competitive results of return on investments. Where investment factors including return, risk and liquidity are similar, the board will give consideration to investments which will have a positive impact on the economy of the State and City of New York.

Investment Approach

In order to monitor and control the activities within the investment function, the Board has reserved certain responsibilities for itself. Also all payments of benefits and contracts entered into with outside consultants are approved by the Board of Trustees. As custodian and Chief Investment Manager of the Pension fund, the Comptroller is responsible for the fund assets of more than \$16 billion. Investment policies are adopted by the Board of Trustees. The Comptroller employs a competent and qualified investment staff for the management of the major portion of portfolio assets. In those areas where specialized expertise is required, the Board employs the services of outside Investment Managers.

Investment Organization and Responsibilities

The Board recognized its responsibility to ensure that the assets of the fund are managed effectively and prudently in full compliance with all applicable laws and for the exclusive benefit of participants and beneficiaries. The Board will review the rate of return on its investments from various investment managers. If the rate of return is not above market then the Board will seek other consultants or investment advisors. This process is done from time to time. The Board has established a reporting process for regular and timely review and evaluation of investment results. The Board may also request, receive and review reports from the investment staff and investment managers. There are quarterly and annual reports on the investment returns of the fund prepared by the Comptroller which are reviewed and evaluated by the Board. The Board will ensure that all investment managers are performing at a high level of performance.

International Equities

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	%	Total	3 Mos		YTD		FYTD		2 Yrs		3 Yrs		5 Yrs	
			Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-95	Jun-97	Jul-94	Jun-97	Jul-92	Jun-97
International Active Equity														
271.83	15.63	Bank of Ireland	8.54		9.42		24.41		21.56		17.96		15.49	
286.71	16.49	Capital Guardian	14.83		17.29		26.99		23.80		n/a		n/a	
69.96	4.02	GE Investment	11.31		13.25		20.13		16.81		n/a		n/a	
275.69	15.85	Schroder Capital	13.50		14.15		15.54		16.62		11.58		13.69	
280.83	16.15	Scudder	12.71		15.07		20.14		20.84		15.54		14.89	
1,185.03	68.14	Total Int'l Active Equities	12.32		13.92		21.64		20.13		15.40		14.89	
		TUCS International Equity Median	11.30		12.50		17.40		17.20		12.40		13.70	
International Passive Equity														
463.68	26.66	Barclays Global	13.38		11.55		13.13		13.43		9.53		12.98	
1,648.70	94.80	Total Int'l Equities	12.62		13.24		18.76		17.75		13.19		14.30	
		EAFE	13.00		11.16		12.84		13.09		9.16		12.89	
Emerging Markets														
90.43	5.20	Genesis Asset Mgrs.	9.03		20.14		n/a		n/a		n/a		n/a	
90.43	5.20	Total Emerging Markets	9.03		20.14		n/a		n/a		n/a		n/a	
		MSCI Emerging Markets Free	7.68		16.34		n/a		n/a		n/a		n/a	
International Equities														
1,739.13	100.00	Total International Equities	12.43		13.58		18.93		17.83		13.25		14.33	

International Fixed Income

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	%	Total	3 Mos		YTD		FYTD		2 Yrs		3 Yrs		5 Yrs	
			Apr-97 Jun-97	Jan-97 Jun-97	Jan-97 Jun-97	Jul-96 Jun-97	Jul-95 Jun-97	Jul-94 Jun-97	Jul-94 Jun-97	Jul-92 Jun-97				

International Fixed Income

121.40 100.00 T. Rowe Price

Salomon Non \$ World Gov't Index

3.16	-1.98	2.07	-2.55	6.02	7.84
3.21	-1.95	2.25	-2.28	6.19	7.96

U.S. Fixed Income Advisors

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	% Total	3 Mos		YTD		FYTD		3 Yrs		5 Yrs		7 Yrs	
		Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-94	Jun-97	Jul-92	Jun-97	Jul-90	Jun-97
Government													
73.12	2.32	4.94	2.41	8.33	9.53	8.39	9.60						
	Barclays Global												
306.79	9.75	4.92	2.50	8.63	9.45	8.40	9.65						
	Fischer Francis												
294.39	9.36	4.80	2.26	8.26	9.27	8.32	9.72						
	Investment Advisors												
314.80	10.00	4.70	2.30	8.40	9.50	8.52	9.72						
	Putnam												
	Lehman Index	4.83	2.33	8.26	9.52	8.34	9.60						
989.10	31.43	4.82	2.36	8.42	9.42	8.41	9.77						
	Total Government												
29.90	Lehman Index Weighting												
Mortgage													
405.19	12.88	3.80	3.75	9.22	6.80	6.08	8.07						
	Bear Stearns												
462.24	14.69	3.82	3.94	9.34	8.50	7.07	8.90						
	PIMCO												
	Salomon Index	3.65	3.77	9.02	8.92	6.92	8.63						
472.04	15.00	3.96	3.86	9.90	9.11	6.41	8.77						
	Miller Anderson												
	Lehman Index	3.79	3.91	9.09	9.01	6.87	8.52						
1,339.47	42.57	3.86	3.85	9.50	8.19	6.52	8.60						
	Total Mortgage												
42.39	Lehman Index Weighting												
Corporate													
331.27	10.53	4.17	3.49	9.29	9.57	8.26	n/a						
	BEA												
352.08	11.19	4.66	3.86	10.33	10.63	8.84	10.19						
	T. Rowe Price												
	Salomon Index	3.99	3.17	8.83	9.35	7.84	9.33						
683.34	21.72	4.42	3.68	9.82	10.11	8.56	9.84						
	Total Corporate												
22.22	Lehman Index Weighting												

Assets (\$MM)	% Total	3 Mos		YTD		FYTD		3 Yrs		5 Yrs		7 Yrs	
		Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-94	Jun-97	Jul-92	Jun-97	Jul-90	Jun-97
Yankee													
134.66	4.28	Fischer Francis	4.28	3.62	10.55	n/a							
		Salomon Index	4.06	2.80	8.77	n/a							
134.66	4.28	Total Yankee	4.28	3.62	10.55	10.94	7.95	9.34					
	5.50	Lehman Index Weighting											
3,146.56	100.00	Total Advisors	4.30	3.33	9.29	9.11	7.64	9.30					
		Lehman Bros NYC Index	4.18	3.20	8.73	9.33	7.64	9.08					
		TUCS Fixed Income Median	3.80	3.10	8.60	8.80	7.60	9.20					

Enhanced Yield Advisors

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	%	Total	3 Mos		YTD		FYTD		2 Yrs	
			Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-95	Jun-97
Enhanced Yield										
43.94	11.23	Alliance Capital	9.55	12.47	12.47	26.47	26.47	23.65		
146.01	37.30	BEA	5.59	6.96	6.96	14.64	14.64	13.59		
86.04	21.98	Loomis Sayles	6.95	10.10	10.10	20.23	20.23	19.38		
34.16	8.73	Schroder Capital	4.02	2.67	2.67	9.07	9.07	11.13		
81.24	20.76	W.R. Huif	6.66	6.11	6.11	17.93	17.93	14.15		
391.40	100.00	Total Enhanced Yield	6.40	7.65	7.65	17.23	17.23	15.72		
		Salomon Bros BB & B Rated Index	4.41	5.81	5.81	14.86	14.86	12.05		
		TUCS Enhanced Yield Median	5.90	6.30	6.30	16.70	16.70	14.10		

In-House Portfolios

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	% Total	3 Mos		YTD		FYTD		3 Yrs		5 Yrs		7 Yrs	
		Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-94	Jun-97	Jul-92	Jun-97	Jul-90	Jun-97
Short Term													
69.11	0.53	1.84	1.36	2.92	2.65	5.90	5.43	5.78	5.49	5.20	4.64	5.87	5.13
	Short Term												
	U.S. (91days)												
Targeted Investment													
79.51	0.61	2.45	1.84	3.64	2.36	8.67	11.79	12.82	8.34	11.45	7.72	12.67	9.14
5.55	0.04	2.57	3.63	4.42	2.70	9.37	6.99	9.13	8.11	8.11	5.66	9.16	n/a
	CPC's												
	GNMA												
	GNMA (High Coupon)												
8.66	0.07	1.41	2.51	2.74	3.46	5.50	8.70	5.58	4.70	4.70	10.48	n/a	n/a
	SBA												
	91 Day Treasury Bill												
93.73	0.72												
	Total Targeted Investment												

U.S. Equity Advisors

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	%	Total	3 Mos		YTD		FYTD		2 Yrs		3 Yrs		5 Yrs	
			Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-95	Jun-97	Jul-94	Jun-97	Jul-92	Jun-97
Value														
286.43	3.82	Equinox Capital	15.53	17.36	17.36	33.41	29.90	27.38	n/a					
397.42	5.30	Loomis Sayles	14.63	17.11	17.11	32.32	28.23	26.28	n/a					
425.96	5.68	Smith Barney	16.96	19.57	19.57	34.66	32.74	28.38	n/a					
1,109.80	14.81	Value Advisors	15.75	18.11	18.11	33.49	30.35	27.35	n/a					
		TUCS Large Value Median	14.20	16.60	16.60	31.80	28.40	26.10	n/a					
Growth														
438.36	5.85	Fidelity	17.85	17.53	17.53	30.50	28.20	28.39	19.72					
176.80	2.36	IDS Advisory	15.41	13.90	13.90	31.02	n/a	n/a	n/a					
337.77	4.51	J.W. Seligman	15.87	15.04	15.04	22.70	24.92	26.23	15.13					
162.17	2.16	Loomis Sayles	14.95	11.45	11.45	17.20	n/a	n/a	n/a					
1,115.11	14.88	Growth Advisors	16.43	15.28	15.28	26.07	26.70	27.41	17.43					
		TUCS Large Growth Median	18.70	18.00	18.00	30.50	27.50	27.70	19.10					
Active Equities														
2,224.91	29.69	Active Equities	16.09	16.67	16.67	29.67	28.42	27.28	18.68					
		Standard & Poors 500	17.43	20.49	20.49	34.57	30.24	28.83	19.75					
		TUCS U.S. Equity Median	16.20	16.00	16.00	28.90	27.00	26.20	19.70					
Passive Equities														
5,268.84	70.31	Bankers Trust	16.70	17.92	17.92	30.50	28.05	27.04	19.02					
		Russell 3000	16.76	17.78	17.78	30.58	28.28	27.15	19.22					
U.S. Equities														
7,493.75	100.00	U.S. Equities	16.52	17.55	17.55	30.23	28.12	27.09	18.91					

Consolidated Performance Report

Through 30-Jun-97

NYC Police Department Pension Fund

Assets (\$MM)	%	Total	3 Mos		YTD		FYTD		3 Yrs		5 Yrs		7 Yrs		10 Yrs	
			Apr-97	Jun-97	Jan-97	Jun-97	Jul-96	Jun-97	Jul-94	Jun-97	Jul-92	Jun-97	Jul-90	Jul-87	Jun-97	Jun-97
7,493.75	57.40	U.S. Equities	16.52	17.55	17.55	30.23	27.09	18.91	16.45	14.11						
2,224.91	17.04	Active Equities	16.09	16.67	16.67	29.67	27.28	18.68	15.81	13.61						
5,268.84	40.36	Passive Equities	16.70	17.92	17.92	30.50	27.04	19.02	16.70	14.30						
		Russell 3000	16.76	17.78	17.78	30.58	27.15	19.22	16.78	14.21						
		TUCS U.S. Equity Median	16.20	16.00	16.00	28.90	26.20	19.70	17.10	14.80						
3,700.80	28.35	U.S. Fixed Income	4.42	3.77	3.77	9.78	9.50	7.87	9.36	9.44						
3,146.56	24.10	Structured Managed Program	4.30	3.33	3.33	9.29	9.11	7.64	9.30	9.38						
		Lehman Bros NYC Index	4.18	3.20	3.20	8.73	9.33	7.64	9.08	9.25						
		TUCS Fixed Income Median	3.80	3.10	3.10	8.60	8.80	7.60	9.20	9.30						
391.40	3.00	Enhanced Yield	6.40	7.65	7.65	17.23	n/a	n/a	n/a	n/a						
		Salomon Bros BB & B Rated Index	4.41	5.81	5.81	14.86	n/a	n/a	n/a	n/a						
1,739.13	13.32	International Equities	12.43	13.58	13.58	18.93	13.25	14.33	n/a	n/a						
1,648.70	12.63	Int'l Equities Developed Markets	12.62	13.24	13.24	18.76	13.19	14.30	n/a	n/a						
1,185.03	9.08	Active Equities	12.32	13.92	13.92	21.64	15.40	14.89	n/a	n/a						
463.68	3.55	Passive Equities	13.38	11.55	11.55	13.13	9.53	12.98	n/a	n/a						
		EAFE	13.00	11.16	11.16	12.84	9.16	12.89	n/a	n/a						
		TUCS International Equity Median	11.30	12.50	12.50	17.40	12.40	13.70	n/a	n/a						
90.43	0.69	Emerging Markets	9.03	20.14	20.14	n/a	n/a	n/a	n/a	n/a						
		MSCI Emerging Markets Free	7.68	16.34	16.34	n/a	n/a	n/a	n/a	n/a						

