Firemen's Annuity and Benefit Fund of Chicago, Illinois

Financial Report

For the Years Ended December 31, 2002 and 2001

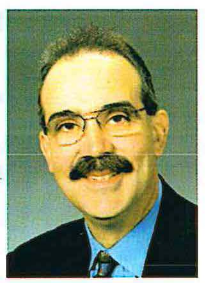
FIREMEN'S ANNUITY & BENEFIT FUND
One North Franklin Street – Suite 2550
Chicago, Illinois 60606

® 483 MBE

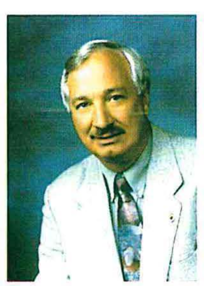
THE RETIREMENT BOARD
OF THE
FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO
AS OF DECEMBER 31, 2002

Elected Trustees

Joseph F. Quinn, *President*
Elected Annuitant Board Member in October, 1989. Retired since 1985 with 36 years on the job. President of the following Boards: Chicago Firemen's Association Credit Union; Retired Firemen's Association; and Mutual Aid. Formerly active Trustee from December 1965 through December 1977. Also, former Second and First Vice-President of Local 2.



George Korda, *Secretary*
Member of the Board since December, 2000. A 27 year member of the Chicago Fire Department. Earned a B.S. degree in Urban Planning from Chicago State University. A Legislative Aid from 1982-1984 and the Director of Political Action from 1984-1990 for Local 2.



Norman S. Holland,
Member of the Board since 1983. A 31 year member of the Chicago Fire Department with an Associates Degree from City Wide Colleges in Fire Science and a B.A. from Northeastern Illinois. Since 1984, serving on the Board of the National Conference of Public Employee Retirement Systems. Treasurer 1990-92.

Anthony Martin
Member of the Board since December, 2002. A 15 year member of the Chicago Fire Department. Earned B.A. degrees in Political Science and Sociology from St. Xavier University. An active member of Local 2 and former steward for the 23rd Battalion.

Ex Officios

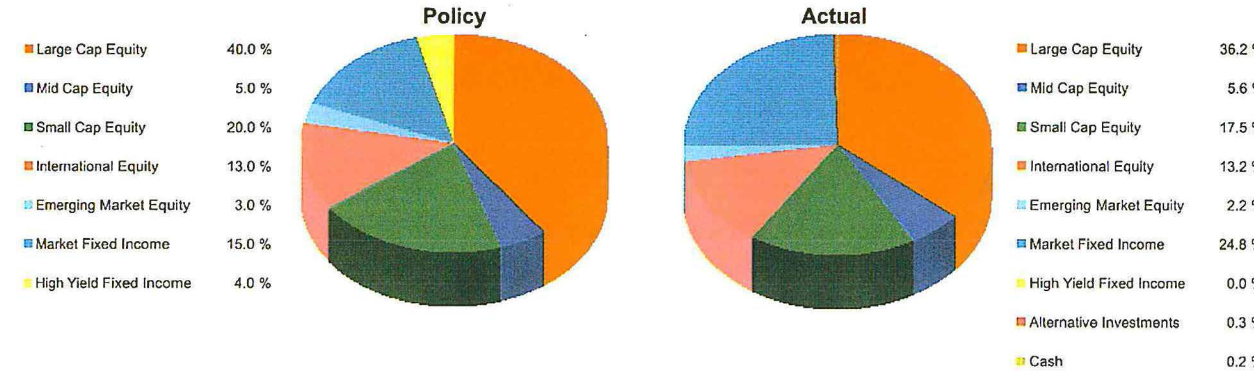
Derrick F. Jackson, *Deputy Fire Commissioner*
Deputy Fire Commissioner, Bureau of Administrative Services since January 2000. A 25 year member of the Chicago Fire Department. Earned a B.A. degree from Western Illinois University and a M.A. degree from Roosevelt University.

Judith Rice, *City Treasurer of Chicago*
Appointed Treasurer in November 2000. Prior to appointment, she served as Commissioner of the Chicago Department of Transportation. Prior positions also include Commissioner of the Chicago Department of Water, Director of the Department of Revenue and Assistant State's Attorney. Ms. Rice has earned a law degree from John Marshall Law School and a B.A. degree from Loyola University.

James Laski, *City Clerk of Chicago*
Elected City Clerk in April 1995, Mr. Laski was formerly 23rd Ward Alderman from 1990 through April 1995. Served as Legislative Asst. for the Illinois House of Representatives. Earned a B.A. degree from Lewis University and a law degree from Northern Illinois University.

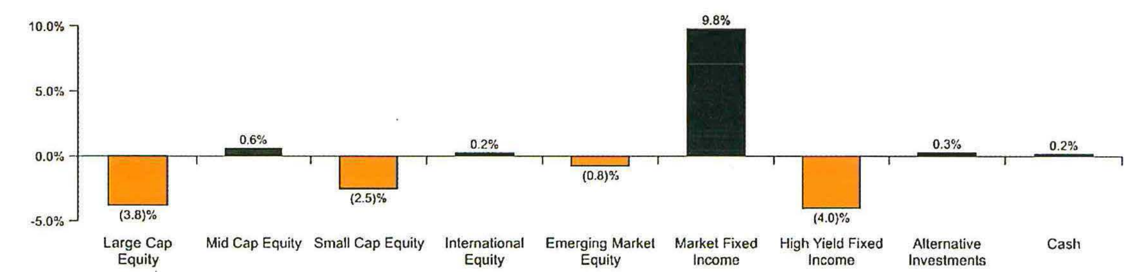
Tariq Malhance, *Comptroller of the City of Chicago*
Appointed Comptroller in 2002. Previously was First Deputy Treasurer and Managing Deputy Comptroller. Also serves on the boards of the Police, Laborers' and Municipal Funds. Has earned graduate degrees in Finance from Roosevelt University and Economics from U of I Chicago.