Assets (\$MM)	% Total	3 Mos		YTD		FYTD		3 Yrs		5 Yrs		7 Yrs		10 Yrs	
		Apr-97 Jun-97		Jan-97 Jun-97		Jul-96 Jun-97		Jul-94 Jun-97		Jul-92 Jun-97		Jul-90 Jun-97		Jul-87 Jun-97	
121.40	0.93			-1.98	2.07			6.02	7.84	n/a	n/a	n/a	n/a		
				-1.95	2.25			6.19	7.96	n/a	n/a	n/a	n/a		
13,055.09	100.00	12.17	12.59	12.59	22.23	19.39	14.39	13.47	12.28						
		10.80	11.10	11.10	20.00	17.50	13.50	12.50	11.60						

International Fixed Income
Salomon Non \$ World Gov't Index

Total Portfolio
TUCS Public Fund Median

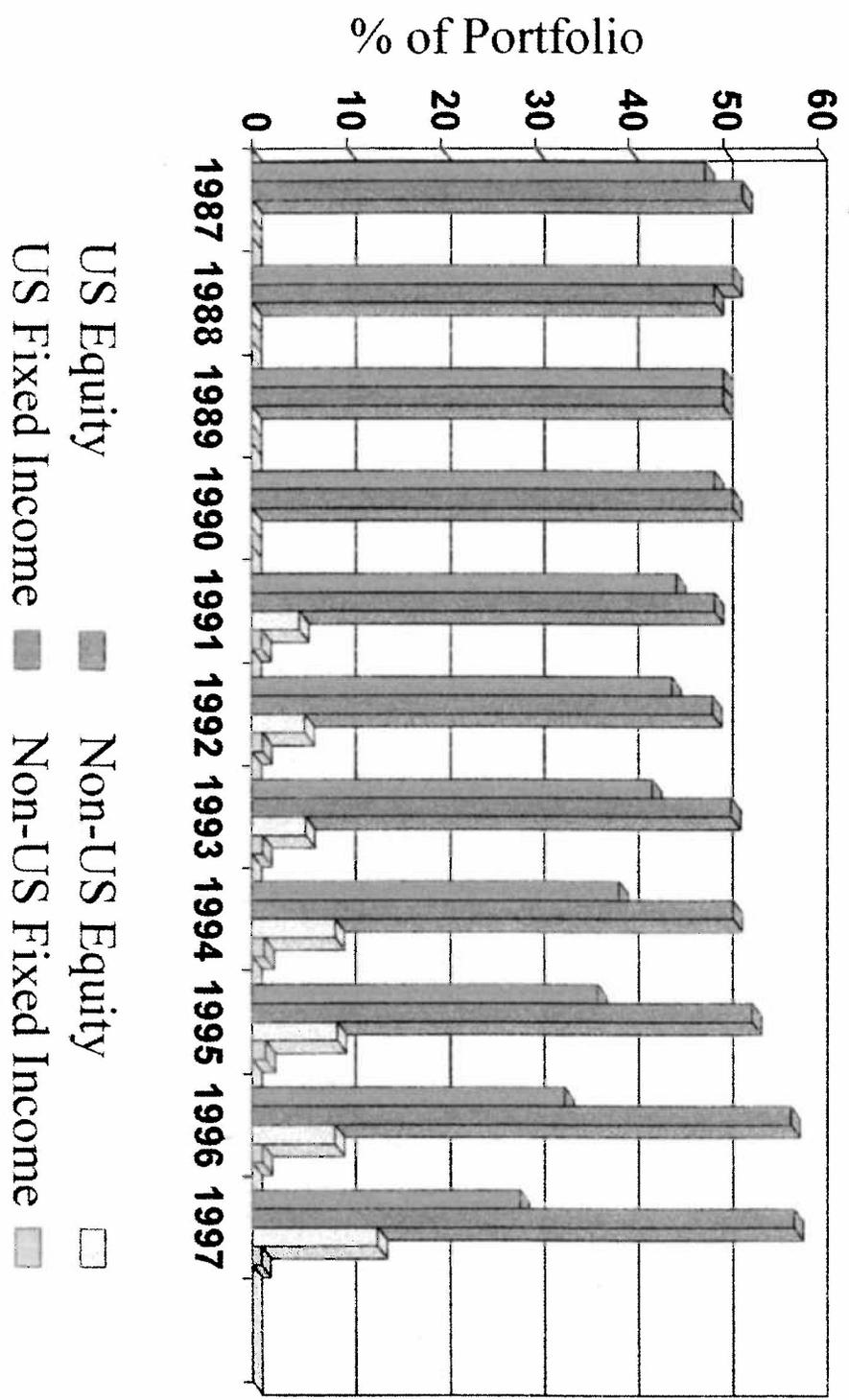
NYC Police Department Pension Fund

Asset Allocation 6/30/87 to 6/30/97

	US Equity	Int'l Equity	Domestic Fixed	Int'l Fixed	Cash
06/30/87	52	0	46	0	2
06/30/88	49	0	49	0	2
06/30/89	50	0	47	0	3
06/30/90	51	0	45	0	4
06/30/91	49	5	43	1	2
06/30/92	48.8	5.6	41.8	1.1	2.7
06/30/93	50.8	5.7	41.3	1.1	1.1
06/30/94	51	8.8	37	1.3	1.9
06/30/95	53	9	34.4	1.4	2.2
06/30/96	57.08	8.77	30.25	1.06	2.84
06/30/97	57.4	13.32	27.82	0.93	0.53

NYC POLICE DEPARTMENT PENSION FUND ASSET ALLOCATION

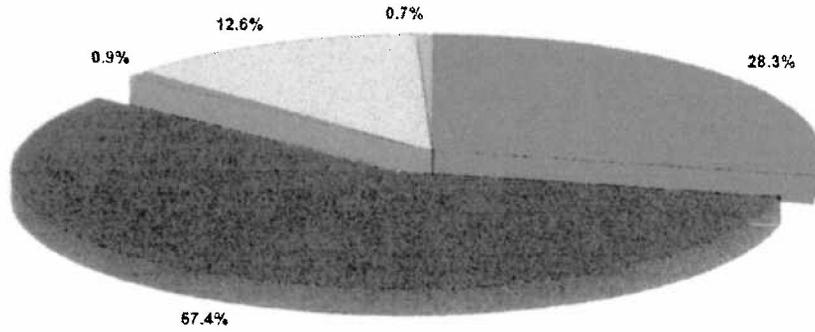
June 30, 1987 - June 30, 1997



NYC Police Department Pension Fund

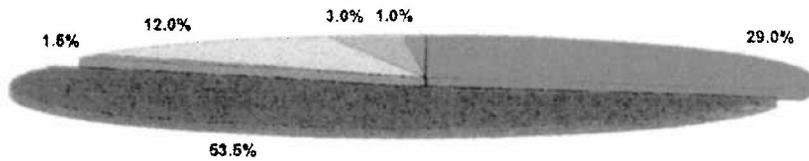
Asset Allocation and Policy Mix

Asset Mix



As of 6/30/97

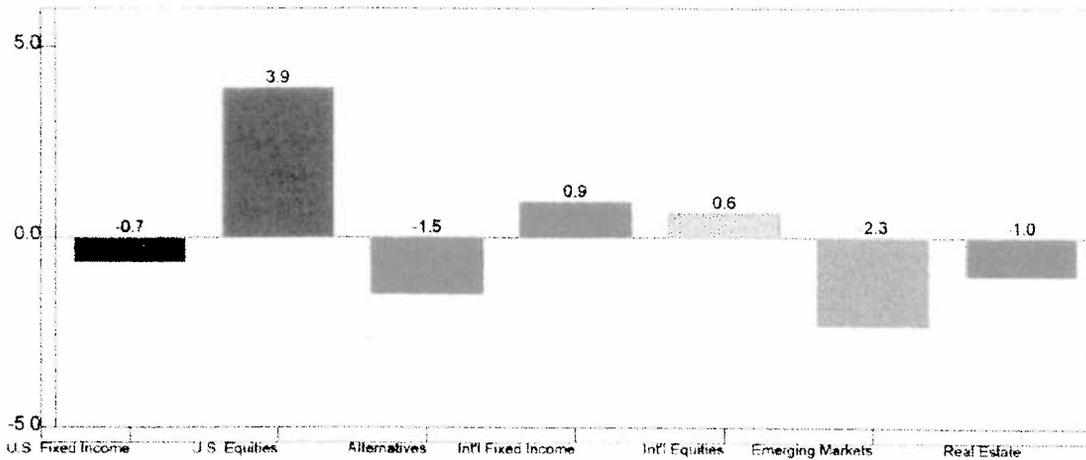
Policy Mix



As of 6/30/97

- U.S. Fixed Income
- U.S. Equities
- Alternatives
- Int'l Fixed Income
- Int'l Equities
- Emerging Markets
- Real Estate

Asset Mix Relative to Policy Mix



NEW YORK CITY POLICE DEPARTMENT PENSION FUND
 REPORT ON INVESTMENT MANAGEMENT FEES
 FY97

INTERNATIONAL	ESTIMATED FEES PER RESOLUTION (000)	CURRENT ESTIMATED FEES (000)	COST B.P.s
BANK OF IRELAND ASSET MGT	\$479	\$445	
CAPITAL GUARDIAN	\$282	\$689	
GENERAL ELECTRIC	\$189	\$203	
SCHRODER	\$418	\$477	
SCUDDER TRUST	\$447	\$683	
SUBTOTAL ACTIVE	\$1,814	\$2,497	
T. ROWE PRICE	\$196	\$147	
BGI/BARCLAYS GLOBAL INV.	\$342	\$255	
SUBTOTAL INDEX	\$538	\$402	
GENESIS PICTET	\$1,010	\$403	
SUBTOTAL EMERG. MKTS	\$1,010	\$403	
TOTAL INTERNAT'L	\$4,096	\$3,302	23.0
EQUITY			
BANKERS TRUST	\$74	\$72	
EQUINOX	\$522	\$644	
FIDELITY MGMT.	\$965	\$951	
IDS/AMERICAN EXPRESS	\$339	\$330	
J.W. SELIGMAN	\$650	\$703	
LOOMIS SAYLES - GROWTH	\$371	\$367	
LOOMIS SAYLES - VALUE	\$515	\$646	
SMITH BARNEY	\$420	\$498	
TOTAL US EQUITY	\$3,856	\$4,211	6.1

NEW YORK CITY POLICE DEPARTMENT PENSION FUND
 REPORT ON INVESTMENT MANAGEMENT FEES
 FY97

FIXED INCOME	ESTIMATED FEES PER RESOLUTION (000)	CURRENT ESTIMATED FEES (000)			COST B.P.S
		TOTAL	PERF. FEES	BASE FEE	
BEA ASSOCIATES	\$177	\$102	\$88	\$173	
BEAR STEARNS				\$391	
BGI/BARCLAYS GLOBAL INV.	\$40			\$35	
FISCHER, FRANCIS	\$319	\$319			
- GOVT.			\$70	\$159	
- FOR.			\$89	\$67	
INVEST. ADVISORS			(\$28)	\$254	
MILLER, ANDERSON	\$453	\$227	\$141	\$325	
PACIFIC INVESTMENT	\$406	\$406	\$183	\$285	
PUTNAM ADVISORY CO.	\$162			\$149	
T. ROWE PRICE	\$105			\$88	
SUBTOTAL: INV GR	\$1,662	\$1,053	\$532	\$1,938	
ENHANCED YIELD					
ALLIANCE CAPITAL	\$85			\$85	
BEA (CS FIRST BOSTON)	\$260			\$262	
LOOMIS SAYLES	\$349			\$343	
W.R. HUFF	\$292			\$289	
SCHRODER WERTHEIM	\$468			\$130	
SUBTOTAL- ENH. YLD	\$1,454			\$1,108	
TOTAL-US FIXED INC.	\$3,116	\$1,053	\$532	\$3,045	8.6
CONSULTANTS					
BUCK ASSOC.	\$100			\$67	
STRATEGIC INV. SOLUT.	\$185			\$120	
TOTAL CONSULTANTS	\$285			\$187	
GRAND TOTAL	\$11,354	\$1,053	\$532	\$10,678	9.2
	\$12,407				

Omitted in error from budget submission.

BROKER COMMISSION REPORT

SUMMARY OF COMMISSIONS PAID
BY BROKER, BY SYSTEM

AS OF: BROKER	6/30/97 POLICE TOT/COMM AVG/COMM/SHR
ABEL NOSER CORP THRU 100	4301.40 0.0409
	% 0.05
ABNER HERMAN & BROCK INC T	1285.00 0.0500
	% 0.02
ACCOUNT CLOSED - DON NOT US	1550.00 0.0589
	% 0.02
ADAMS HARKNESS & HILL	610.00 0.0500
	% 0.00
AFFILIATED INVEST SERV THR	534.00 0.0508
	% 0.01
ALLEN & CO INC	0.00 0.0000
	% 0.00
AMERITAS INC CORP THRU 044	55.00 0.0500
	% 0.00
ANVIL INST SVCS THRU 0443	9000.28 0.0522
	% 0.11
AUTRANET, INC THRU 0443	392.00 0.0400
	% 0.01
B H F SECURITIES CORP	0.00 0.0000
	% 0.00
BAIRD ROBERT W & CO INC	2699.00 0.0295
	% 0.03
BANKERS TRUST CO. - GIM	0.00 0.0000
	% 0.00
BANKERS TRUST CO. - GIM	0.00 0.0000
	% 0.00
BEAR STERNS & CO	65185.74 0.0306
	% 0.83
BELLAMAN NUEHSR & BAR THRU	4596.00 0.0600
	% 0.06
BEREAN CAPITAL INC. #2	115.00 0.0500

	%	0.00
BERNSTEIN SANFORD C & CO		33181.00
		0.0534
	%	0.42
BISHOP ROSEN & CO. THRU 003		0.00
		0.0000
		0.00
BLACK & CO THRU 0443		1195.00
		0.0500
	%	0.01
BLACKBURN & CO THRU 0011		0.00
		0.0000
	%	0.00
BLAIR WILLIAM & CO		6035.00
		0.0523
	%	0.08
BOSTON INSTITUTIONAL THRU		0.00
		0.0000
	%	0.00
BRAD PEERY CAP		0.00
		0.0000
	%	0.00
BRADFORD, JC & CO		0.00
		0.0000
	%	0.00
BRIDGE TRADING THRU 233		1635.00
		0.0550
	%	0.21
BROAD COURT CORP THRU 0161		25390.00
		0.0517
	%	0.32
BROWN (ALEX) & SONS INC		29389.50
		0.0335
	%	0.37
BROWN BROTHERS HARRIMAN &		4628.00
		0.0575
	%	0.06
BT SEC CORP		0.00
		0.0000
	%	0.00
BUCKINGHAM RESEARCH GROUP		2290.00
		0.0500
	%	0.03
CANTOR FITZGERALD & CO, IN		34363.50
		0.0403
	%	0.43
CAPEL JAMES SECURITIES THR		925.00
		0.05
	%	0.01
CAPITAL INSTIT SEC INC THR		5324.50
		0.0537
	%	0.68
CHICAGO CORP		13443.09
		0.0557
	%	0.17
CITATION GROUP THRU 0161		36100.00
		0.0500
	%	0.45
CITIBANK N A		0.00
		0.0000

	%	0.00
CLEARY, GULL & REILAND THR		240.00
		0.0500
	%	0.01
CONNING & CO THRU 0161		5920.00
		0.0593
	%	0.07
CORRESPONDENT SVCS CORP TH		8947.00
		0.0378
	%	0.11
COWEN & CO		24300.00
		0.0552
	%	0.31
CROMWELL MIILER & GREEN TH		1650.00
		0.0500
	%	0.02
DAIN BOSWORTH INC THRU 023		110.00
		0.0126
	%	0.00
DAKIN SECS CAP THRU 0352		0.00
		0.0000
	%	0.00
DEAN WITTER REYNOLDS INC		2654.00
		0.0472
	%	0.34
DEUTSCHE BANK CAPITAL CORP		10932.00
		0.0299
	%	0.14
DILLON, READ & CO INC		10024.00
		0.0535
	%	0.12
DIRECT BROKERAGE SERV THRU		1345.00
		0.0500
	%	0.02
DUNLEVY & CO INC THRU 0642		104.00
		0.0400
		0.00
EDGE SECURITIES THRU 0161		0.00
		0.0000
	%	0.00
EDWARDS (AG) & SONS INC		0.00
		0.0000
	%	0.00
ELKINS MCSHERRY & CO INC		0.00
		0.0000
	%	0.00
EQUITABLE SECS THRU 0573		750.00
		0.0500
	%	0.01
ERNST & CO		3415.00
		0.0500
	%	0.05
EVEREN SECURITIES, INC.		3262.95
		0.0500
	%	0.04
EWING CAPITAL THRU BROADCO		0.00
		0.0000
	%	0.00
EXECUTION SERVICES INC		7867.50
		0.0428

F C FINANCIAL SVCS THRU 04	%	0.10
		3630.00
		0.0524
FACTSET DATA SYSTEMS INC	%	0.04
		1884.00
		0.0600
		0.03
FACTSET DATA SYSTEMS INC		24097.50
		0.0531
FAHNESTOCK & CO	%	0.30
		0.00
		0.0000
FIDELITY CAP MKTS (NFSC)TH	%	0.00
		0.00
		0.0000
FIRST ALBANY CORP	%	0.00
		2974.00
		0.0594
FIRST ANALYSIS SEC CORP TH	%	0.04
		0.00
		0.0000
FIRST BOSTON CORP	%	0.00
		53441.36
		0.0452
FOURTEEN RESEARCH CORP THR	%	0.67
		0.00
		0.0000
FOX PITT KELTON INC THRU 0	%	0.00
		0.00
		0.0000
FRANK RUSSELL/BROADCORT T	%	0.00
		528.00
		0.0600
FRIEDMAN BILLINGS & RAMSY T	%	0.01
		0.00
		0.0000
FRIEND L H WEINRESS THRU 0	%	0.00
		0.00
		0.0000
FURMAN SELZ MAGER & CO THR	%	0.00
		2604.00
		0.0567
GARDNER RECH & CO THRU 079	%	0.03
		12467
		0.0568
GEARARD KLAUER MATTISON TH	%	0.16
		1470.00
		0.0600
GELDERMANN SECURITIES INC	%	0.02
		2900.00
		0.0500
GENESIS MERCHANT GRP SEC T	%	0.04
		0.00
		0.0000
GILBERT DONZIGER & CO THRU	%	0.00
		0.00
		0.0000
GOLDID PITTS THRU 0501	%	0.00
		15701.00
		0.0506

	%	0.20
GOLDMAN, SACHS & CO		67661.50
		0.0250
	%	0.85
GORDON CAPITAL SEC LTD THR		82.20
		0.0300
	%	0.00
GRUNTAL & CO INC		3015.00
		0.0185
	%	0.04
GRUSS, OSCAR, & SON INC		36010.00
		0.0500
	%	0.46
GUZMAN & COMPANY		88787.75
		0.0295
	%	1.12
HANIFEN, IMHOFF INC NSCC		0.00
		0.0000
	%	0.00
HERZOG, HEINE, GEDULD, INC		0.00
		0.0000
	%	0.00
HOAK SECURITIES		230.00
		0.0500
	%	0.00
HOENIG & CO THRU 0013		140.00
		0.0500
	%	0.00
HOWARD, WELL, LABOUISSSE TH		145.00
		0.0500
	%	0.01
IBES INC THRU 0231		1950.0
		0.0600
	%	0.02
INFERENTIAL FOCUS THRU 035		430.00
		0.0500
	%	0.01
INGALLS & SNYDER		0.00
		0.0000
	%	0.00
INSTINET CORP		0.00
		0.0000
	%	0.00
INSTINET CORP THR U 0563		40823.50
		0.01140
	%	0.51
INSTITUTIONAL SERVICES UNL		22238.00
		0.0553
	%	0.28
INSTERSTATE/JOHNSON LANE CO		4854.00
		0.0587
	%	0.07
INVEMED ASS THRU 0352		130.00
		0.0500
	%	0.00
INVESTMENT TECH GRD THRU 0		99751.60
		0.0222
	%	1.26
ISI GROUP INC THRU 0352		4721.00
		0.0570

J.P. MORGAN EQUITIES INC	%	0.06
		39867.40
		0.0516
JANNEY MONTGOMERY SCOTT IN	%	0.50
		1495.00
		0.0500
JEFFRIES & CO	%	0.02
		1944.00
		0.0141
JENSEN SECU CO THRU 0443	%	0.03
		0.00
		0.0000
JOHNSON RICE & CO THRU 035	%	0.00
		0.00
		0.0000
JONES & ASSOCS THRU 0226	%	0.00
		2994.15
		0.02404
JOSEPH THAL LYON & ROSS THR	%	0.03
		470
		0.05
KALB, VOORHIS & CO.	%	0.01
		7410
		0.05
KALIN ASSOCIATES THRU 0443	%	0.09
		1000.00
		0.0500
KEEFE BRU & WOODS INC THRU	%	0.02
		1182.00
		0.0500
KEMPER SECURITIES GROUP TH	%	0.15
		0.00
		0.0000
KIM ENG SECURITIES, ATT	%	0.00
		70.00
		0.05
KING, CL AND ASSOC	%	0.00
		1200.00
		0.0500
KINNARD JOHN G & CO THRU 5	%	0.01
		0.00
		0.0000
LAZARD FRERES & CO	%	0.00
		9654.00
		0.0600
LEGG MASON	%	0.12
		1485.00
		0.0500
LEHMAN BROS PR INC	%	0.02
		56193.00
		0.0432
LEWCO SECS FOR HAMBERCH TH	%	0.71
		22229
		0.0494
		0.29
LEWCO SECS FOR WERTHEIM TH		51023.9
		0.0548
LEWCO SECURITIES CORP	%	0.64
		0.00
		0.0000