Firemen's Annuity and Benefit Fund of Chicago
Asset Allocation
As of December 31, 2002



Total Market Value
$ 844,389,646

Asset Allocation vs. Policy

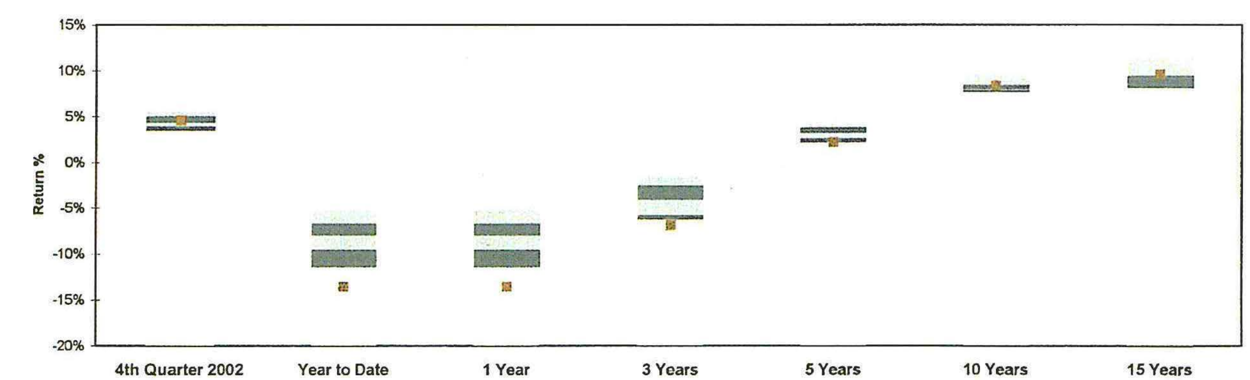


Numbers may not add due to rounding

Mercer Investment Consulting

FundStrategy *4th Quarter 2002* **Chicago Firemen's Annuity & Benefit Fund**

Total Fund vs. TNT Public Fund Universe



	4th Quarter 2002	Year to Date	1 Year	3 Years	5 Years	10 Years	15 Years
Firemen's Benefit	4.6%	-13.6%	-13.6%	-6.9%	2.2%	8.3%	9.6%
Percentile Rank	48	100	100	100	90	30	24
Number of Observations	31	31	25	25	19	11	5
10th Percentile	5.6%	-5.1%	-5.1%	-1.5%	4.2%	9.6%	11.6%
1st Quartile	5.1%	-6.6%	-6.6%	-2.5%	3.8%	8.5%	9.5%
Median	4.4%	-7.9%	-7.9%	-4.0%	3.2%	8.0%	9.3%
3rd Quartile	3.9%	-9.5%	-9.5%	-5.7%	2.6%	7.9%	9.3%
90th Percentile	3.5%	-11.4%	-11.4%	-6.2%	2.2%	7.7%	8.1%

The Northern Trust Company *Prepared by Northern Trust Performance Analysis Services*

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
Suite 2550
One North Franklin Street Chicago, IL 60606-3487
(312) 726-5823 Fax (312) 726-2316
Marshall Line 9261 http://www.fabf.org
(800) 782-7425
483 MBE

REPORT OF THE INVESTMENT COMMITTEE

On behalf of the Retirement Board of the Firemen's Annuity & Benefit Fund of Chicago, I hereby submit the investment report for the year 2002.

"What the capital markets giveth, the capital markets can taketh away." That is the lesson that has been amply learned since 1997. In a continuation of the trend that began in March 2000, 2002 proved to be another extremely disconcerting year for investors. Every broad based major market index posted a loss for the year, including a decline of 22% for the Standard & Poor's 500, a 31% fall for the NASDAQ Composite and a 16% retreat for the MSCI EAFE (a measure of international equities).

A confluence of events, including additional corporate governance scandals, a heightened sense of uncertainty surrounding the buildup towards war with Iraq, a U.S. unemployment rate rising to 6% and sustained global economic slowdown all contributed to the U.S. equity market's negative return. The year 2002 marks the first time since 1939-1941 that the U.S. market has sustained three consecutive years of losses. Yet, even in such a dismal investment environment there were some bright spots. Most fixed income securities ended the year in positive territory as interest rates continued their historic declines and a "flight to quality" occurred in anticipation of the Iraq conflict.

Although the Fund experienced a negative 13.6 investment return for 2002, through portfolio diversification, your Fund was able to avoid a more substantial performance decline as evidenced by the major market indices. Even with 2002's performance, the Fund still remains in the top third of its peer group for the ten year period ending in 2002. The following table shows the annualized 1, 3, 5, 10 and 15 year returns for the Fund and its peers as of December 31, 2002.

	1 Year	3 Year	5 Year	10 Year	15 Year
Firemen's Annuity & Benefit Fund of Chicago	(13.6)%	(6.9)%	2.2%	8.3%	9.6%
The Northern Trust Co. Public Fund Median	(7.9)%	(4.0)%	3.2%	8.0%	9.3%

While these past few years have encompassed many extraordinary and unforeseen events, we continue to exercise care and prudence in the investment management of your Fund. As always, the Board remains vigilant in the oversight of your Fund and we welcome our members' questions regarding the investment of Fund assets.

Sincerely,

Norman S. Holland
Elected Trustee and Investment Committee Chairman

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
Suite 2550
One North Franklin Street Chicago, IL 60606-3487
(312) 726-5823 Fax (312) 726-2316
Marshall Line 9261 http://www.fabf.org
(800) 782-7425
483 MBE

ELECTED TRUSTEES
JOSEPH F. QUINN, President
GEORGE M. KORDA, Secretary
NORMAN S. HOLLAND
ANTHONY R. MARTIN

EX-OFFICIO TRUSTEES
City Clerk, JAMES J. LASKI, Vice President
Deputy Fire Commissioner, DERRICK JACKSON
City Treasurer, JUDITH C. RICE
City Comptroller, TARIQ MALHANCE

May 9, 2003

To the Participants of the Firemen's Annuity and Benefit Fund of Chicago

The Retirement Board and Staff of the Firemen's Annuity & Benefit Fund of Chicago are pleased to submit your Fund's Annual Financial Report for the year ended December 31, 2002. We strongly recommend that you read this report to gain an understanding of the current status of your retirement system.

Fund investment returns for 2002 continued to struggle. The economic slowdown that began in 2000, which was then exacerbated by the September 11th tragedy, continued as the buildup towards war with Iraq occurred. For the year, the Firemen's Annuity and Benefit Fund of Chicago experienced a –13.6% investment return. Despite the market difficulties, the Fund still achieved an annualized 8.3% return for the past ten years, placing it within the top third in both the State and TNT Public Fund Universe.

The Board and our members continued in an all too familiar holding pattern at the end of 2002. The union contract and the annuitants' long-term health care insurance remained in negotiations with the City. A multitude of Fund sponsored proposals and initiatives failed to receive legislative approval in 2002.

During the year, the Board welcomed its newest members: Tariq Malhance, City Comptroller, as an Ex Officio Trustee, and Anthony Martin, an active firefighter, as a trustee elected to a three-year term. The Board would also like to thank Tom Luczak and Phoebe Seldon for their years of service and commitment to the well being of the Fund.

At the end of another trying year, your Board still remains committed to you, our members, and we dedicate all our efforts to the prudent oversight of your Fund. We always welcome your input or questions regarding the operation of your Fund. Please feel free to contact any of us at the Board office. Thank you and have a great year.