LYNCH JONES & RYAN INC. TH	%	0.00
		4980.00
		0.0500
LYNCH JONES & RYAN THRU 01	%	0.06
		9744
		0.0534
M. RAMSEY KING SECURITIES	%	0.13
		8665.00
		0.0500
MCDONALD & COMPANY SEC INC	%	0.11
		3215.00
		0.0500
MCGLONE & CO	%	0.04
		0.00
		0.0000
MERRILL LYNCH, PIERCE, FENNE	%	0.00
		215352.2
		0.0382
MESIROW CAPITAL INC	%	2.72
		315.00
		0.0500
MIDWOOD SECURITIES	%	0.01
		0.00
		0.0000
MONTGOMERY SECURITIES	%	0.00
		43530.00
		0.0484
MORGAN KEEGAN & CO INC	%	0.55
		425.00
		0.0500
MORGAN STANLEY & CO INC	%	0.00
		14652.34
		0.0300
MURPHY MARSEILLES SMITH &	%	1.85
		2700
		0.0428
NATL FIN SERVICES CORP	%	0.04
		402.00
		0.0340
NATWEST SECS CORP	%	0.00
		5588.00
		0.0531
NEEDHAM & CO INC THRU 0050	%	0.07
		0.00
		0.0000
NEUBERGER & BERMAN, LLC	%	0.00
		897.00
		0.0398
NEWBRIDGE SECURITIES INC	%	0.01
		0.00
		0.0000
NUTMEG SECS THRU 0443	%	0.00
		11283.00
		0.0555
O'NEIL, WILLIAM & CO., INC.	%	0.15
		795.00
		0.0500
OCONO TRADE THRU 0972	%	0.01
		125.00
		0.0500

OPPENHEIMER & CO, INC	%	0.00
		23245.00
		0.0466
PAINÉ WEBBER	%	0.29
		58256.11
		0.0372
PAULSEN DOWLING SECS THRU	%	0.74
		0.00
		0.0000
PCS SECS INC THRU 0352	%	0.00
		513.00
		0.0523
PERSHING DIV DONALDSON, LUF	%	0.01
		59107.45
		0.0347
PIPER JAFFRAY & HOPWOOD IN	%	0.74
		1177.00
		0.0068
PRUDENTIAL - BACHE SECURITIE	%	0.02
		37599
		0.0549
PUNK ZIEGAL & KNOELL THRU	%	0.47
		215.00
		0.0500
QUAKER SECS INC THRU 0501	%	0.01
		0.00
		0.0000
RAGEN MACKENZIE		0.00
		0.00
		0.0000
RAUSCHER PIERCE REFSNES CO	%	0.00
		0.00
		0.0000
RAYMOND JAMES & ASSOCIATES	%	0.00
		3210.00
		0.0500
REINHEIMER NORDBERG THRU 0	%	0.04
		1081
		0.0597
ROBERTSON STEPHENS	%	0.01
		1600.00
		0.0261
ROBINSON HUMPHREY THRU	%	0.02
		20165.00
		0.0509
ROCHDALE SEC CORP THRU 044	%	0.26
		18073.38
		0.0585
RODMAN & RENSHAM	%	0.22
		0.00
		0.0000
RONEY & CO	%	0.00
		182.50
		0.0500
S B S FINANCIAL THRU 5229	%	0.01
		7224.00
		0.0600
SALOMON BROTHERS	%	0.09
		73300.67
		0.0361

SBCI SWISS BANK CORP INV B	%	0.93
		455.00
		0.0500
SCOTT AND STRINGFELLOW INC	%	0.00
		0.00
		0.0000
SEI FINANCIAL THRU 0161	%	0.00
		130.00
		0.0500
SHAW DATA SERVICES THRU 02	%	0.00
		565.00
		0.0500
SHERWOOD SECURITIES CORP T	%	0.01
		0.00
		0.0000
SK INTL SECS THRU 0573	%	0.00
		114.00
		0.03
SMITH BARNEY SHEARSON INC	%	0.00
		90881.65
		0.0254
SOCIETE GENERALE SECURITIE	%	1.15
		5650.00
		0.0500
SOUNDVIEW FINL GROUP THRU	%	0.07
		3222.00
		0.0600
SOUTHCOAST CAPITAL CORP TH	%	0.04
		4747
		0.0567
SOUTHEAST RESEARCH THRU 03	%	0.06
		4586.00
		0.0568
SPEAR, LEEDS & KELLOGG	%	0.06
		49095.00
		0.0500
STANDARD & POORS SEC THRU	%	0.62
		9622.00
		0.0563
STATE STREET BROKERAGE SVC	%	0.12
		0.00
		0.0000
STEPHENS INC	%	0.00
		350.00
		0.0500
STIFEL NICOLAUS AND CO INC	%	0.01
		0.00
		0.0000
STOCKBRIDGE PARTNERS THRU	%	0.00
		0.00
		0.0000
STURDIVANT & CO., INC.	%	0.00
		6107
		0.0538
SUTRO & COMPANY INC THRU 0	%	0.08
		282.00
		0.0600
THOMSON INSTITUTIONAL SERV	%	0.00
		0.00
		0.0000

THOMSON INSTITUTIONAL SVCS	%	0.00
		0.00
		0.0000
TO REVERSE PREVIOUS RECEIV	%	0.00
		0.00
		0.0000
TROSTER SINGER CORP THRU 0	%	0.00
		0.00
		0.0000
TUCKER ANTHONY R L DAY THR	%	0.00
		205.00
		0.0500
UBS SECURITIES	%	0.00
		71598
		0.0454
UBS SECURITIES	%	0.91
		0.00
		0.0000
US CLEARING CORP	%	0.00
		2020.00
		0.0569
US CLEARING CORP CASHING	%	0.02
		6910.00
		0.0500
US CLEARING INST TRAD	%	0.09
		0.00
		0.0000
UST SECURITIES CORO THRU 0	%	0.00
		355.00
		0.0500
VECTOR SECS INTL THRU 0352	%	0.01
		0.00
		0.0000
VOLPE WELTY & CO THRU 0352	%	0.00
		0.00
		0.0000
WAGNER STOTT CLEARING CORP	%	0.00
		7925.00
		0.0577
WALL STREET INVESTMENT COR	%	0.10
		980.00
		0.0500
WEEDEN & CO THRU 0443	%	0.01
		89196.25
		0.0403
WEEDEN & CO. L.P. FBO INSE	%	1.13
		1140.00
		0.0600
WEISS, PECK & GREER	%	0.01
		1150.00
		0.0500
WELLINGTON P.G. & CO INC	%	0.02
		4415.00
		0.0500
WESSELS ARNHOLD HENDERSON	%	0.05
		0.00
		0.0000
WESTMINISTER RES THRU 0573	%	0.00
		310.00
		0.0500

WESTMINSTER RESEARCH ASSOC	%	0.01
		28400.19
		0.03
WHEAT, FIRST SECURITIES, INC	%	0.35
		65.00
		0.0500
WILLIAMS CAPITAL GROUP, L.	%	0.01
		3196
		0.0507
WR LAZARD LAIDLAW & MEAD T	%	0.04
		70.00
		0.0500
	%	0.00
TOTAL COMMISSION		2310536

FIXED INCOME HOLDINGS - NYC POLICE PENSION FUND ART 2

as of
Security Description 6/30/97

Security Description	Units	Market Value
NEW YORK CITY RETIREMENT SYSTEMS - STIF	4.5	
GOVT NAT MTG ASSN REG POOL #T/B/A	8	465,221,766
UNITED STATES TREASURY NOTE	7/21/27	\$57,866,170
GOVT NAT MTG ASSN REG POOL #T/B/A	6.625	51,700,000
UNITED STATES TREAS BDS	7.5	51,000,000
GOVT NAT MTG ASSN REG POOL #T/B/A	9.25	37,240,000
FEDERAL HOME LN MTG CORP PARTN CTF	7.5	46,000,000
UNITED STATES TREASURY BONDS	7.5	39,950,000
FEDERAL NAT MTG ASSN GTD PASS THRU	6.875	38,540,000
FEDERAL NAT MTG ASSN GTD PASS THRU	7	31,400,000
GOVT NAT MTG ASSN REG POOL #T/B/A	6.5	32,000,000
UNITED STATES TREASURY BONDS	6.5	31,000,000
UNITED STATES TREASURY BONDS	8.125	25,710,000
UNITED STATES TREAS NTS	10.375	21,560,000
UNITED STATES TREASURY BONDS	6.25	26,900,000
FEDERAL NAT MTG ASSN GTD PASS THRU	10.375	21,020,000
UNITED STATES TREAS NTS	6.07	25,000,000
FORD MOTOR CREDIT CO DISC NT	5.875	24,700,000
UNITED STATES TRY BONDS	5.54	22,000,000
UNITED STATES TREAS BDS	8.875	17,540,000
FEDERAL NAT MTG ASSN GTD PASS THRU	7.625	18,710,000
UNITED STATES TREAS NTS	7	20,508,877
FEDERAL HOME LN MTG CORP PC GOLD	7.25	17,750,000
GOVT NAT MTG ASSN II POOL #080060	5.5	18,834,140
SALOMON BROS MTG SECS VII INC	6	17,988,954
GOVT NAT MTG ASSN REG POOL #T/B/A	7	17,000,000
GOVT NAT MTG ASSN REG POOL #T/B/A	7	16,500,000
UNITED STATE TREASURY BOND	8	15,500,000
UNITED STATES TREASURY BOND	11.25	10,300,000
GOVT NAT MTG ASSN REG POOL #405595	8.125	12,860,000
FEDERAL HOME LN MTG CORP PC GOLD	7	14,928,015
GOVT NAT MTG ASSN REG POOL #345077	6	14,644,796
UNITED STATES TREAS NTS	7	14,429,322
FEDERAL HOME LN MTG CORP PARTN CTF	6.5	13,600,000
FEDERAL HOME LN MTG CORP PC GOLD	8.5	13,000,000
UNITED STATES TREASURY BOND	8	12,346,109
UNITED STATES TREAS BDS	10.75	9,935,000
UNITED STATES TREASURY BONDS	7.25	11,960,000
UNITED STATES TREAS BDS	12	8,800,000
FEDERAL HOME LN MTG CORP PARTN CTF	6	13,400,000
GOVT NAT MTG ASSN REG POOL #T/B/A	7.5	11,550,000
FEDERAL NAT MTG ASSN GTD PASS THRU	7.5	11,600,000
FEDERAL HOME LN BKS FLTG	8.5	11,050,715
UNITED STATES TREASURY NOTE	5.3525	11,000,000
GOVT NAT MTG ASSN REG POOL #385920	6.25	11,000,000
UNITED STATES TREAS BDS	8	10,611,635
FEDERAL NAT MTG ASSN GTD PASS THRU	6.5	10,980,000
FEDERAL HOME LN MTG CORP PC GOLD	7	10,500,000
STANDARD CR CARD MASTER TR I	6	11,044,045
GOVT NAT MTG ASSN REG POOL #T/B/A	5.95	10,550,000
FEDERAL NAT MTG ASSN GTD PASS THRU	9	9,500,000
UNITED STATES TREASURY BONDS	8	9,650,000
FEDERAL HOME LN MTG CORP PC GOLD	9.875	7,470,000
FHA PROJECT WESTPARK APTS	6	9,364,067
FEDERAL NAT MTG ASSN GTD PASS THRU	8.62	8,957,093
LOCKHEED MARTIN CORP CO GTD	6.5	9,500,000
RESOLUTION FUNDING CORP	6.55	9,000,000
FEDERAL NAT MTG ASSN GTD PASS THRU	8.875	7,200,000
FEDERAL HOME LN MTG CORP PC GOLD	6.5	9,320,938
FEDERAL NAT MTG ASSN GTD PASS THRU	6	9,511,761
	6.5	9,218,164

NEW YORK CITY POLICE DEPARTMENT PENSION FUND
JUNE 30, 1997

SECURITY DESCRIPTION	UNITS	MARKET VALUE
GENERAL ELEC CO COM.	2,902,720.00	188,676,800.00
MERCK & CO COM.	1,168,400.00	119,542,509.20
EXXON CORP COM.	1,905,100.00	116,687,375.00
PHILIP MORRIS COMPANIES INC COM	2,513,306.00	111,213,790.50
INTEL CORP COM.	760,200.00	107,806,242.60
COCA COLA CO COM.	1,520,968.00	103,425,824.00
MICROSOFT CORP COM. (WA)	661,212.00	83,560,666.50
INTERNATIONAL BUSINESS MACHS CORP	881,200.00	79,528,300.00
BRISTOL MYERS SQUIBB CO. COM.	959,930.00	77,754,330.00
PROCTER & GAMBLE CO COM.	544,574.00	76,921,077.50
PFIZER INC COM.	589,980.00	70,502,610.00
JOHNSON & JOHNSON COM.	1,056,230.00	67,994,806.25
DU PONT EI DE NEMOURS & CO COM.	947,500.00	59,574,062.50
PEPSICO INC COM. US\$0.01 2/3	1,528,700.00	57,422,558.10
LILLY ELI & CO COM.	518,962.00	56,729,293.11
BANKAMERICA CORP COM. US 1.5625	858,366.00	55,418,684.06
MOBIL CORP COM.	773,512.00	54,059,151.00
CHASE MANHATTAN CORP NEW COM.	556,262.00	53,992,458.51
SBC COMMUNICATIONS INC	857,445.00	53,054,409.38
AMERICAN INTL GROUP INC COM.	354,314.00	52,925,653.75
FEDERAL NATL MTG ASSN COM.	1,181,500.00	51,542,937.50
AMERICAN HOME PRODUCTS CORP COM.	639,900.00	48,952,350.00
NATIONSBANK CORP COM.	730,660.00	47,173,601.58
WAL MART STORES INC COM.	1,378,600.00	46,614,601.80
GILLETTE CO COM.	486,892.00	46,133,017.00
FORD MTR CO DEL COM.	1,168,504.00	44,403,152.00
ABBOTT LABORATORIES COM.	657,100.00	43,861,425.00
MOTOROLA INC. COM.	572,192.00	43,558,116.00
MINNESOTA MINING & MFG CO COM.	417,700.00	42,709,825.00
HEWLETT PACKARD CO COM.	754,500.00	42,552,000.00
DISNEY (WALT) HLDG COMPANY	522,387.00	41,921,556.75
SCHERING PLOUGH CORP COM.	868,500.00	41,579,437.50
AT&T CORP COM.	1,176,966.00	41,267,958.86
CHEVRON CORP COM.	542,700.00	40,126,152.60
CITICORP COM.	325,300.00	39,219,143.90
XEROX CORP COM.	494,805.00	39,027,744.38
LUCENT TECHNOLOGIES INC COM.	540,754.00	38,968,355.50
BOEING CO. COM.	720,990.00	38,257,892.37
BELLSOUTH CORP COM.	816,124.00	37,847,750.50
TRAVELERS GROUP INC	596,006.00	37,585,926.38
ALLSTATE CORP COM.	511,193.00	37,317,089.00
AMOCO CORP COM.	414,600.00	36,044,494.80
TEXACO INC COM	325,037.00	35,347,773.75
CISCO SYS INC COM.	520,900.00	34,965,412.50
GTE CORP COM US\$0.05	786,158.00	34,492,682.25
AMERICAN EXPRESS CO COM.	450,282.00	33,546,009.00
KIMBERLY CLARK CORP COM.	673,792.00	33,521,152.00
EASTMAN KODAK CO COM.	430,525.00	33,042,793.75
EMERSON ELEC CO COM.	599,100.00	32,988,243.30

WORLDCOM INC GA COM	1,023,954.00	32,766,528.00
HOME DEPOT INC COM.	467,733.00	32,273,577.00
COMPAQ COMPUTER CORP COM.	323,258.00	32,164,171.00
COLUMBIA/HCA HEALTHCARE CORP COM.	804,236.00	31,616,929.86
UNITED TECHNOLOGIES CORP COM.	376,500.00	31,249,500.00

TOTAL

2,971,429,902.79
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New York City Police Pension Fund- Subchapter 2

Schedule of Administrative Expenses

Year Ended June 30, 1997

<u>Salaries Paid to Plan Personnel</u>		\$ 2,576,740
<u>Professional Services:</u>		
Administration	\$ 263,403	
Trading and Investments	996,729	
Management Division	99,891	
Legal	<u>314,783</u>	
Total Professional Services		1,674,806
<u>Communication and General Services:</u>		
Printing and Computer Services	112,115	
Heat, light and telephone	4,434	
Postage	128,398	
General services	<u>118,745</u>	
Total Communication and General services		363,690
<u>Miscellaneous Expenses:</u>		
Office of Management and Budget	147,744	
Department of Financial Management	<u>42,152</u>	
Total Miscellaneous Expenses		189,896
Total Administrative Expenses		<u>\$ 4,805,132</u>

Note: Administrative expenses are defrayed by the City of New York. Investment expenses are paid by the Plan.

NEW YORK POLICE DEPARTMENT
PENSION FUND- SUBCHAPTER 2

Investment Summary

Year ended June 30, 1997

(In thousands)

TYPE OF INVESTMENT	Investment At Market Value	Investment Income 1997	Plus Accruals 1997	Less Accruals 1996	Less Purchase Expense	Dividend Income	Investment Expense	Miscel. Income (Expense)	Net Appreciation (Depreciation)	Total
Securities purchased under agreements to resell:	48,669	1,786		(127)						50,328
Commercial Paper	45,033	5,414	492							50,939
Short Term Investment Fund	583,739	35,881								619,620
Bonds:										
U.S. Government	2,272,442	178,168	24,402	(25,938)	(39,429)		(12,917)	(1,879)	359,414	2,754,453
Corporate	1,224,128	95,971	19,430	(20,174)	(21,240)		(6,958)	(904)	193,610	1,483,861
Other: Foreign	179,561	14,077	3,495	(928)	(3,115)		(690)	(132)	28,400	220,668
International Investment Fund & Fixed Income	121,401	9,518	-		(2,106)		(1,021)	(90)	19,201	146,903
Security Lending	1,543,285	-	-				(42,276)		244,089	1,745,098
Equities	7,437,774	-	-			124,475	(9,885)		1,176,374	8,728,738
International Fund - Equities	1,739,125	-	-				(6,772)		275,064	2,005,417
	15,195,155	340,805	47,819	(47,167)	(65,890)	124,475	(82,519)	(2,805)	2,296,153	17,806,026

**NEW YORK CITY POLICE DEPARTMENT
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**ACTUARIAL SECTION
PART IV**

FISCAL YEAR ENDED JUNE 30, 1997



OFFICE OF THE ACTUARY

220 CHURCH STREET • NEW YORK, N.Y. 10013-6301
(212) 442-5775 • FAX: (212) 442-5777

ROBERT C. NORTH, JR.
CHIEF ACTUARY

December 3, 1997

Members Of The Board Of Trustees
New York City Police Department,
Subchapter Two Pension Fund
One Police Plaza
New York, NY 10038

**Re: Actuarial Information For The Comprehensive Annual Financial
Report ("CAFR") For The Fiscal Year Ended June 30, 1997**

Dear Members:

The financial objective of the New York City Police Department, Subchapter Two Pension Fund (the "Plan") is to fund members' retirement benefits during their active service and to establish employer normal contribution rates which, expressed as a percentage of active member annualized covered payroll, will remain approximately level over the future working lifetimes of those active members.

The City of New York contributes to the Plan on a statutory basis consistent with generally accepted actuarial principles. Actuarial valuations are performed annually as of June 30.

Actuarial Assumptions And Methods In Effect June 30, 1996

Provided in this Actuarial Section of the CAFR is a "Summary Of Actuarial Assumptions And Methods In Effect As Of June 30, 1996." These actuarial assumptions and methods were employed in the June 30, 1996 actuarial valuation that was used to determine Fiscal Year 1997 employer contributions to the Plan.

These actuarial assumptions and methods are generally the same as those employed in the June 30, 1995 actuarial valuation that was used to determine Fiscal Year 1996 employer contributions to the Plan, except that the Actuarial Asset Valuation Method ("AAVM") and the assumed investment return rate have been modified for actuarial valuations on and after June 30, 1996.

The modification in the AAVM as of June 30, 1996 had no impact on Fiscal Year 1997 employer contributions but will impact employer contributions beginning Fiscal Year 1998.

The revised assumed investment return rate was adopted by the Board of Trustees and enacted by the New York State Legislature and Governor as Chapter 157 of the Laws of 1997.

Benefits And Census Data

A summary of the benefits available under the Plan is provided elsewhere in this CAFR.

Census data are submitted by the Plan's administrative staff, by the employer's payroll facilities and by the Comptroller of the City of New York, and are reviewed by the Office of the Actuary for consistency and reasonability.

A summary of the census data as of June 30, 1996 is included in this CAFR. A summary of the census data used in the June 30, 1995 actuarial valuation of the Plan is available in the June 30, 1996 CAFR.

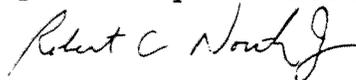
Funded Status

With respect to the funded status of the Plan, included in the Financial Section of the CAFR is an Analysis of Funding Progress as prescribed by Governmental Accounting Standards Board Statement Number 25 ("GASB 25"). Included in the Actuarial Section of the CAFR is a Solvency Test as prescribed by the Government Finance Officers Association ("GFOA") which represents an alternative approach for describing progress toward funding objectives.

Presentation Style

The actuarial information is being presented in a manner believed to be consistent with the requirements of the GFOA, and with those of GASB 25 which was adopted for financial reporting purposes beginning Fiscal Year 1995.

Respectfully Submitted,



Robert C. North, Jr., F.S.A.
Chief Actuary

cc: Inspector J.F. Maccone

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1996

- (1) The assumed investment return rate is 8.75% per annum.
- (2) The mortality tables for service and disability pensioners were developed from an experience study of the Plan's and the predecessor Plan's pensioners. Sample probabilities are shown in Table 1.
- (3) Active Service tables are used to predict various withdrawals from active service. Sample probabilities are shown in Table 2 for members eligible for Service Retirement and in Table 3 for members not eligible for Service Retirement.
- (4) A Salary Scale is used to estimate salaries at retirement or death. Sample percentage increases are shown in Table 4. The Salary Scale includes an assumed General Wage Increase rate of 4.0% per annum.
- (5) The economic assumptions (i.e., the assumed investment return rate and the General Wage Increase rate) were developed assuming a long-term Consumer Price Inflation assumption of 3.5% per year.
- (6) The valuation method assumes a closed group. Salaries of members on the valuation date are assumed to increase in accordance with the Salary Scale.
- (7) The Frozen Entry Age Actuarial Cost Method of funding is utilized by the Plan's Actuary to calculate the contributions from the employer.

Under this method, the excess of the actuarial present value of projected benefits of members as of the valuation date, over the sum of the Actuarial Value of Assets plus the Unfunded Actuarial Accrued Liability ("UAAL"), is allocated on a level basis over the future earnings of members who are on payroll as of the valuation date. Actuarial gains and losses are reflected in the employer normal contribution rate.

The UAAL was reestablished in accordance with the Actuarial Cost Method as of June 30, 1995 as provided by Chapter 598 of the Laws of 1996 ("Chapter 598/96"), which also provided for schedules of payments toward the UAAL, including the Balance Sheet Liability ("BSL") portion of the UAAL.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1996
(Continued)

The schedules of payments toward the UAAL and BSL established by Chapter 598/96 provide that the UAAL and BSL as of June 30, 1995 be amortized over a period of 15 years beginning Fiscal Year 1996, where the amount of each annual payment after the first is to equal 103% of the preceding annual payment.

Another UAAL was established under Chapter 119 of the Laws of 1995 ("Chapter 119/95"). This UAAL is being amortized on a level basis over a period of 10 years.

In addition, a UAAL credit was established under Chapter 157 of the Laws of 1997 ("Chapter 157/97"). This UAAL is being amortized over a period of 14 years beginning Fiscal Year 1997, where the amount of each annual credit after the first is to equal 103% of the preceding annual credit.