Joseph F. Quinn,
Fund President

George Korda,
Fund Secretary

TABLE OF CONTENTS

PROFESSIONAL STAFF and ADVISORS
December 31, 2002

Professional Staff

Executive Director - Kenneth E. Kaczmarz
Fund Comptroller - Michael G. Moran, CPA
Deputy Director of Benefits - Janet A. Pelech
Accounting Manager - Elizabeth A. Pauss
Administrative Coordinator - Lori A. Lund
Information Systems Manager -Janice E. DeGroot

Advisors and Consultants

Actuary – Gabriel, Roeder, Smith & Company
Independent Auditors – Legacy Professionals LLP
Legal Counsel - Burke, Burns & Pinelli, Ltd.
Master Custodian - The Northern Trust Company
Investment Consultant - Mercer Investment Consulting

Professional Investment Managers

A.G. Bisset & Co., Inc
Ariel Capital Management, Inc.
The Boston Company Asset Management, LLC
Brandes Investment Partners
Chicago Equity Partners
Fox Asset Management LLC
Husic Capital Management
Institutional Capital Corporation
ING Aeltus Investment Management
INVESCO Capital Management
Keeley Asset Management Corp.
Loomis, Sayles & Company
Lunn Partners LLC
MacKay Shields Financial Corp.
Mesirow Financial
Montag & Caldwell
Montgomery Asset Management
Navellier & Associates
Neuberger & Berman, LLC
Northern Trust Quantitative Advisors
Principal Global Investors
Stein Roe & Farnham, Inc.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Firemen's Annuity and Benefit Fund of Chicago, Illinois

For its Comprehensive Annual Financial Report for the Fiscal Year Ended December 31, 2001

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

Additional Information

Participant Data

	2002	2001
Active members		
Number	4,910	4,930
Annual payroll	$ 277,053,144	$ 277,964,912
Average salary	$ 56,426	$ 56,382
Average age	43.1	42.6
Average service	14.7	14.3
Annuitants and beneficiaries		
Retired employees	2,411	2,422
Spouse, parent and widow annuitants	1,416	1,421
Children and dependents	121	116
Duty disabilities	257	262
Occupational disabilities	144	147
Ordinary disabilities	2	2
Total annuitants and beneficiaries	4,351	4,370
Total Benefits	$ 135,866,359	$ 131,458,451

THE RETIREMENT BOARD
of the
FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
Suite 2550
One North Franklin Street Chicago, IL 60606-3487
(312) 726-5823 Fax (312) 726-2316
Marshall Line 9261 http://www.fabf.org
(800) 782-7425

EXECUTIVE DIRECTOR'S REPORT

May 9, 2003

To the Retirement Board of The Firemen's
Annuity and Benefit Fund of Chicago
One North Franklin, Suite 2550
Chicago, Illinois 60606

The annual financial report of the Firemen's Annuity and Benefit Fund of Chicago (Fund) for the year ended December 31, 2002, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures, rests with 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 operations of the Fund. All disclosures necessary to enable the reader to understand the Fund's financial activities have been included.

The Fund covers City of Chicago (City) firefighters and paramedics. The Fund is considered to be a component unit of the City because the Fund is fiscally dependent upon the City as a result of the City's authority to levy a tax in order to provide funding to the Fund.

Since the Fund was established in 1931, our goal has been to provide the highest level of service to active members and annuitants. A Board of Trustees called the Retirement Board administers the Fund. It is composed of eight members: four ex officios, the City Treasurer, City Clerk, City Comptroller and Deputy Fire Commissioner; and four persons who must be elected participants of the Fund. The Retirement Board elects one of its own members as President, as Vice-President and as Secretary.

Among its duties, the Retirement Board is required to consider all applications for approval of annuities and benefits, invest the monies of the Fund in a manner prescribed by state statute and Fund policy, make rules and regulations for the proper conduct of the Fund, have an audit of the accounts of the Fund made annually by an independent certified public accountant, and submit a detailed report of the affairs of the Fund to the State of Illinois Department of Insurance and the City of Chicago each year. A summary of specific plan provisions, as established by state statute, is presented as part of this report.

FINANCIAL INFORMATION

Management of the Fund is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Fund are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

REVENUES

Revenues required to finance retirement benefits are accumulated primarily through the collection of contributions from active firefighters and paramedics, corresponding employer contributions, and income on investments. Total contributions, investment income (which includes net realized and unrealized gains on investments), and other income for 2002 and 2001 are as follows:

Source	2002		2001	
Investment income(loss)	$(143,889,389)	(255.18)%	$(73,972,686)	(508.31)%
Employer contributions	59,452,787	105.43	60,399,909	415.05
Employee contributions	27,622,476	48.99	27,615,475	189.76
Other income	426,150	0.76	509,882	3.50
	$(56,387,976)	(100.00)%	$14,552,580	100.00%

Revenues decreased by $70,940,556 (-487.5%) in 2002. Investment and other income for both 2002 and 2001 have been calculated in accordance with the Governmental Accounting Standards Board (GASB) pronouncements, requiring recognition of the Fund's assets to be recorded at fair value (GASB 25) and its securities lending activities (GASB 28) to be disclosed separately.

EXPENSES

The payment of age and service, disability, and other benefits is the largest expense of the Fund. Total Fund expenses follow:

Type	2002		2001	
Benefits:				
Age and service	$117,239,577	83.30%	$112,814,318	82.68%
Disability	17,402,689	12.36	17,337,033	12.71
Administrative expenses	1,959,054	1.39	1,975,988	1.45
Annuitant health care	1,843,850	1.31	1,820,378	1.33
Contribution refunds	1,080,393	0.77	1,184,014	0.87
Death benefit payments	726,400	0.52	827,600	0.61
Gift fund payments	497,693	0.35	479,500	0.35
	$140,749,656	100.00%	$136,438,831	100.00%

Total expenses in 2002 exceeded 2001 by $4,310,825 (3.2%), attributed primarily to increases in age and service benefits.

The Fund is required by statute to approve an annual budget. Administrative expenses of $1,959,054 were 5.5% lower than the $2,073,883 budgeted for 2002. Total revenues of $(56,387,976) were exceeded by total expenses of $140,749,656 resulting in a net outflow of $ 197,137,632 in 2002.

FUNDING STATUS AND REQUIRED CHANGES TO FINANCIAL STATEMENT PRESENTATION

It is the Fund's responsibility to present its financial statements in compliance with governmental accounting standards. As such, the Fund was required to implement two significant changes to the presentation of the information contained in these reports. GASB (Governmental Accounting Standards Board) Statement 25 requires that the Fund incorporate the fair value of its invested assets within the body of these financial statements. Funding ratios using GASB required asset values for years 2002 and 2001 appear on page 17 of this report.

The current funded ratio of 57.92% for 2002 (including the unrealized appreciation on invested assets) is considered below normal funding levels. The total actuarial requirement (normal cost plus interest) for 2002 was $137.1 million. Employee and employer contributions totaled $87.1 million, which resulted in a $50.0 million shortfall in the actuarial requirement. Consequently, the present statutory multiplier of 2.26 and the additional funding provided by Code Section 6-165 is not adequate to maintain the Fund on an actuarially sound basis over the long term.

FUND INVESTMENT POLICY AND PERFORMANCE

The time weighted return on the market value of Fund investments was a –13.6% for the year ended December 31, 2002, and an annualized 2.2% for the five year period ended December 31, 2002 as computed by outside investment counsel Mercer Investment Consulting. The Fund remained committed to the investment allocation strategy originally adopted in 1994 and periodically revised. The Fund's current policy reflects the results of an Asset/Liability modeling study conducted in 2000 by the consulting firm Watson Wyatt Worldwide. The study emphasized the current underfunded status of the plan and the desire of the Fund to achieve

FIREMEN'S ANNUITY and BENEFIT FUND of CHICAGO

Additional Information

Employee/Spouse Annuities

	Employee		Spouse	
Year	Number of Annuitants	Average Annuity	Number of Annuitants	Average Annuity
1997	2,235	$30,787	1,409	$10,928
1998	2,251	32,503	1,418	11,262
1999	2,351	34,067	1,508	12,027
2000	2,358	36,458	1,493	12,293
2001	2,422	38,048	1,332	12,399
2002	2,411	40,052	1,331	12,777

Employee Retirements

Year	Average Age at Retirement	Average Years of Service	Average Salary	Number of Retirements
1997	59.8	31.6	$58,810	98
1998	60.1	32.1	60,869	122
1999	60.4	31.4	60,818	118
2000	63.5	34.2	62,370	265
2001	60.2	30.9	63,228	114
2002	59.8	31.3	64,560	107

Age and Service Distribution

Year	Number of Actives	Average Salary	Average Age	Average Service
1997	4,856	$48,338	41.7	14.1
1998	4,783	54,826	42.4	14.4
1999	4,855	55,888	42.5	14.4
2000	4,878	56,397	42.4	14.2
2001	4,930	56,382	42.6	14.3
2002	4,910	56,426	43.1	14.7

FIREMEN'S ANNUITY and BENEFIT FUND of CHICAGO

Schedules of Investment Expenses
Years Ended December 31, 2002 and 2001

	2002	2001
Investment management		
Alliance Capital Management	$ ----	$ 65,049
American Express Asset Management	57,317	119,736
A.G. Bisset & Co., Inc.	123,278	8,926
Analytic Investors	44,743	----
Ariel Capital Management, Inc.	107,785	51,663
The Boston Company Asset Management, LLC	142,843	156,204
Brandes Investment Partners	320,516	367,513
Chicago Equity Partners	143,932	172,552
Cutler and Company	134,307	150,842
Husic Capital Management	194,686	247,077
Institutional Capital Corporation	290,373	328,997
ING Aeltus Investment Management	22,819	----
INVESCO Capital Management	142,361	154,063
Keeley Asset Management Corp.	280,938	266,006
Loomis, Sayles & Company	365,060	379,655
Lunn Partners LLC	147,964	151,691
MacKay Shields Financial Corporation	158,780	192,150
Montag & Caldwell	162,845	177,061
Navellier & Associates	157,038	252,269
Neuberger & Berman LLC	680,745	659,898
Northern Trust Quantitative Advisors	153,455	181,564
Principal Global Investors	142,192	164,351
Stein Roe & Farnham, Inc.	205,768	253,088
	4,179,745	4,500,355
Custodial banking		
The Northern Trust Company	100,774	121,613
Investment evaluation		
Mercer Investment Consulting	199,000	199,000
Total investment expenses	$ 4,479,519	$ 4,820,968

superior long-term investment returns without undue risk. The current asset allocation, as adopted by the Board, is based on the long-term performance and correlation of returns among various asset classes.

A third-party custodial agent holds the Fund's investments and all cash positions are covered by federal depository insurance, minimizing the risk on any short-term deposits.

ECONOMIC CONDITIONS AND OUTLOOK

The Fund is a long-term institutional investor and abides by the investment guidelines it has adopted in accordance with state statutes. The largest portion of the Fund's investments is committed to the equity markets because of the greater long-term historical return of this asset class.

Fund investment managers have been chosen because of their proven proficiency in the specific segments of the market in which they operate. By design, the Fund's managers have a low level of correlation in the methods and processes in which they invest the assets of the Fund. This structure of complementing styles insures a broad range of diversification and a reduction of the amount of risk across all equity markets and capitalization ranges.

MAJOR INITIATIVES

Given the overall poor performance of the global equities markets in the three years ended December 31 2002, and because total Fund benefits paid continue to substantially exceed combined employee and employer contributions, the Board is faced with the continual need for liquidity. Due to these circumstances, the Board again conducted a complete Asset/Liability analysis to determine what measures need to be undertaken to insure the long-term viability of the Fund. The results of this study have indicated that additional funding, in the form of increased employee or employer contributions, is warranted to alleviate any liquidity needs and minimize potential lost investment opportunities because of these liquidity needs.

Despite these ongoing difficulties, the study made no recommendations that would significantly alter the Fund's investment structure. We remain long term investors committed to the higher returns historically provided through the equity markets. The Fund's average annual return on its investments remains at 9.6% over the last 15 years, inclusive of the last three years, the worst investment environment since the onset of the Great Depression in 1929.

The Board continued its settlement negotiations in the City of Chicago vs. Korshak etal. lawsuit which encompasses the Annuitant Health care program offered by the City of Chicago. The Board is looking for a final resolution of this issue in 2003.

Lastly, in anticipation of next year's office space lease expiration, the Fund has begun a search to replace its existing office location with comparable space in the Loop.

AWARDS

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting for the 14th consecutive year to the Firemen's Annuity and Benefit Fund of Chicago for its component unit financial report for the fiscal year ended December 31, 2001. The annual Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized component unit financial report, whose contents conform to program standards. Such report must satisfy both generally accepted accounting principals and applicable legal requirements. We believe our 2002 report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to the GFOA.

ACKNOWLEDGMENTS

I will take this opportunity to express my sincere thanks to the Trustees and Retirement Board Staff, the Executive Board of Local 2 and all Fund participants for their interest and involvement in all phases of the Fund's operation.

Respectfully submitted,

Kenneth E. Kaczmarz
Executive Director

GABRIEL, ROEDER, SMITH & COMPANY
CONSULTANTS & ACTUARIES

20 North Clark Street ● Suite 1100 ● Chicago, IL 60602●312-456-9800 ● Fax 312-456-9801

April 8, 2003

Retirement Board of the
Firemen's Annuity and Benefit Fund of Chicago, Suite 2550
One North Franklin Street
Chicago, IL 60606

Actuarial Certification

At your request, we have performed an actuarial valuation for the Firemen's Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2002. This valuation has been performed to measure the funding status of the Fund and determine the contribution levels for 2002. In addition, it includes disclosure information required under GASB Statement No. 25 and Statement No. 27. The assumptions and methods used were selected by the actuary and meet the parameters set for the disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25. These actuarial valuations of the Fund are performed annually.

We have provided the supporting schedules for the actuarial section of the comprehensive annual financial report, including:

- Schedule of Active Member Data
- Retirements and Beneficiaries Added to and Removed from Rolls
- Solvency (Termination) Test
- Analysis of Financial Experience

We have also provided the following schedules in the financial sections of the report. We relied on information from the prior actuary for years before 1999.