All outstanding components of the UAAL are being amortized over closed periods.

- (8) Beginning with the June 30, 1991 actuarial valuation (used to determine Fiscal Year 1992 employer contributions), the Actuarial Asset Valuation Method ("AAVM") recognized expected investment returns immediately and phased in investment returns greater or less than expected returns over a period of five years. To implement this new method, a Market Value Restart was used which reset the Actuarial Asset Value to Market Value as of June 30, 1991. For the June 30, 1992 to June 30, 1994 actuarial valuations, investment returns greater or less than expected rates of return were phased in as they arose.

In conjunction with all of the other changes in actuarial assumptions and methods as of June 30, 1995, the Actuary again used a Market Value Restart and set the Actuarial Asset Value to equal Market Value as of June 30, 1995.

The change in the AAVM as of June 30, 1995 to reflect a market basis for investments held by the Plan was made as one component of an overall revision of actuarial assumptions and methods as of June 30, 1995.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1996
(Continued)

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

The AAVM used as of June 30, 1996 is a modified version of the typical five-year average of Market Values used previously.

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

The modification in the AAVM as of June 30, 1996 had no impact on Fiscal Year 1997 employer contributions but will impact employer contributions beginning Fiscal Year 1998.

- (9) Except for the assumed investment return rate, the actuarial assumptions and methods described herein were adopted by the Board of Trustees to be effective for Fiscal Years beginning on and after July 1, 1995 based upon recommendations made by the Actuary in a Report dated October 6, 1995. The Actuary's Report took into account a recent actuarial experience study and recommendations made by the independent actuarial auditor, William M. Mercer, Inc. in a report entitled Report On The Experience Study Of The New York City Retirement Systems For The Four Years Ended June 30, 1993 dated December 29, 1994.

Except for the assumed investment return rate, the actuarial assumptions and methods effective for actuarial valuations on and after June 30, 1995 reflect proposals made by the Actuary, adopted by the Board of Trustees and, where required, enacted by the New York State Legislature and Governor as Chapter 598 of the Laws of 1996.

The assumed investment return rate, effective for actuarial valuations on and after June 30, 1996, was proposed by the Actuary, adopted by the Board of Trustees and enacted by the New York State Legislature and Governor as Chapter 157 of the Laws of 1997.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1996
(Continued)

- (10) Distinct male and female probabilities for mortality are used effective June 30, 1995.
- (11) A dual overtime assumption (i.e., a baseline overtime assumption for most years and a separate overtime assumption for the years included in the calculation of Final Average Salary) has been introduced as of June 30, 1995. Baseline overtime of 6% is assumed together with overtime assumptions used in Final Average Salary of:
- 12% for Tier I Service Retirements
 - 9% for Tier II Service Retirements
 - 2% for Tier I Disability Retirements
 - 4% for Tier II Disability Retirements
 - 6% for all other benefits.
- (12) The salary data was adjusted to reflect overtime earnings by an assumed baseline overtime rate of 6%.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1996
(Continued)

Table 1

Deaths Among Service And Disability Pensioners

Percentage Of Pensioners Dying Within Next Year

<u>Age</u>	<u>Service Pensioners</u>		<u>Disability Pensioners</u>	
	<u>Males</u>	<u>Females</u>	<u>Males</u>	<u>Females</u>
40	.1238%	.0665%	.1946%	.1172%
50	.4780	.3200	.5836	.3920
60	1.1200	.8400	1.4240	1.0200
70	2.7000	1.7100	3.3876	2.1260
80	7.4430	4.5300	9.2590	5.5500
90	19.9360	12.0500	23.2464	14.9900
100	33.4520	30.1400	38.8512	37.5960
110	100.0000	100.0000	100.0000	100.0000

Table 2

Retirements And Deaths After Eligibility For Service Benefits

Percentage Of Eligible Active Members Retiring
Or Dying Within Next Year

<u>Age</u>	<u>Service Retirement</u> Years Of Service Since Elig.			<u>Accident</u> <u>Disability</u> <u>Retirement</u>	<u>Ordinary</u> <u>Disability</u> <u>Retirement</u>	<u>Ordinary Death</u>		<u>Accident</u> <u>Death</u>
	<u>0-1</u>	<u>1-2</u>	<u>2+</u>			<u>Males</u>	<u>Females</u>	
40	32.0000%	16.0000%	12.0000%	1.7400%	.3800%	.1238%	.0665%	.020%
45	40.0000	20.0000	12.0000	1.8200	.4600	.2183	.1010	.020
50	40.0000	20.0000	12.0000	1.8900	.6600	.3909	.1647	.020
55	40.0000	20.0000	12.0000	2.3900	2.4600	.6131	.2541	.010
60	40.0000	20.0000	20.0000	3.2900	7.2600	.9158	.4241	.000
63	100.0000	100.0000	100.0000	N/A	N/A	N/A	N/A	N/A

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS
IN EFFECT AS OF JUNE 30, 1996
(Continued)

Table 3

Withdrawals From Active Service Before Eligibility For Service Benefits

Percentage Of Active Members Separating Within Next Year

<u>Age</u>	<u>Withdrawal</u>	<u>Accidental Disability</u>	<u>Ordinary Disability</u>	<u>Ordinary Death</u>		<u>Accidental Death</u>
				<u>Males</u>	<u>Females</u>	
20	3.160%	.2000%	.0300%	.0377%	.0189%	.020%
25	2.650	.3900	.0700	.0464	.0253	.020
30	1.290	.7500	.2000	.0607	.0342	.020
35	0.550	1.5000	.2500	.0860	.0476	.020
40	0.420	1.7400	.3800	.1238	.0665	.020
45	0.340	1.8200	.4600	.2183	.1010	.020
50	0.320	1.8900	.6600	.3909	.1647	.020
55	0.300	2.3900	2.4600	.6131	.2541	.010
60	0.100	3.2900	7.2600	.9158	.4241	.000

Table 4

Salary Scale

<u>Years Of Service</u>	<u>Assumed Annual Percentage Increases Within Next Year*</u>
0	9.00%
5	5.00
10	5.80
15	5.60
20	5.00
25	5.00
30	5.00
35	5.00
40	5.00

* Salary Scale includes an assumed General Wage Increase rate of 4.0% per annum.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

<u>VALUATION DATE</u>	<u>NUMBER</u>	<u>ANNUAL PAYROLL</u>	<u>ANNUAL AVERAGE PAY</u>	<u>PERCENTAGE INCREASE (DECREASE) IN AVERAGE PAY</u>
6-30-87	28,341	\$1,049,129,615	\$37,018	5.7%
6-30-88	28,144	1,163,247,025	41,332	11.7
6-30-89*	26,440	1,184,041,790	44,782	8.3
6-30-90	25,927	1,241,937,674	47,901	7.0
6-30-91	27,368	1,303,588,785	47,632	(0.6)
6-30-92	27,249	1,332,598,223	48,904	2.7
6-30-93	28,166	1,379,927,841	48,993	0.2
6-30-94	31,059	1,478,485,171	47,602	(2.8)
6-30-95**	36,204	1,844,884,786	50,958	7.1
6-30-96	36,778	1,919,993,340	52,205	2.4

* Prior to June 30, 1989, Number included all members who were not officially withdrawn and Annual Payroll included the last valuation salaries of all such members. In addition, overtime earnings were not reflected in Annual Payroll.

Beginning June 30, 1989, Number includes only those who were on payroll as of the valuation date and Annual Payroll includes only the salaries of those on payroll as of the valuation date, increased by 4% to reflect overtime earnings and, where applicable, adjusted to be consistent with collective bargaining agreements estimated to be achieved.

** Beginning June 30, 1995, Number and Annual Payroll reflect the merger of the Housing and Transit Police forces into the New York City Police Department which occurred during April 1995. Beginning June 30, 1995 Annual Payrolls were increased by 6% to reflect baseline overtime earnings and, where applicable, adjusted to be consistent with collective bargaining agreements estimated to be achieved.

SCHEDULE OF RETIRANTS AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

YEAR ENDED	ADDED TO ROLLS			REMOVED FROM ROLLS			ROLLS END OF YEAR			AVERAGE ANNUAL ALLOWANCES
	NUMBER	ANNUAL ALLOWANCES	NUMBER	ANNUAL ALLOWANCES	NUMBER	ANNUAL ALLOWANCES	ANNUAL ALLOWANCES	% INCREASE IN ANNUAL ALLOWANCES		
6-30-87	1,536	\$49,927,245	319	\$4,768,412	25,560	\$409,033,632	12.4		\$16,003	
6-30-88	1,247	47,650,374	347	5,537,773	26,460	451,146,233	10.3		17,050	
6-30-89	1,290	31,356,392	356	6,069,800	27,394	476,432,825	5.6		17,392	
6-30-90	1,735	36,242,327	403	7,008,976	28,726	505,666,176	6.1		17,603	
6-30-91 ⁽¹⁾	1,355	63,565,988	524	9,223,972	29,557	560,008,192	10.8		18,947	
6-30-92	885	44,507,805	472	8,942,984	29,970	595,573,013	6.4		19,872	
6-30-93	998	45,172,785	626	12,439,872	30,342	628,305,926	5.5		20,707	
6-30-94 ⁽¹⁾⁽²⁾	1,219	42,247,397	523	8,962,640	30,974	647,103,008	5.4		20,892	
6-30-95 ⁽³⁾	1,009	43,191,422	528	8,946,990	31,455	681,347,440	5.3		21,661	
6-30-96 ⁽⁴⁾	4,875	64,254,160	895	10,156,142	35,435	735,445,458	7.9		20,755	

(1) Prior to June 30, 1991 Number Added to Rolls equaled actual Pension Numbers issued during fiscal year even if not on payroll as of June 30. From June 30, 1991 thru June 30, 1993 this includes beneficiaries who became entitled to benefits due to death of retirants. Beginning June 30, 1994 this excludes beneficiaries who became entitled to benefits due to death of retirants and also excluded those who were not on payroll as of June 30.

(2) Prior to June 30, 1991 Number Removed from Rolls equaled actual Termination Numbers issued during fiscal year. From June 30, 1991 thru June 30, 1993 this includes retirants who deceased and left beneficiaries entitled to benefits. Beginning June 30, 1994 this excludes retirants who deceased and left beneficiaries who were on payroll as of June 30 and includes all those who went off payroll by June 30, even if a Termination Number was not issued.

(3) Prior to June 30, 1994, Rolls at End of Year included all retirants and beneficiaries who were not issued Termination Numbers. It also reflected anticipated benefits for new retirants receiving partial payments prior to finalization of the benefit calculations and anticipated supplemental benefits for service retirees under age 62. Beginning June 30, 1994 these figures represent only those who were on the pensioner payroll as of June 30 and amounts actually being paid. Had this method been used for June 30, 1993, the figures for Number and Annual Allowances of the Rolls at End of Year would have been 30,278 and \$613,818,251, respectively. The figures for Number Added, Number Removed and Percent Increase in Annual Allowances for June 30, 1994 are calculated using these revised figures for June 30, 1993.

(4) For June 30, 1995, Added to Rolls and Rolls at End of Year excluded 3,830 former Police Department, Subchapter One Pension Fund members.

(4) For June 30, 1996, Added to Rolls and Rolls at End of Year included 3,455 former Police Department, Subchapter One Pension Fund members.