- Schedule of Funding Progress
- Schedule of Employer Contributions

This valuation is based upon:

a) **Data relative to the members of the Fund** — Data for active members was provided by the Fund's staff. Data utilized for persons receiving benefits from the Fund was also provided by the Fund's staff. We have tested this data for reasonableness.

b) **Asset Values** — The values of assets of the Fund were provided by the Fund's staff. Actuarial value of assets was used to develop actuarial results for the State-reporting basis, as well as for GASB Statement No. 25 and Statement No. 27.

c) **Actuarial Method** — The actuarial method utilized by the Fund is the Entry-Age Actuarial Cost Method. The objective of this method is to amortize the costs of Fund benefits over the entire career of each member as a level percentage of compensation. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.

d) **Actuarial Assumptions** — The same actuarial assumptions as last year were used for this valuation. They are set out in Appendix 4.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. The provision of State Law establishing the Fund constrains employer contributions to be 2.26 times the employee contribution level in the second prior fiscal year. Thus, with an administrative lag, the employer contribution is designed to match the employee contribution in a 2.26:1 relationship. The most recent actuarial valuation of the Fund on the State reporting basis shows that a ratio of 4.19:1 is needed to adequately finance the Fund.

The valuation results set out in this report are based on the data and actuarial techniques described above, and upon the provisions of the Fund as of the valuation date. Based on these items, we certify these results to be true and correct.

To the best of our knowledge this report is complete and accurate and was conducted in accordance with standards of practice promulgated by the Actuarial Standards Board and in compliance with the City Ordinance. The actuarial assumptions used for the valuation produce results which, in the aggregate, are reasonable. This valuation was produced under the supervision of a member of the Academy of Actuaries with significant experience in valuing public employee retirement systems.

Gabriel, Roeder, Smith and Company

Michael R. Kivi, FSA
Senior Consultant

Alex Rivera, ASA
Senior Consultant

Schedules of Administrative Expenses

Years Ended December 31, 2002 and 2001

	2002	2001
Personnel services		
Office salaries	$ 816,068	$ 766,157
Employee benefits	163,863	152,225
Total personnel services	979,931	918,382
Trustee and staff education/training	6,875	10,536
Professional services		
Actuarial	118,033	153,542
Audit	27,000	25,500
Medical	91,821	160,971
Legal	299,228	294,646
Payroll administration	5,152	8,071
Professional consultants	---	209
Total professional services	541,234	642,939
Miscellaneous		
Leaseholds	158,836	157,590
Utilities	21,662	20,912
Equipment and maintenance	40,743	22,983
Printing and postage	100,535	73,011
Office supplies	16,156	16,551
General and administrative	15,706	18,004
Other	77,376	95,080
Total miscellaneous	431,014	404,131
Total administrative expenses	$ 1,959,054	$ 1,975,988

Schedules of Professional Consultants

	2002	2001
Data Doc Imaging	$ -----	$ 209

Additional Information

Additions by Source

Year Ended December 31,	Employer Contributions	Employer Contributions as a Percentage of Payroll	Plan Member Contributions	Net Investment and Net Securities Lending Income *	Other	Total Additions
1997	$54,921,536	23.40%	$21,935,490	$165,874,639	$19,048	$242,750,713
1998	48,397,527	18.45	27,283,980	109,403,682	24,119	185,109,308
1999	53,410,352	19.68	28,330,861	224,900,269	55,725	306,697,207
2000	65,928,675	23.96	27,710,762	(12,647,108)	292,227	81,284,556
2001	60,399,909	21.73	27,615,475	(73,525,241)	62,437	14,552,580
2002	59,452,787	21.46	27,622,476	(143,540,961)	77,722	(56,387,976)

*Net investment and securities lending income includes net appreciation in fair value of investments, which includes unrealized gains and (losses) on investments held as well as realized gains and (losses) on investments sold.

Deductions by Type

Year Ended December 31,	Benefits	Health Insurance	Refunds	Administrative Expenses	Total Deductions
1997	$102,196,201	$1,848,444	$1,825,591	$1,487,051	$107,357,287
1998	109,259,949	1,753,387	1,672,242	1,740,858	114,426,436
1999	117,558,988	1,754,618	1,697,139	1,758,586	122,769,331
2000	122,824,033	1,769,408	2,318,618	1,866,362	128,778,421
2001	131,458,451	1,820,378	1,184,014	1,975,988	136,438,831
2002	135,866,359	1,843,850	1,080,393	1,959,054	140,749,656

LEGACY
PROFESSIONALS LLP
CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT AUDITORS

Firemen's Annuity and Benefit
Fund of Chicago

We have audited the accompanying statement of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2002 and the related statement of changes in plan net assets for the year 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 audit. The financial statements of Firemen's Annuity and Benefit Fund of Chicago as of December 31, 2001 were audited by other auditors, whose report dated March 29, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an 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 the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of Firemen's Annuity and Benefit Fund of Chicago at December 31, 2002 and the changes in its financial status for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on page 17 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 18 through 20 is presented for purposes of additional analysis and is not a required part of the financial statements of Firemen's Annuity and Benefit Fund of Chicago. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion for 2002, and in the opinion of the other auditors for 2001, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The basic financial statements for the years ended 2000, 1999, 1998 and 1997 (none of which are presented herein) were also audited by other auditors, whose reports expressed an unqualified opinion on those financial statements. Their reports on additional information related to those financial statements stated that, in their opinion, such information was fairly presented in relation to the basic financial statements, taken as a whole. In our opinion, the information on page 18 is fairly stated in all material respects in relation to the basic financial statements from which it has been derived.

The other auditors reports on supplementary information required by the Government Accounting Standards Board (page 17) for the years ended 1997 through 2001 stated that they applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information but did not audit the information and expressed no opinion on it.

The additional information presented on pages 21 and 22 has not been subjected to the auditing procedures applied in the audit of the financial statements. Accordingly, we and the other auditors, express no opinion on whether this information has been fairly stated.

Legacy Professionals LLP

April 10, 2003

30 North LaSalle Street | Suite 4200 | Chicago, IL 60602 | 312.368.0500 | 312.368.0746 Fax | www.legacycpas.com

Firemen's Annuity and Benefit Fund of Chicago

Statements of Plan Net Assets

December 31, 2002 and 2001

	2002	2001
Assets		
Receivables		
Employer - net	$ 59,040,151	$ 59,565,767
Investment income	3,617,299	4,278,543
Unsettled trades	3,033,265	3,498,245
Other	1,546,353	1,254,149
Total receivables	67,237,068	68,596,704
Investments		
Cash deposits and short-term investments	56,306,830	42,445,088
U.S. and Foreign Government obligations	72,206,266	69,110,517
Corporate bonds	96,849,626	114,363,495
Equities	571,358,812	751,221,243
Pooled funds	49,383,076	64,219,370
Venture capital	2,494,071	2,492,024
Total investments	848,598,681	1,043,851,737
Invested securities lending cash collateral	134,757,047	124,755,402
Total assets	1,050,592,796	1,237,203,843
Liabilities and Net Assets		
Unsettled trades	6,652,604	6,002,557
Securities lending cash collateral	134,757,047	124,755,402
Administrative expenses	1,121,306	1,214,505
Participant accounts	259,882	291,790
Total liabilities	142,790,839	132,264,254
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 17)	$907,801,957	$ 1,104,939,589

See accompanying notes to financial statements.

FIREMEN'S ANNUITY and BENEFIT FUND of CHICAGO

Required Supplementary Information

Schedule of Funding Progress

Year Ended Dec. 31		Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a)/(c)
1997	1,2	$978,313,319	$1,640,020,672	$661,707,353	59.65%	$234,726,936	281.91%
1998		1,066,891,190	1,783,569,178	716,677,988	59.82	262,248,978	273.28
1999		1,145,215,019	1,879,666,868	734,451,849	60.93	271,335,540	270.68
2000	1	1,219,486,962	2,053,340,475	833,853,513	59.39	275,106,756	303.10
2001		1,245,129,955	2,068,717,901	823,587,946	60.19	277,964,912	296.29
2002		1,209,768,204	2,088,706,217	878,938,013	57.92	277,053,144	317.25

1= Change in actuarial assumptions.
2= Change in benefits.

Schedule of Employer Contributions

Year Ended December 31,	Employer Required Contribution, Normal Cost Plus 40 Year level Dollar Amortization (ARC) (a)	Actual (b)	Percent of ARC Contributed (b/a)
1997	$86,981,231	$54,921,536	63.14%
1998	78,020,603	48,397,527	62.03
1999	87,959,556	53,410,352	60.72
2000	90,530,458	65,928,675	72.82
2001	104,014,168	60,399,909	58.07
2002	105,106,367	59,452,787	56.56

NOTES TO SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2002
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	40 years
Actuarial value of assets	Five Year Smoothed Average Market
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increase:	
Inflation	3.00%
Seniority merit	2.00%

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

Salary increase - 5% per year. This assumption contains a 3% inflation assumption and a 2% merit and longevity assumption.

A Schedule of Funding Progress is located in the Required Supplementary Information on page 17. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 9. EMPLOYER (TAXES) RECEIVABLE - NET

	2002	2001
Property taxes	$ 56,280,113	$ 56,649,608
Personal property replacement taxes	8,608,000	8,654,000
Less allowance for uncollectible accounts	(5,847,962)	(5,737,841)
Total	$ 59,040,151	$ 59,565,767

NOTE 10. LEASE AGREEMENTS

The Plan leases its office facilities under a ten year noncancellable agreement in effect through June 30, 2004. Monthly lease payments are subject to an escalation clause for increases in real estate taxes and maintenance charges.

Rental expense for 2002 and 2001 was $158,836 and $157,590 respectively.

Future minimum rental payments required under the noncancellable operating lease are as follows:

Year ending December 31,	
2003	$184,792
2004	94,370
Total	$279,162

NOTE 11. ANNUITANT HEALTH INSURANCE

Effective January 1, 1988, the Plan and the City of Chicago agreed for a ten year period to share in the cost of providing health care coverage to the annuitants or their surviving spouses who elect to participate in the City of Chicago Annuitant Medical Benefits Program. This agreement has been extended through June 30, 2002; however during the current year it was extended indefinitely. The Plan is currently allowed in accordance with State Statutes to subsidize the cost of monthly group health care premiums up to $75 per month for non-Medicare recipients and $45 per month for Medicare recipients. The remaining cost to participate in the Program is borne by the City of Chicago and the annuitant. At December 31, 2002 and 2001, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,154 and 3,125 respectively. The Plan's share of the Program cost subsidy for 2002 and 2001 was $1,843,850 and $1,820,378 respectively.

NOTE 12. RELATED PARTY TRANSACTIONS

At December 31, 2002 and 2001, the Plan held investments with a total fair value of $466,165 and $635,282 respectively, in one of its investment managers.

NOTE 13. RATIFICATION OF BARGAINING CONTRACT

During 1998, a bargaining contract between the City of Chicago and Firemen's Local Union No. 2 was ratified. One of the provisions in the contract allowed for a salary increase retroactive to July 1, 1995. The increase in salary resulted in an increase in employee contributions of $2,821,000 during 1998 and also increased employer contributions (tax levy), in 2000 (two years from the receipt of the retroactive increase in employee contributions).

Firemen's Annuity and Benefit Fund of Chicago

Statements of Changes in Plan Net Assets

Years Ended December 31, 2002 and 2001

	2002	2001
Additions		
Contributions		
Employer		
Property taxes - net	$ 50,844,787	$ 51,745,909
Personal property replacement taxes	8,608,000	8,654,000
Total employer contributions	59,452,787	60,399,909
Plan member		
Annuities	27,475,525	27,468,790
Death benefits	146,951	146,685
Total plan member contributions	27,622,476	27,615,475
Investment income		
Net (depreciation) in fair value of investments	(165,909,246)	(99,933,678)
Interest	15,585,068	19,696,072
Dividends	10,745,922	10,836,563
Other	168,386	249,325
	(139,409,870)	(69,151,718)
Less investment expenses	(4,479,519)	(4,820,968)
Net investment income(loss)	(143,889,389)	(73,972,686)
Securities lending		
Income	2,485,020	4,600,046
Expenses		
Borrower rebates	(1,987,543)	(3,960,838)
Management fees	(149,049)	(191,763)
Total securities lending expenses	(2,136,592)	(4,152,601)
Net securities lending income	348,428	447,445
Gift fund donations	70,250	62,437
Litigation settlement	7,472	---
Total additions	(56,387,976)	14,552,580
Deductions		
Age and service benefits		
Employees	95,790,337	91,578,063
Spouses	20,658,843	20,434,172
Dependents	790,397	802,083
Total age and service benefits	117,239,577	112,814,318
Disability benefits		
Duty	10,840,088	10,673,596
Occupational	6,529,508	6,595,008
Ordinary	33,093	68,429
Total disability benefits	17,402,689	17,337,033
Gift fund payments	497,693	479,500
Death benefits	726,400	827,600
Annuitant health care	1,843,850	1,820,378
Refunds of contributions	1,080,393	1,184,014
Administrative expenses	1,959,054	1,975,988
Total deductions	140,749,656	136,438,831
Net (decrease)	(197,137,632)	(121,886,251)
Net assets held in trust for pension benefits		
Beginning of year	1,104,939,589	1,226,825,840
End of year	$ 907,801,957	$ 1,104,939,589

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2002 AND 2001

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The accompanying financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer, the City of Chicago, 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.