SCHEDULE OF ACTUAL VS. REQUIRED CONTRIBUTIONS

(in thousands)

FISCAL YEAR ENDED	ACTUAL EMPLOYER CONTRIBUTION*	REQUIRED EMPLOYER CONTRIBUTION	EMPLOYER RATE OF CONTRIBUTION**
6-30-88	\$500,001	\$500,001	46.893%
6-30-89	533,621	533,621	44.612%
6-30-90	477,397	477,397	40.319%
6-30-91	443,582	443,582	35.717%
6-30-92	432,223	432,223	33.156%
6-30-93	462,098	462,098	34.676%
6-30-94	418,113 ⁽¹⁾	418,113	30.300%
6-30-95	418,983 ⁽²⁾	418,983	28.339%
6-30-96	562,360 ⁽³⁾	562,360	30.482%
6-30-97	539,844 ⁽⁴⁾	539,844	28.117%

* Generally represents employer contributions plus payments towards the Balance Sheet Liability received on a cash basis, excluding any adjustments for delayed payments. Contributions on the accrual basis are shown in the financial statements and "Revenue by Source".

** The employer rates of contribution represent a percentage of the salaries of members who were on payroll as of the preceding June 30th increased to reflect overtime earnings and, where applicable, adjusted to be consistent with collective bargaining agreements estimated to be achieved.

(1) Represents total employer contributions made during Fiscal Year 1994 net of \$29,815 thousand deferred to Fiscal Year 1995 and adjustments for delayed payments. Equals total employer contributions accrued for Fiscal Year 1994.

(2) Represents total employer contributions made during Fiscal Year 1995 net of \$23,376 thousand deferred to Fiscal Year 1996 and reflects impact of Chapter 503 of the Laws of 1995 which provides for the merger of certain assets and liabilities of the Police Department, Subchapter One Pension Fund into the Plan. Equals total employer contributions accrued for Fiscal Year 1995.

(3) Represents total employer contributions made during Fiscal Year 1996 plus \$23,376 thousand deferred from Fiscal Year 1995 and adjustments for delayed payments. Equals total employer contributions accrued for Fiscal Year 1996.

(4) Represents total employer contributions made during Fiscal Year 1997 net of \$42,316 thousand deferred to Fiscal Year 1998 and adjustments for delayed payments. Equals total employer contributions accrued for Fiscal Year 1997.

NEW YORK POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGES COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

SOLVENCY TEST (in thousands)

PENSION BENEFIT OBLIGATION ("PBO") FOR

AS OF <u>JUNE 30</u>	<u>ACCUMULATED EMPLOYEE CONTRIBUTIONS</u>	<u>CURRENT RETIRED AND BENEFICIARIES</u>	<u>ACTIVE MEMBERS' EMPLOYER FINANCED PORTION</u>	<u>NET ASSETS AVAILABLE FOR BENEFITS</u>	<u>PERCENTAGE OF PBO COVERED BY NET ASSETS AVAILABLE FOR BENEFITS</u>	
	(A)	(B)	(C)	(D)	(A)	(B) (C)
1987	\$222,485	\$3,844,596	\$3,702,426	\$5,308,189	100%	100% 34%
1988	270,000	4,142,503	2,625,925	5,438,723	100	100 39
1989*	294,000	4,352,964	2,862,296	6,177,969	100	100 54
1990	320,000	4,614,605	2,959,378	6,783,210	100	100 63
1991*	351,555	5,014,214	2,924,426	7,142,120	100	100 61
1992	384,956	5,327,135	3,102,689	7,775,165	100	100 67
1993	404,412	5,539,581	3,241,184	8,477,629	100	100 78
1994	484,306	5,832,456	3,341,541	8,603,058	100	100 68
1995	603,172	6,466,108	3,881,408	10,098,450	100	100 78
1996*	687,266	6,845,419	3,875,443	10,980,324	100	100 89

* Revised economic and non-economic assumptions due to experience review.
Also, see following "SOLVENCY TEST - NOTES".

NEW YORK POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

COMPARATIVE SUMMARY OF ACTUARIAL VALUES AND PERCENTAGES
COVERED BY NET ASSETS AVAILABLE FOR BENEFITS

SOLVENCY TEST - NOTES

The ultimate test of financial soundness in a retirement system is its ability to pay all of its promised benefits when due. The retirement system's progress in accumulating assets to pay all promised benefits can be measured by comparing the Net Assets of the retirement system with Pension Benefit Obligation ("PBO") for:

- (A) Accumulated Member Contributions;
- (B) Current Retirants and Beneficiaries; and
- (C) Active Members' Employer-Financed Portion.

The PBO is the actuarial present value of credited projected benefits produced by the credited projected benefit attribution approach prorated on service. The PBO was calculated in accordance with previously issued Government Accounting Standards Board Statement No. 5.

This comparative summary allocates assets as if they were priority groups, somewhat similar to (but not identical with) the priority categories of Section 4044 of the Employee Retirement Income Security Act of 1974.

Financial soundness is dependent upon census data, benefit levels (which have changed on occasion over the past years), and the actuarial assumptions and methods employed at each valuation date. These underlying bases can be found within the Comprehensive Annual Financial Report for each respective year.

To fully evaluate trends in financial soundness, changes in assumptions need to be evaluated. The economic assumptions used in the actuarial calculations are as follows:

<u>Valuation Date June 30</u>	<u>Assumed Annual Rate Of Return On Investments</u>	<u>Merit And Promotion Increases Plus An Assumed General Wage Increase Per Year Of</u>
1987	8.00%	5.5%
1988	8.00	5.5
1989	8.25	5.5
1990	8.25	5.5
1991	8.50	5.5
1992	8.50	5.5
1993	8.50	5.5
1994	8.50	5.5
1995	8.50	4.0
1996	8.75	4.0

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SUMMARY OF PLAN PROVISIONS

DEFINITIONS

Accumulated Deductions - The total contributions made by a member to his annuity savings account, with regular and special interest thereon.

Reserve for Increased Take Home Pay ("ITHP") - A reserve consisting of 2.5% or 5% of the member's salary, pursuant to the provisions of Section 13-226 of the Code, accumulated with regular and additional interest.

Minimum Accumulation - The amount of normal contributions accumulated with interest to the earliest date for service retirement less the amount of the reserve for ITHP on such date.

Final Salary - (1) For a member who joined prior to July 1, 1973, the annual rate of salary earnable on the date of retirement. (2) For a member who joined after June 30, 1973, the average salary earned during any three consecutive years which provide the highest average salary. However, if the salary earned during any year included in this three year period exceeds the average of the previous two years by more than twenty percent, the amount in excess of twenty percent is excluded from the computation.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

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

BENEFITS

Briefly stated, the benefit provisions and the contribution provisions, of which account was taken in the valuation, are as follows:

I. SERVICE RETIREMENT

The service retirement allowance consists of two parts, a pension payable from City contributions and an annuity from member's contributions.

According to his election when he joined the Pension Fund, a member may retire from service after having completed 20 years of police service, or after having completed 25 years of police service, or at the attainment of age 55 regardless of years of service.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

Upon retirement after having become eligible for service retirement the member receives an allowance which is the sum of (a) 50% of final salary, reduced by an annuity which is the actuarial equivalent of the minimum accumulation, (b) an annuity which is the actuarial equivalent of the accumulated deduction and (c) for all years of service other than the minimum required service:

- (i) for a member who joined prior to July 1, 1973, 1/60 of average salary for the period of service after the completion of his minimum required service for each year of such service; for a member who joined after June 30, 1973, 1/60 of average salary for the period of service after the completion of his minimum required service but for not more than the last ten years of such service, and
- (ii) a pension for ITHP which is the actuarial equivalent of the reserve for ITHP less the reserve for ITHP at the minimum service date with interest to the date of retirement.

II. ORDINARY DISABILITY RETIREMENT

An ordinary disability retirement allowance is paid upon the disablement of a member from causes other than accident in the actual performance of duty.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

For a member who elected the 20 year plan, the ordinary disability retirement allowance is equal to $1/40$ ($1/50$ for members who elected the 25 year plan; $1/60$ for members who elected to retire at the attainment of age 55) of final salary multiplied by the number of years of service for a member who joined before July 1, 1973, and multiplied by the number of years of service not exceeding thirty for a member who joined after June 30, 1973, but not less than $1/2$ of his final salary if he completed 10 or more years of City service, or $1/3$ of his final salary if less than 10 years of City service.

III. ACCIDENT DISABILITY RETIREMENT

Upon the occurrence of disability caused by an accident in the actual performance of duty, a member is granted a retirement allowance. The allowance consists of a pension equal to three-fourths of his final salary and, if he is eligible for service retirement, an additional increment of $1/60$ of average salary from date of eligibility for service retirement to date of retirement for each year of service after the completion of the required minimum for a member who joined before July 1, 1973, and for each of the years of service not exceeding 10 years after the completion of the required minimum for a member who joined after June 30, 1973. An additional pension is paid which is the actuarial equivalent of the reserve for ITHP, as well as an annuity which is the amount which can be purchased with the member's accumulated deductions.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

IV. ORDINARY DEATH BENEFIT

Upon the death of a member in active service from causes other than accident in the actual performance of duty, a benefit is paid to his estate or to such person as he shall have nominated.

With respect to a member who joined before July 1, 1973, the benefit is equal to the compensation earnable by the member in the six months immediately preceding his death and, if the total number of years of allowable service exceeds ten, then the benefit is equal to the compensation earnable by him during the twelve months immediately preceding death. In addition, the member's accumulated deductions, the reserve for ITHP, and the City's obligation on account of military service, if any, are paid to his estate or to his designated beneficiary.

The benefit payable on account of such a member who at the time of his death, would have been eligible for service retirement is either the benefit described above or an amount equal to the reserve on the retirement allowance which would have been payable if he had retired on the day before his death, whichever is larger.

A member who joins after June 30, 1973 is covered for a death benefit upon completion of 90 days of service. The amount of the death benefit is equal to three times member's salary raised to the next higher multiple of \$1,000. In addition, the member's accumulated deductions are payable.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

The Rules and Regulations adopted by the Board of Trustees in accordance with Chapter 581 of the Laws of 1970 provide that the first \$50,000 of each benefit on account of death in active service is payable from the group term life insurance plan. Only the amount in excess of \$50,000, if any, is payable by the Pension Fund.

V. ACCIDENTAL DEATH BENEFIT

The benefit is payable upon the death of a member which occurs as the result of an accident sustained in the performance of duty.

The accidental death benefit is a lump sum payment of the reserve for ITHP and a pension equal to one-half of the average salary in the five years immediately preceding death but not less than one-half the full salary of a first grade patrolman, payable to the widow for life, or if there is no widow, to a child, or children until the attainment of age 18 or age 23 if a full-time student, or if there is no widow or child, to the dependent parents. In addition, the member's accumulated deductions and ITHP reserve are paid to his/her estate or designated beneficiary.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

VI. TERMINATION OF EMPLOYMENT

A member who either resigns or is dismissed receives a benefit equal to his accumulated deductions. At resignation with at least 15 years of service, at least 5 of which immediately precede resignation, the member may elect, in lieu of a return of his accumulated deductions, to receive a service retirement allowance reduced in proportion to his years of service. The allowance is deferred to the earliest date on which the member would have been eligible for service retirement had the member not resigned. Should a member who elected to receive a vested retirement allowance die during the period of deferment, the benefit is the accumulated deductions.

VII. DEPENDENT BENEFIT

Upon the death of such a member during active service or after retirement, a pension of \$600 per annum is payable to the widow until remarriage, to a child, or to the dependent parents provided that upon becoming a member, he had elected to make the additional contributions required for this benefit.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

VIII. SUPPLEMENTAL RETIREMENT ALLOWANCE

Supplemental Retirement Allowances are payable to members who retired prior to Calendar Year 1990 and either retired for disability, attained age 62 or attained age 55 after being retired for 10 or more years.

The benefit is equal to a percentage, ranging from 0.8% to 947.6%, depending on the Calendar Year of retirement, of the first \$12,500 of the retirement allowance entitled had the member not elected any optional forms of benefit.

The Supplemental Retirement Allowance is payable during the life of the retired member. One half of the amount is also payable after the member's death and during the life of the spouse beneficiary if such retired member had elected one of the options under the Administrative Code which provides that benefits are to be continued for the life of such spouse after the death of the retired member, and where the death of such retired member occurred or occurs more than thirty days after the effective date of the retirement of such member.

IX. OPTIONS ON RETIREMENT

A member upon retirement may elect to receive his basic retirement allowance payable in monthly installments throughout life with all payments ending at death, or may elect to receive the actuarial equivalent in any one of the following optional forms:

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

- (a) With respect to members who joined prior to July 1, 1973, a cash refund allowance under which reduced payments will be made for the life of the member with a provision that, in case of death before such payments have equaled the present value of the retirement allowance at date of retirement, the balance shall be paid to the designated beneficiary or estate in a lump sum. With respect to members who joined after June 30, 1973, this option is only available with respect to the annuity.

- (b) With respect to members who join or joined after June 30, 1973, a five-year or ten-year certain and life thereafter allowance under which reduced payments will be made for the life of the member with a provision that, in case of death within the guarantee period, the benefit that would have been payable had the member survived shall continue to the designated beneficiary or estate for the balance of the guarantee period.

- (c) A joint and survivor allowance under which reduced payments will be made for the life of the member with a provision that at the death of the member the same payments or one-half of such payments shall be continued for the life of such other person as the member shall have designated.

- (d) Such other form of benefit which is the actuarial equivalent of the basic benefit as may be certified by the actuary and approved by the Board of Trustees. By resolution, the Board of Trustees has approved an option under which reduced payments will be made for the life of the member with a provision that upon his death, a sum specified by the member at the time of retirement shall be paid to his designated beneficiary or estate.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

CONTRIBUTIONS

The benefits of the Fund are financed by employee and employer contributions and from the earnings on the invested funds.

I. MEMBER CONTRIBUTIONS

Member contributions are made on the basis of a normal rate of contribution that is assigned by the Plan at the time of membership. The normal rate, which is dependent upon the member's age at membership and plan, as well as the tables in effect for such purpose, is determined so as to provide an annuity of approximately one-quarter of the service retirement allowance at the earliest date for service retirement. Members may voluntarily increase their rates of contribution by 50% for the purpose of purchasing an additional annuity.

Contributions from members are recorded when the employer makes payroll deductions from Plan members. Members are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such member's contribution accounts.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

II. EMPLOYER CONTRIBUTIONS

The frozen entry age actuarial cost method of funding is utilized by the Plan's Actuary to calculate the contribution from the employer.

Employer contributions, including the amount to fund the employer contribution receivable - long-term, are accrued by the Plan and are funded by the employer on a current basis and amounted to \$539,844,084 for the Fiscal Year ended June 30, 1997.

NEW YORK CITY POLICE DEPARTMENT, SUBCHAPTER TWO PENSION FUND

SCHEDULE OF AVERAGE ANNUAL BENEFIT PAYMENT AMOUNTS

<u>DATE</u>	<u>SERVICE RETIREMENT BENEFITS</u>		<u>ORDINARY (NON-DUTY) DISABILITY BENEFITS</u>		<u>ACCIDENTAL (DUTY) DISABILITY BENEFITS</u>	
	<u>NUMBER</u>	<u>AVERAGE ANNUAL ALLOWANCE</u>	<u>NUMBER</u>	<u>AVERAGE ANNUAL ALLOWANCE</u>	<u>NUMBER</u>	<u>AVERAGE ANNUAL ALLOWANCE</u>
6-30-87	14,255	\$12,767	4,104	\$16,622	6,706	\$22,103
6-30-88	14,229	13,495	4,075	17,330	6,681	22,894
6-30-89	14,426	13,760	4,058	17,422	6,802	23,148
6-30-90	14,711	14,125	4,030	17,487	6,879	23,383
6-30-91 ⁽¹⁾	17,262	16,342	4,274	19,053	7,606	25,302
6-30-92	17,394	16,998	4,257	20,226	7,868	26,596
6-30-93	17,390	17,672	4,282	21,045	8,178	27,582
6-30-94 ⁽²⁾	17,866	17,942	4,211	21,084	8,375	27,705
6-30-95 ⁽³⁾	18,119	18,672	4,168	21,505	8,623	28,675
6-30-96 ⁽⁴⁾	19,011	19,148	4,200	21,696	8,969	29,559

(1) Prior to June 30, 1991, Number and Average Annual Allowance excluded pensioners whose benefits were not finalized. Beginning with June 30, 1991, Number and Average Annual Allowance included these members.

(2) Prior to June 30, 1994, Number and Average Annual Allowance included all pensioners and survivors who were not officially terminated. Beginning with June 30, 1994, Number and Average Annual Allowance include only those who were on pensioner payroll as of the valuation date.

(3) For June 30, 1995, Number and Average Annual Allowance exclude former members of the Police Department, Subchapter One Pension Fund.

(4) For June 30, 1996, Number and Average Annual Allowance include former members of the Police Department, Subchapter One Pension Fund.

**NEW YORK CITY POLICE DEPARTMENT,
SUBCHAPTER TWO PENSION FUND**

**COMPREHENSIVE ANNUAL FINANCIAL REPORT
A PENSION TRUST FUND OF THE CITY OF NEW YORK**

**STATISTICAL SECTION
PART V**

FISCAL YEAR ENDED JUNE 30, 1997

New York Police Department Pension Fund - Subchapter 2

SCHEDULE OF BENEFIT EXPENSES BY TYPE (In Thousands)

BENEFIT PAYMENTS

Fiscal Year	Service & Disability Retirement	Ordinary Death in Service	Payments For Death After Retirement	Line of Duty Deaths	Total
06/30/88	429,503	6,031	2,275	2,247	440,056
06/30/89	476,331	9,707	2,322	2,328	490,688
06/30/90	515,693	8,282	2,070	2,458	528,503
06/30/91	556,232	15,500	2,481	2,690	576,903
06/30/92	589,091	5,544	3,003	2,785	600,423
06/30/93	608,515	2,962	4,008	2,818	618,303
06/30/94	645,751	3,774	2,905	3,116	655,546
06/30/95	675,120	6,203	2,070	4,828	688,221
06/30/96	729,956	9,503	3,528	459	743,446
06/30/97	777,973	8,313	992	3,650	790,928

NEW YORK CITY PENSION - SUBCHAPTER 2

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

JUNE 30, 1996

SERVICE RETIREMENT

AGE	MEN		WOMEN	
	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE
UNDER 30	0	\$ 0	0	\$ 0
30 to 34	0	0	0	0
35 to 39	1	26,520	0	0
40 to 44	126	24,793	1	27,120
45 to 49	1633	27,897	43	28,165
50 to 54	3367	25,405	70	26,782
55 to 59	3260	22,391	51	24,679
60 to 64	2398	18,677	36	23,934
65 to 69	2483	15,620	30	11,760
70 to 74	2369	12,740	39	10,812
75 to 79	1804	11,520	20	10,277
80 to 84	635	12,089	12	12,328
85 to 89	383	13,425	3	12,071
90 & up	247	12,275	0	0

NEW YORK CITY PENSION - SUBCHAPTER 2

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

JUNE 30, 1996

ORDINARY DISABILITY (NON-DUTY) RETIREMENT

AGE	MEN		WOMEN	
	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE
UNDER 30	1	\$12,960	1	\$11,160
30 to 34	31	16,009	14	15,897
35 to 39	63	17,450	35	18,456
40 to 44	57	16,857	24	18,931
45 to 49	305	13,334	18	16,396
50 to 54	596	12,540	21	13,947
55 to 59	516	15,987	6	11,320
60 to 64	425	26,238	21	12,886
65 to 69	795	30,622	6	26,508
70 to 74	675	26,831	16	19,014
75 to 79	420	22,632	12	18,156
80 to 84	110	20,688	1	28,117
85 to 89	22	14,232	1	15,330
90 & up	8	9,565	0	0

NEW YORK CITY PENSION - SUBCHAPTER 2

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

JUNE 30, 1996

ACCIDENT DISABILITY RETIREMENT

AGE	MEN		WOMEN	
	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE	NUMBER OF RETIRANTS	AVERAGE ANNUAL ALLOWANCE
UNDER 30	22	\$31,091	4	\$32,067
30 to 34	388	35,486	70	33,630
35 to 39	627	35,740	99	33,852
40 to 44	434	34,387	53	33,435
45 to 49	1221	29,828	37	26,324
50 to 54	1977	28,360	47	31,477
55 to 59	1314	28,549	12	31,979
60 to 64	782	29,830	7	26,284
65 to 69	812	30,315	8	27,221
70 to 74	608	25,175	5	22,870
75 to 79	321	21,673	1	14,524
80 to 84	77	19,046	2	17,389
85 to 89	26	16,567	0	0
90 & up	15	14,552	0	0

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
JUNE 30, 1996

SERVICE OR DISABILITY
SURVIVORS (OF DECEASED PENSIONERS UNDER SELECTED OPTIONS)

AGE	MEN		WOMEN	
	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE
UNDER 30	1	\$13,586	5	\$15,308
30 to 34	0	0	2	16,105
35 to 39	0	0	5	20,168
40 to 44	0	0	3	12,832
45 to 49	0	0	6	22,425
50 to 54	1	11,782	12	16,130
55 to 59	0	0	15	14,208
60 to 64	0	0	33	10,765
65 to 69	0	0	75	8,900
70 to 74	0	0	141	6,511
75 to 79	0	0	288	4,243
80 to 84	0	0	656	3,451
85 to 89	0	0	961	3,210
90 & up	0	0	754	3,200

New York Police Department Pension Fund - Subchapter 2

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT JUNE 30, 1996

BENEFICIARIES OF PENSIONERS KILLED IN ACTUAL PERFORMANCE OF DUTY

AGE	MEN		WOMEN	
	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE	NUMBER OF BENEFICIARIES	AVERAGE ANNUAL ALLOWANCE
UNDER 30	3	\$18,360	3	\$25,389
30 to 34	0	0	7	21,787
35 to 39	0	0	11	22,580
40 to 44	0	0	11	17,372
45 to 49	0	0	41	14,066
50 to 54	0	0	48	13,116
55 to 59	1	23,528	38	11,635
60 to 64	2	21,549	34	9,265
65 to 69	0	0	46	8,041
70 to 74	1	22,227	20	7,257
75 to 79	0	0	16	5,773
80 to 84	0	0	6	5,212
85 to 89	0	0	8	5,322
90 & up	0	0	2	5,132

New York Police Department Pension Fund - Subchapter 2

Expense by Type (Unaudited)

(In Thousands)

Fiscal Year Ended June 30	Benefit Payments	Refunds	Administrative Expenses	Payment to Other Pension Funds (1)	Total	Employer Contributions as a Percentage of Annual Covered Payroll
1991	\$576,901	\$874	-	-	\$577,775	33.6%
1992	600,424	357	6	49,315	650,102	31.6
1993	618,303	1,104	5	113,336	732,748	32.5
1994	655,546	322	-	1,679	657,547	28.0
1995	978,223	321	-	(617,978)	360,566	22.5
1996	743,446	328	3	382,606	1,126,383	30.1
1997	790,928	698	8	(21,237)	770,397	27.6

(1) Includes transfers to Police Officers' and Police Superior Officers' Variable Supplements Funds.

New York Police Department Pension Fund - Subchapter 2

Revenue by Source (Unaudited)

(In Thousands)

Fiscal Year Ended June 30	Net Member Contribution	Employer Contributions	Net Investment Income	Other	Total	Employer Contributions as a Percentage of Annual Covered Payroll
1991	\$13,008	\$434,877	\$483,930	\$4,870	\$936,685	33.6%
1992	15,226	421,322	846,599	-	1,283,147	31.6
1993	(3,647)	448,767	990,092	-	1,435,212	32.5
1994	53,295	414,445	315,235	-	782,975	28.0
1995	57,697	414,928	1,440,440	-	1,913,065	22.5
1996	43,791	554,961	1,394,090	-	1,992,842	30.1
1997	31,954	529,777	2,691,569	-	3,253,300	27.6