Investments - Investments are reported at fair value, which generally represents reported market value as of the last business day of the year. Pooled funds are carried at fair value as estimated by the Plan's investment managers. Venture capital is carried at cost, which approximates fair value. Foreign securities quoted in foreign currencies are translated into U.S. dollars at year end exchange rates.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 2. PLAN DESCRIPTION

The Firemen's Annuity and Benefit Fund of Chicago was established in 1931 and is governed by legislation contained in the Illinois Compiled Statutes (Statutes), particularly Chapter 40, Act 5, Article 6, which specifically and exclusively refers to the Plan. The Plan can be amended only by the Illinois Legislature. The Plan is a single-employer defined benefit pension plan with a defined contribution minimum. The Plan was created for the purpose of providing retirement and disability benefits for employees of the City of Chicago (City) employed under the provisions of the Municipal Personnel Ordinance as fire service and for the dependents of such employees. The Plan is considered to be a component unit of the City of Chicago and is included in the City's financial statements as a pension trust fund.

The Statutes authorize a Board of Trustees of eight members to carry out the provisions of the Article. According to the Article, four members of the Board are ex officio and four are to be elected by the employee members of the Plan. The four ex officio members are the City Treasurer, the City Clerk, the City Comptroller and the Deputy Fire Commissioner. All members of the Board of Trustees are fiduciaries with respect to the Plan and are statutorily mandated to discharge their duties, as such, solely in the interest of the Plan's participants and beneficiaries.

The Board has the powers and duties required in the Article to collect all contributions due to the Plan, to invest the Plan's reserves, to have an annual audit, to appoint employees, to authorize or suspend payment of any benefit and to have exclusive original jurisdiction in all matters relating to or affecting the Plan. The Board approves its own budget that is prepared by the administrative staff of the Plan. The Board is required annually to submit to the City Council of the City of Chicago a detailed report of the financial affairs and status of the reserves of the Plan. Provisions in other articles of Chapter 40 require the Board to submit its annual audit and actuarial valuation reports to the State of Illinois Department of Insurance, as well as another detailed annual report, the form and content of which are specified by the Department of Insurance.

Any employee of the City of Chicago employed under the provisions of the Municipal Personnel Ordinance as fire service is covered by the Firemen's Annuity and Benefit Fund of Chicago. Covered employees are required to contribute 9.125% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with statutory interest. The City of Chicago, for its employer's portion, is required by State Statutes to contribute the remaining amounts necessary to finance the requirements of the Plan. The City's total contribution is limited to an amount not more than the total amount of contributions made by the employees to the Plan in the calendar year two years prior to the year for which annual applicable tax is levied, multiplied by 2.26. The source of funds for the City's contribution has been designated by State Statutes as the City's annual property tax levy.

The Ordinary Disability Reserve accumulates contributions from employees and the City for ordinary disability benefits. All ordinary disability benefits paid are charged to this reserve.

The Supplementary Payment Reserve accumulates amounts to provide automatic annual postretirement increases to employee annuitants who retired before September 1, 1959 and amounts in excess of the original annuity grant due to increases in the minimum annuity.

The Gift Reserve accumulates donations to be used to provide an extra benefit to widowed spouse annuitants and orphaned child annuitants.

The Reserve surplus (deficit) represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future contributions. A deficit indicates that additional assets will be needed to provide for future benefits, while a surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments.

During the years ended December 31, 2002 and 2001, the Plan's actuary has determined that a (decrease) in actuarial reserves of $(141,785,565) and $(132,151,818) respectively is required. The (deficit) of revenue over expenses for the years ended December 31, 2002 and 2001 of $(197,137,632) and $(121,886,251) respectively has been applied to decrease the actuarial reserves as noted above, which has resulted in an (increase) decrease in the Plan deficit of $(55,350,067) and $10,265,567 for the years ended December 31, 2002 and 2001 respectively.

As reported by the actuary, the changes in the Plan (deficit) during the years ended December 31, 2002 and 2001 consisted of the following:

	2002	2001
Plan (deficit) at the beginning of the year	$ (823,587,946)	$ (833,853,513)
Gains (losses) during the year attributable to:		
Gain from salary changes	57,839,048	42,988,827
(Loss) on investment return	(79,418,728)	(21,620,515)
Employer cost in excess of contributions	(42,204,810)	(37,575,361)
Gain from demographic assumptions	9,777,592	19,286,460
Gain (loss) from all other sources	(1,343,169)	7,186,156
Net gain (loss)	(55,350,067)	10,265,567
Plan (deficit) at the end of the year	$ (878,938,013)	$ (823,587,946)

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25. The Plan (deficit) above will not equal the Plan surplus (deficit) denoted on page 14, which is based on assets valued at actual market value.

Some of the more significant actuarial assumptions used in the valuations were:

Mortality - 1983 Group Annuity Mortality Table, set forward three years for males and set back three years for females.

Disabled Mortality - 1992 Railroad Retirement Board's Disabled Annuitant's Mortality Table.

Retirement age assumptions

Assume all employees, except emergency medical technicians, retire by age 63(mandatory retirement age as enacted by the City of Chicago). Emergency medical technicians are assumed to retire at age 70.

Investment rate of return - 8% per year, net of investment expenses. This assumption contains a 3% inflation assumption and a 5% real rate of return assumption.

NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

	2003 Tax Levy	2002 Tax Levy
Normal cost	$ 63,528,127	$ 62,170,369
40-year level dollar amortization of the unfunded liability	73,648,055	69,074,570
	137,176,182	131,244,939
Less estimated plan member contributions	(26,052,718)	(26,138,572)
Annual required contribution to be financed by tax levy	$ 111,123,464	$ 105,106,367
Required tax levy multiple	4.19	4.44

According to the Plan's consulting actuary, the Plan needs additional contributions in order to adequately finance the Plan.

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation established the reserves required for various statutory liabilities which arise from pension benefit schedules that are part of the current pension code legislation.

Net assets held in trust for pension benefits as of December 31 were comprised of the following reserve surplus (deficit) balances:

	2002	2001
Prior Service Annuity Reserve	$ 850,269,401	$ 856,200,300
City Contribution Reserve	467,146,024	489,959,759
Annuity Payment Reserve	411,075,650	345,271,065
Salary Deduction Reserve	386,790,572	366,357,079
Death Benefit Reserve	(5,636,492)	(5,039,242)
Ordinary Disability Reserve	213,521	208,882
Supplementary Payment Reserve	1,666,253	1,523,237
Gift Reserve	1,280,112	1,234,067
Reserve (deficit)	(1,205,003,084)	(950,775,558)
Total net assets held in trust for pension benefits	$ 907,801,957	$ 1,104,939,589

The Prior Service Annuity Reserve is a reserve account for the accumulation of City contributions to provide for: a) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1931 and b) any excess in minimum annuity formula requirements over the amounts required for age and service annuities, and for spouse annuities.

The City Contribution Reserve is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is to be kept for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Reserve.

The Salary Deduction Reserve is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are kept until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Reserve.

In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve. The Annuity Payment Reserve receives the amounts transferred from the individual accounts in the City Contribution Reserve and the Salary Deduction Reserve when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this reserve.

The Death Benefit Reserve accumulates contributions from employees and the City for ordinary death benefits. All ordinary death benefits paid are charged to this reserve.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

The City of Chicago's payroll for employees covered by the Plan for the years ended December 31, 2002 and 2001 was $277,053,144 and $277,964,912 respectively.

The Plan provides retirement benefits as well as death and disability benefits. Employees age 50 or over with at least 10 years of service and less than 20 years of service are entitled to receive a money purchase annuity with partial City contributions. Employees age 53 or over with at least 23 years of service are entitled to receive a minimum formula annuity of 50% of final average salary plus 1% per year or fraction thereof from 23 years of service to age 53 plus 2% per year or fraction thereof from 23 years of service and age 53 to retirement. Final average salary is based on the highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement. This annuity shall not exceed 75% of the final average salary.

In lieu of this annuity, employees with at least 20 years of service are entitled to receive a minimum formula annuity upon attainment of age 50 of 50% of final average salary, plus an additional amount equal to 2% of such average salary for each year of service or fraction thereof in excess of 20 years of service. This annuity shall not exceed 75% of the final average salary. The monthly annuity is increased by 3% of the original annuity at the first of the month following the later of age 55 or the first anniversary of retirement and by 3% each first day of January thereafter, if born before January 1, 1945. If born after December 31, 1944, then the monthly annuity is increased by 1.5% of the original annuity at the first of the month following the later of age 60 or the first anniversary of retirement and 1.5% on each first day of January thereafter, but not to exceed a total increase of 30%.

At December 31, 2002 and 2001, participation consisted of the following:

	2002	2001
Retirees and beneficiaries currently receiving benefits	4,351	4,370
Terminated plan participants entitled to but not yet receiving benefits	171	126
Active plan participants	4,910	4,930
Total participants	9,432	9,426

NOTE 3. INVESTMENT SUMMARY

The Plan's cash deposits at year end were entirely covered by a combination of federal depository insurance and commercial insurance as required by State Statutes. The Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the "prudent person" provisions of the State Statutes. The Plan's deposits and investments that are represented by specific identifiable investment securities at December 31, 2002 and 2001 are classified into credit risk by three categories. Category 1 includes investments that are insured or registered, or securities held by the Plan or its agent, including the City Treasurer of the City of Chicago, in the Plan's name. Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Plan's name. Category 3 includes investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not held in the Plan's name. The Plan has no investments in Category 2 or Category 3.

The Plan also has other investment positions not evidenced by certificates of ownership. These other investments are, therefore, listed below but not categorized. Also, securities lent at year end for cash collateral are presented as unclassified; securities lent for securities collateral are classified according to the category of the collateral.

The following table presents a summarization of the fair value (carrying amount) of the Plan's investments and also the related categorization of credit risk as of December 31, 2002 and 2001.

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investments	2002	2001
Category 1:		
Corporate bonds:		
Not on securities loan	$ 76,348,284	$ 96,954,685
On securities loan for securities collateral	463,756	---
U.S. and Foreign Government obligations:		
Not on securities loan	61,816,884	59,670,723
On securities loan for securities collateral	1,992,794	2,148,606
Equities:		
Not on securities loan	470,737,673	657,617,494
On securities loan for securities collateral	1,586,484	399,165
	612,945,875	816,790,673
Not categorized:		
Investments held by broker-dealers under securities loan with cash collateral:		
Corporate bonds	20,037,586	17,408,810
U.S. and Foreign Government obligations	8,396,588	7,291,188
Equities	99,034,655	93,204,584
Cash deposits and short-term investments	56,306,830	42,445,088
Pooled funds	49,383,076	64,219,370
Venture capital	2,494,071	2,492,024
Invested securities lending cash collateral	134,757,047	124,755,402
Total investments and invested securities lending cash collateral	$ 983,355,728	$ 1,168,607,139

During 2002 and 2001, net realized (losses) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, were $(83,613,401) and $(60,641,830) respectively. These amounts are included in the net (depreciation) in fair value of investments as reported on the Statements of Changes in Plan Net Assets. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments. Investments purchased in a previous year and sold in the current year result in their realized gains and losses being reported in the current year and their net appreciation (depreciation) in plan assets being reported in both the current year and the previous year(s).

All of the Plan's financial instruments are consistent with the permissible investments outlined in the State Statutes and any index-linked financial instruments are limited to those indices that replicate the permissible investments outlined in the Statutes.

NOTE 4. FOREIGN SECURITIES

The Plan does not isolate that portion of net appreciation (depreciation) in fair value of investments resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such fluctuations are included with net appreciation (depreciation) in fair value of investments. Net realized gains and losses on foreign currency transactions represent net exchange gains or losses on closed foreign currency contracts, disposition of

NOTE 4. FOREIGN SECURITIES (CONTINUED)

foreign currencies, and the difference between the amount of investment income and foreign withholding taxes recorded on the Plan's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized gains and losses on foreign currency transactions arise from changes in the value of open foreign currency contracts and assets and liabilities other than investments at the year end, resulting from changes in the exchange rate.

NOTE 5. SECURITIES LENDING

State Statutes and the Board of Trustees permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Plan's custodian, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest.

The Plan is not restricted as to the type or amount of securities it may loan. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults.

The average term of securities loaned was 80 days in 2002 and 34 days in 2001; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral may be invested in a short-term investment pool, which had an average weighted maturity at December 31, 2002 and 2001 of 36 days and 39 days respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loans.

As of December 31, 2002 and 2001, the fair value (carrying amount) of loaned securities was $131,511,864 and $120,452,353 respectively. As of December 31, 2002 and 2001, the fair value (carrying amount) of collateral received by the Plan was $134,757,047 and $124,755,402 respectively. Therefore, as of December 31, 2002 and 2001, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan.

During 2002 and 2001, there were no losses due to default of a borrower or the lending agent. The contract with the lending agent requires it to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

NOTE 6. MORTGAGE BACKED SECURITIES

The Plan invests in mortgage-backed securities representing interests in pools of mortgage loans as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan were guaranteed by federally sponsored agencies such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

All of the Plan's financial instruments are carried at fair value on the Statements of Plan Net Assets included in investments. The gain or loss on financial instruments is recognized and recorded on the Statements of Changes in Plan Net Assets as part of investment income.

NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES

Employer obligations are funded through a City tax levy which is currently limited when extended to an amount not to exceed an amount equal to the total contributions by the employees to the Plan made in the calendar year, two years prior to the year for which the annual applicable tax is levied, multiplied by 2.26.

The actuarial valuations of the Plan as of December 31, 2002 and 2001 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be $111,123,464 and $105,106,367 for 2002 and 2001 respectively. The minimum annual projected contribution was based on an annual payroll of $277,053,144 for 4,910 active members during 2002 and $277,964,912 for 4,930 active members during 2001 and was computed as follows: