

**FIREMEN'S ANNUITY AND BENEFIT FUND
OF CHICAGO
COMPREHENSIVE ANNUAL FINANCIAL REPORT -
A COMPONENT UNIT OF THE CITY OF CHICAGO, ILLINOIS**

FINANCIAL STATEMENTS

DECEMBER 31, 2010

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2010 AND 2009

CONTENTS

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis	3 - 3d
Statements of Plan Net Assets	4
Statements of Changes in Plan Net Assets	5
Notes to Financial Statements	7
Required Supplementary Information	
Schedule of Funding Progress	28
Schedule of Employer Contributions	29
Notes to Schedule of Funding Progress and Schedule of Employer Contributions	30
Additional Information	
Additions by Source	31
Deductions by Type	31
Schedules of Administrative Expenses	32
Schedules of Investment Expenses	33
Employee/Spouse Annuities	34
Employee Retirements	34
Age and Service Distribution	34
Participant Data	35

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees
Firemen's Annuity and Benefit
Fund of Chicago

We have audited the accompanying statements of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2010 and 2009 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform 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 audits provide 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, 2010 and 2009 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 3 through 3d and the required supplementary information consisting of the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on pages 28 through 30 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 audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 31 through 33 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 audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with generally accepted auditing standards, the financial statements for the years ended December 31, 2008, 2007, 2006 and 2005 (which are not presented herein), and we expressed an unqualified opinion on those financial statements. Our report on additional information related to those financial statements stated that such information presented on page 31 was fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information presented on pages 34 and 35, which is of a nonaccounting nature, has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we express no opinion on it.

Legacy Professional LLP

June 22, 2011

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2010 AND 2009

This section presents Management's Discussion and Analysis of the financial position and performance of the Firemen's Annuity and Benefit Fund of Chicago (Plan) for the year ended December 31, 2010. This discussion is presented as a narrative overview of the financial activities and significant changes of the Plan and should be read in conjunction with the Plan's financial statements.

Overview of the Financial Statements

The discussion and analysis which follows is intended to serve as an introduction to the Plan's basic financial reporting, including the following statements:

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

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

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

Required Supplementary and Additional Information Schedules provide detailed, historical trend information of assets, liabilities and employer contributions and are presented after the Notes to the Financial Statements.

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

Financial Highlights

The net assets of the Plan exceeded its liabilities at the close of the year ended December 31, 2010 by \$54,434,050, a 5.2% increase (reported as net increase in plan net assets).

The rate of return on the investment portfolio for the Plan was 17.7% and 27.8% for the years ended December 31, 2010 and 2009, which exceeded the actuarial assumption of 8.0%.

The funding level dropped from 36.5% in 2009 to 32.4% in 2010.

The additions to the Plan net assets for 2010 totaled \$276,186,561, a decrease of 19.3% from 2009. Additions are mainly comprised of employer contributions and investment income which were \$83,591,601 and \$150,381,522, respectively.

2010 deductions to the Plan net assets increased by 8.4%, equaling \$221,752,511. Deductions primarily consist of benefit payments which were \$213,159,055 for fiscal year 2010.

Plan Net Assets

A summary of the Plan net assets is provided below:

	Plan Net Assets As of December 31,		Increase/(Decrease) in	
	<u>2010</u>	<u>2009</u>	<u>Dollars</u>	<u>Percent</u>
Receivables	\$ 106,038,032	\$ 101,871,671	\$ 4,166,361	4.1 %
Prepaid expenses	148,525	167,828	(19,303)	(11.5)%
Investments, at fair value	1,010,255,110	952,946,394	57,308,716	6.0 %
Collateral held for securities on loan	<u>152,508,016</u>	<u>147,437,779</u>	<u>5,070,237</u>	3.4 %
Total assets	<u>1,268,949,683</u>	<u>1,202,423,672</u>	<u>66,526,011</u>	5.5 %
Payables	10,363,490	3,341,766	7,021,724	210.1 %
Securities lending collateral	<u>152,508,016</u>	<u>147,437,779</u>	<u>5,070,237</u>	3.4 %
Total liabilities	<u>162,871,506</u>	<u>150,779,545</u>	<u>12,091,961</u>	8.0 %
Plan net assets	<u>\$ 1,106,078,177</u>	<u>\$ 1,051,644,127</u>	<u>\$ 54,434,050</u>	5.2 %

Plan net assets in 2010 were \$1,106,078,177 versus \$1,051,644,127 in 2009, which represents a 5.2% overall net increase. This increase is primarily due to strong market performance across all asset classes as demonstrated in a 17.7% investment return.

Changes in Plan Net Assets

A summary of the changes in Plan net assets, reflecting the changes in resources available to pay benefits to members, retirees and beneficiaries, is provided below:

Changes in Plan Net Assets For the Years Ended December 31,				
	<u>2010</u>	<u>2009</u>	Increase/(Decrease) in	
			<u>Dollars</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 83,591,601	\$ 91,856,806	\$ (8,265,205)	(9.0)%
Member contributions	41,730,194	41,604,787	125,407	0.3 %
Net investment income	150,381,522	207,856,910	(57,475,388)	27.7 %
Net securities lending income	452,962	680,174	(227,212)	(33.4)%
Other	30,282	36,804	(6,522)	(17.7)%
Total additions	<u>276,186,561</u>	<u>342,035,481</u>	<u>(65,848,920)</u>	(19.3)%
Deductions:				
Benefits	213,159,055	196,391,656	16,767,399	8.5 %
Annuitant health care	2,644,290	2,645,135	(845)	0.0 %
Refunds of contributions	1,762,277	2,109,170	(346,893)	(16.4)%
Litigation settlement	1,139,710	417,059	722,651	173.3 %
Administrative expenses	3,047,179	3,021,756	25,423	0.8 %
Total deductions	<u>221,752,511</u>	<u>204,584,776</u>	<u>17,167,735</u>	8.4 %
Net increase in plan net assets	<u>\$ 54,434,050</u>	<u>\$ 137,450,705</u>	<u>\$ (83,016,655)</u>	(60.4)%

Additions to Plan Net Assets

Employer contributions decreased \$8,265,205 or (9.0%) between 2010's employer contribution of \$83,591,601 and 2009's employer contribution of \$91,856,806. This decrease is attributable to an uncommon surge in 2009 employer contributions caused by retroactive payments rewarded to firemen for salary increases resulting from the contract settled in 2006.

Investment income decreased by \$57,475,388 or 27.7% from \$207,856,910 in 2009 to \$150,381,522 in 2010. The decrease in aggregate investment income is mainly due to a lower market rate of return realized for 2010 of 17.7% in comparison to 27.8% in 2009. Despite the investment income reduction in 2010, the Plan's investments still earned significant positive returns for the second consecutive year following 2008's dramatic negative returns. Both annual returns represent a significant recovery from the historic market decline that occurred 2008 through early 2009.

The performance of the Plan's investments, as shown by major asset class, is provided below:

Investment Results
For the Years Ended December 31,

	<u>2010</u>	<u>2009</u>
Equities	19.5%	30.8%
S&P 500 Benchmark	15.1%	26.5%
Fixed income	12.1%	25.5%
Lehman Brothers/Barclays Aggregate Benchmark	6.5%	5.9%
Total Plan	17.7%	27.8%

Deductions to Plan Net Assets

Benefit payments to retirees and plan participants increased \$16,767,399 or 8.5% from \$196,391,656 in 2009 to \$213,159,055 in 2010. A substantial portion of the increase was due to benefit increases resulting from a court decision which involved duty death widows. The increase was also due to the automatic annual increase for firemen annuitants, and the new annuitants coming on the pension roll are at a higher rate than those removed.

Refunds of contributions decreased by \$346,893 or (16.4%) from \$2,109,170 in 2009 to \$1,762,277 in 2010 due to a decrease in the average refund amount.

Litigation settlement increased \$722,651 or 173.3% from \$417,059 in 2009 to \$1,139,710 in 2010. This increase is mainly a result of a court decision involving duty death widows.

Funding Status

The actuarial assets, actuarial liabilities and funding status for the Plan are provided below:

	Actuarial Values (in Millions)		Increase/(Decrease) in	
	2010	2009	Dollars	Percent
Actuarial assets	\$ 1,198.1	\$ 1,269.2	\$ (71.1)	(5.6)%
Actuarial liabilities	<u>3,703.2</u>	<u>3,476.8</u>	<u>226.4</u>	6.5 %
Unfunded actuarial liabilities	<u>\$ 2,505.1</u>	<u>\$ 2,207.6</u>	<u>\$ 297.5</u>	13.5 %
Funded ratio	<u>32.4%</u>	<u>36.5%</u>		

The **funded ratio** is one indicator of the financial strength of the Plan, measuring the ratio of net assets available to meet the actuarially determined future liabilities of the Plan. The decrease in the funded ratio from 36.5% in 2009 to 32.4% in 2010 was by definition due to the increase in the unfunded actuarial liability.

Actuarial assets decreased from \$1,269.2 million in 2009 to \$1,198.1 million in 2010 (\$71.1 million; 5.6%) due to the five year smoothing adjustment that recognized a portion of the 2008 investment losses continuing until 2012.

Actuarial liabilities increased from \$3,476.8 million in 2009 to \$3,703.2 million in 2010 (\$226.4 million; 6.5%) due to benefit pay increases resulting from the new labor contract and the Plan's costs exceeding the actuarial contributions that were received.

Contact Information

This financial report is designed to provide plan participants, retirees, beneficiaries, the employer and all other interested users with a complete, detailed, easy to understand financial portrait of the Plan at December 31, 2010. Questions, concerns or comments regarding this report or requests for additional information should be addressed to:

Kenneth E. Kaczmarz
Executive Director
Firemen's Annuity & Benefit Fund of Chicago
20 S. Clark
Suite 1400
Chicago, IL 60603

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
RECEIVABLES		
Employer - net	\$ 93,031,069	\$ 95,685,468
Investment income	3,810,246	3,835,976
Unsettled trades	7,468,496	550,977
Other	1,728,221	1,799,250
Total receivables	106,038,032	101,871,671
PREPAID EXPENSES	148,525	167,828
INVESTMENTS		
Corporate bonds	100,142,343	112,103,668
U.S. and Foreign Government obligations	62,869,928	68,028,194
Equities	717,177,840	658,641,830
Cash deposits and short-term investments	37,600,930	44,508,950
Pooled funds	44,172,697	43,802,223
Private equity and venture capital	48,291,372	25,861,529
Total investments	1,010,255,110	952,946,394
COLLATERAL HELD FOR SECURITIES ON LOAN	152,508,016	147,437,779
Total assets	1,268,949,683	1,202,423,672
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unsettled trades	8,468,817	976,904
Accounts payable and accrued expenses	1,326,292	1,271,140
Securities lending collateral	152,508,016	147,437,779
Participant accounts	557,227	555,362
Securities lending payable	11,154	538,360
Total liabilities	162,871,506	150,779,545
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 1,106,078,177	\$ 1,051,644,127

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
ADDITIONS		
Contributions		
Employer		
Property taxes - net	\$ 62,267,968	\$ 70,887,885
Personal property replacement taxes	19,911,079	19,654,000
Exempt rank funding	<u>1,412,554</u>	<u>1,314,921</u>
Total employer contributions	<u>83,591,601</u>	<u>91,856,806</u>
Plan member		
Annuities	41,578,499	41,451,639
Death benefits	<u>151,695</u>	<u>153,148</u>
Total plan member contributions	<u>41,730,194</u>	<u>41,604,787</u>
Investment income		
Net appreciation in fair value		
of investments	130,596,480	188,956,611
Interest	11,497,193	12,238,560
Dividends	13,809,166	11,788,213
Other	<u>-</u>	<u>20,095</u>
	155,902,839	213,003,479
Less investment expenses	<u>(5,521,317)</u>	<u>(5,146,569)</u>
Net investment income	<u>150,381,522</u>	<u>207,856,910</u>
Securities lending		
Income	525,967	583,698
Borrower rebates	77,768	274,150
Management fees	<u>(150,773)</u>	<u>(177,674)</u>
Net securities lending income	<u>452,962</u>	<u>680,174</u>
Gift fund donations	<u>6,895</u>	<u>7,255</u>
Litigation settlements	<u>-</u>	<u>2,211</u>
Miscellaneous income	<u>11,321</u>	<u>3,001</u>
Tax levy interest	<u>12,066</u>	<u>24,337</u>
Total additions	<u>276,186,561</u>	<u>342,035,481</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
DEDUCTIONS		
Benefits		
Age and service benefits		
Employees	\$ 150,136,804	\$ 140,551,640
Spouses	37,721,582	29,980,298
Dependents	819,130	869,777
Total age and service benefits	<u>188,677,516</u>	<u>171,401,715</u>
Disability benefits		
Duty	15,303,110	15,965,119
Occupational	7,983,597	7,822,807
Ordinary	135,632	139,615
Total disability benefits	<u>23,422,339</u>	<u>23,927,541</u>
Gift fund payments	<u>400,000</u>	<u>400,000</u>
Death benefits	<u>659,200</u>	<u>662,400</u>
Total benefits	213,159,055	196,391,656
Annuitant health care	2,644,290	2,645,135
Refunds of contributions	1,762,277	2,109,170
Litigation settlement	1,139,710	417,059
Administrative expenses	<u>3,047,179</u>	<u>3,021,756</u>
Total deductions	<u>221,752,511</u>	<u>204,584,776</u>
NET INCREASE	54,434,050	137,450,705
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>1,051,644,127</u>	<u>914,193,422</u>
End of year	<u>\$ 1,106,078,177</u>	<u>\$ 1,051,644,127</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Method of Accounting - The accompanying financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

New Accounting Pronouncement - Effective during the year ended December 31, 2010, the Plan implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The adoption of the statement did not have a significant impact on the Plan.

Investments - Investments are reported at fair value which generally represents reported market value as of the last business day of the year. Cash deposits and short-term investments are carried at cost which approximates fair value. Pooled funds are carried at fair value as estimated by the Plan's investment managers. Private equity and venture capital are carried at fair value as estimated by the investment partnership. 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.

Reclassifications - Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Subsequent Events - Subsequent events have been evaluated through June 22, 2011, which is the date the financial statements were available to be issued.

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 the 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 City of Chicago's payroll for employees covered by the Plan for the years ended December 31, 2010 and 2009 was \$400,404,320 and \$400,912,173 respectively.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

The Plan provides retirement benefits as well as death and disability benefits. Employees who reach compulsory age (63) with at least 10 years of service and less than 20 years of service are entitled to receive an annuity of 30% of average salary for the first ten years of service plus an additional 2% for each year in excess of 10 with partial City contributions. This can not exceed 50%.

At age 50 or more with 10 or more but less than 20 years of service, the employee is entitled to an annuity of the entire sum accumulated for age and service annuity from deductions from salary, plus 1/10 of the sum accumulated from contributions by the City for each completed year of service after the first 10 years.

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 2.5% of final average salary for each year of service or fraction thereof in excess of 20 years of service. 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. 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, 1955. There is no limit on the increases. If born after January 1, 1955, 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, 2010 and 2009, participation consisted of the following:

	<u>2010</u>	<u>2009</u>
Retirees and beneficiaries currently receiving benefits	4,409	4,432
Terminated plan participants entitled to but not yet receiving benefits	57	78
Active plan participants	<u>5,052</u>	<u>5,137</u>
Total participants	<u>9,518</u>	<u>9,647</u>

NOTE 3. INVESTMENT SUMMARY

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 Statutes. The following table presents a summarization of the fair value (carrying amount) of the Plan’s investments as of December 31, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Corporate bonds:		
Not on securities loan	\$ 84,995,009	\$ 100,166,795
On securities loan	15,147,334	11,936,873
U.S. and Foreign Government obligations:		
Not on securities loan	55,053,058	60,901,856
On securities loan	7,816,870	7,126,338
Equities:		
Not on securities loan	596,525,543	535,121,323
On securities loan	120,652,297	123,520,507
Cash deposits and short-term investments	37,600,930	44,508,950
Pooled funds:		
Equity mutual funds	16,614,202	13,384,543
Fixed income mutual funds	27,558,495	30,417,680
Private equity and venture capital	48,291,372	25,861,529
	<u>1,010,255,110</u>	<u>952,946,394</u>
Collateral held for securities on loan	152,508,016	147,437,779
Total investments and collateral held for securities on loan	<u>\$ 1,162,763,126</u>	<u>\$ 1,100,384,173</u>

Investment Risk

Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Plan’s deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. At December 31, 2010 and 2009, the Plan’s exposure to such risk was \$1,288,897 and \$1,304,202 respectively, comprised of foreign currencies held outside the custodial bank.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counter party, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the Plan’s name, and held by the counter party. To minimize custodial risk, the Plan’s custodian physically (or through agreement with a sub-custodian) maintains possession of securities owned by the Plan. In addition, the Plan seeks to maintain a fully invested position in accordance with established target asset allocation and minimize cash deposits. At December 31, 2010 and 2009, the Plan had no investments that were uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not held in the Plan’s name.

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The Plan establishes minimum investment rating guidelines for each investment manager based on their area of concentration and level of allowable risk. The following table presents a summarization at December 31, 2010 and 2009 of the credit quality ratings of investments in corporate bonds, foreign government obligations, short-term investments, and fixed income mutual funds as valued by Moody's Investors Service and/or Standard & Poor's:

<u>Type of Investment</u>	<u>Rating</u>	<u>2010</u>	<u>2009</u>
Corporate bonds	Aaa/AAA	\$ 6,280,552	\$ 7,638,532
	Aa/AA	5,787,018	5,120,530
	A/A	18,255,699	19,476,504
	Baa/BBB	31,411,506	29,592,033
	Ba/BB	5,583,965	19,872,761
	B/B	13,732,424	13,384,057
	Caa/CCC	4,634,363	6,939,511
	Ca/CC	547,729	2,092,198
	C/C	-	121,110
	D/D	-	17,813
	Not Rated	10,400,885	4,984,445
U.S. Government Guaranteed		3,508,202	2,864,174
		<u>100,142,343</u>	<u>112,103,668</u>
U.S. and Foreign Government obligations	Aaa/AAA	27,566,765	11,432,566
	Aa/AA	1,287,014	124,481
	A/A	3,419,578	1,209,585
	Baa/BBB	3,717,489	4,436,061
	Ba/BB	1,175,387	764,388
	Not Rated	151,205	-
U.S. Government Guaranteed		25,552,490	50,061,113
		<u>62,869,928</u>	<u>68,028,194</u>
Cash deposits and short-term investments	Not Rated	<u>37,600,930</u>	<u>44,508,950</u>
Pooled funds:			
Fixed income mutual funds	Not Rated	<u>27,558,495</u>	<u>30,417,680</u>
Total		<u>\$ 228,171,696</u>	<u>\$ 255,058,492</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. The Plan requires investment managers to display an overall level of interest rate risk that is consistent with the benchmark specified by the Plan. The following table presents a summarization of debt investments at December 31, 2010 and 2009 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2010</u>	<u>2009</u>
Corporate bonds	Less than 1 year	\$ 5,500,066	\$ 1,425,964
	1-5 years	22,282,958	29,637,718
	6 - 10 years	20,774,390	25,854,339
	Over 10 years	51,584,929	55,185,647
		<u>100,142,343</u>	<u>112,103,668</u>
U.S. and Foreign Government obligations	Less than 1 year	5,966,041	6,055,960
	1-5 years	20,927,901	18,675,001
	6 - 10 years	9,090,032	9,415,252
	Over 10 years	26,885,954	33,881,981
		<u>62,869,928</u>	<u>68,028,194</u>
Total		<u>\$ 163,012,271</u>	<u>\$ 180,131,862</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)**

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan requires investment managers to invest in at least ten countries if investing in foreign obligations and/or equities. The Plan's exposure to foreign currency risk at December 31, 2010 and 2009 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2010</u>	Fair Value (USD) <u>2009</u>
Corporate bonds:		
Australian dollar	\$ 1,469,726	\$ 763,647
Canadian dollar	-	1,320,472
Indonesian rupiah	711,334	595,688
Japanese yen	4,337,531	2,970,897
Mexican peso	306,112	259,142
New Zealand dollar	659,107	1,632,166
U.S. dollar	<u>92,658,533</u>	<u>104,561,656</u>
	<u>\$ 100,142,343</u>	<u>\$ 112,103,668</u>
U.S. and Foreign Government obligations:		
Australian dollar	\$ -	\$ 2,235,010
Canadian dollar	4,916,940	5,890,664
Colombian peso	754,287	644,099
European euro	239,671	-
Icelandic krona	-	455,887
Indian rupee	2,359,849	-
Indonesian rupiah	964,070	197,239
Malaysian ringgit	454,665	-
Mexican peso	1,167,197	1,077,733
New Zealand dollar	718,303	1,209,585
Norwegian krone	-	901,042
Philippines pesos	1,171,012	-
Republic of Korea won	1,798,617	-
U.S. dollar	<u>48,325,317</u>	<u>55,416,935</u>
	<u>\$ 62,869,928</u>	<u>\$ 68,028,194</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)**

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2010</u>	Fair Value (USD) <u>2009</u>
Equities:		
Australian dollar	\$ 2,919,131	\$ 3,642,128
Brazilian real	12,639,115	9,091,750
British pound	31,035,964	22,654,806
Canadian dollar	7,697,277	4,342,925
Czech Republic koruny	-	180,401
Chilean peso	935,634	285,862
Danish krone	1,159,849	647,885
Egyptian pound	629,253	727,299
European euro	47,215,870	40,795,219
Hong Kong dollar	12,379,621	10,573,747
Hungarian forint	441,031	792,009
Indian rupee	4,620,048	3,736,030
Indonesian rupiah	2,317,800	1,350,997
Israel new shekels	1,107,432	1,005,490
Japanese yen	39,266,055	27,861,441
Malaysian ringgit	748,999	941,331
Mexican peso	2,440,223	2,203,768
New Zealand dollar	443,949	463,644
Norwegian krone	1,564,560	421,849
Pakistan rupees	252,691	213,220
Philippines pesos	665,552	213,760
Polish zlotych	930,281	637,961
Republic of Korea won	8,972,775	6,512,894
Singapore dollar	2,190,330	1,609,179
South African rand	4,322,897	4,035,291
Swedish krona	1,537,726	1,062,261
Swiss franc	11,195,846	5,528,129
Taiwan dollar	4,788,179	6,390,730
Thailand baht	1,631,239	943,478
Turkish lira	1,646,466	1,352,123
U.S. dollar	509,482,047	498,424,223
	<u>\$ 717,177,840</u>	<u>\$ 658,641,830</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

During 2010 and 2009, net realized gain (loss) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was \$42,298,225 and (\$75,132,716) respectively. These amounts are included in the net appreciation 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 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 114 days in 2010 and 65 days in 2009; 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, 2010 and 2009 of 23 days and 47 days, respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loaned.

As of December 31, 2010 and 2009, the fair value (carrying amount) of loaned securities was \$143,616,501 and \$142,583,718 respectively. As of December 31, 2010 and 2009, the fair value (carrying amount) of collateral received by the Plan was \$152,508,016 and \$147,437,779 respectively.

Although the Plan's securities lending activities are collateralized as described above, they involve both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize the loan upon a sudden material change in the fair value of the loaned securities. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

NOTE 5. SECURITIES LENDING (CONTINUED)

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower. 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.

During 2008, the Plan's investment custodian failed to live up to its contractual responsibilities relating to the lending of certain securities. Lehman Brothers Inc. was called into default on obligations under the terms of one or more of the Securities Borrowing Agreements. The Plan's investment custodian compensated the Plan for any security that was not returned from being on loan in accordance with the contractual obligations. As a result of the default, the Plan recognized an investment loss and corresponding securities lending payable in the amount of \$2,087,828 during the year ended December 31, 2008. As of December 31, 2009, the securities lending payable decreased to \$538,360. As of December 31, 2010, the securities lending payable decreased to \$11,154.

There were no losses due to default of a borrower or the lending agent during the years ended December 31, 2010 and 2009.

NOTE 6. DERIVATIVES

The Plan invests in derivative financial instruments as provided by the Plan's Statement of Investment Policy. The Plan uses derivative financial instruments to gain exposure to an asset class, manage portfolio risk or to facilitate international portfolio trading.

A derivative security is a financial contract whose value is based on, or "derived" from, a traditional security, an asset, or a market index. Derivative instruments include options, forward contracts, swaps, and futures as part of the Plan's portfolio.

Derivative transactions involve, to varying degrees, credit risk, interest rate risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the previously agreed upon terms. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

NOTE 6. DERIVATIVES (CONTINUED)

The Plan's portfolio includes the following derivative instruments at December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Hedging derivative instruments:		
Options	\$ (23,150)	\$ (27,894)
Forward currency contract receivables	4,882,313	8,355,899
Forward currency contract payables	(4,974,659)	(8,175,898)
Swap assets	136,428	275,113
Swap liabilities	<u>(136,371)</u>	<u>(375,648)</u>
Total hedging derivative instruments	<u>(115,439)</u>	<u>51,572</u>
Investment derivative instruments:		
Future purchase commitments	(14,028,888)	(35,521,456)
Future sales commitments	14,028,888	35,521,456
Margin deposit for outstanding futures contracts	<u>100,000</u>	<u>100,000</u>
Total investment derivative instruments	<u>100,000</u>	<u>100,000</u>
Total	<u>\$ (15,439)</u>	<u>\$ 151,572</u>

The Plan uses options to reduce the risk of holding an asset. An option is a contract that conveys the right, but not the obligation, to buy (call) or sell (put) an item at an agreed upon price during a certain period of time or on a specific date.

Forward contracts are used to hedge against fluctuations in foreign currency-denominated assets used primarily in portfolio trade settlements. These contracts are a cash contract in which a seller agrees to deliver a specific cash commodity to a buyer sometime in the future. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions.

Swaps are used by the Plan to hedge certain risks such as interest rate risk, or to speculate on changes in the underlying price of an asset. Traditionally, a swap is the exchange of one security for another to change the maturity, quality, structure of an issue, or because investment objectives have changed.

Futures contracts are used to provide exposure to an asset class using uninvested cash. These contracts are a legally binding agreement, made on the trading floor of a futures exchange, to buy or sell a commodity or financial instrument sometime in the future. Futures contracts have little credit risk, as organized exchanges are the guarantors.

All of the Plan's derivative instruments are reported at fair value in the equity investments on the Statement of Plan Net Assets. The gain or loss on derivative instruments is reported as part of investment income on the Statement of Changes in Plan Net Assets.

NOTE 7. FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2010, the most recent actuarial valuation date, the Plan was 32.35% funded on an actuarial basis. The actuarial accrued liability for benefits was \$3,703,247,835 and the actuarial value of assets was \$1,198,113,789 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,505,134,046. The covered payroll (annual payroll of active employees covered by the Plan) was \$400,404,320 and the ratio of the UAAL to the covered payroll was 625.65%.

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of the Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date	December 31, 2010
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Five Year Smoothed Market

Actuarial assumptions:

Investment return rate	8.0% per year for pensions and 4.5% per year for the health insurance supplement
Projected salary increases	4.0% per year, plus an additional percentage related to service and promotion
Postretirement increases	1.5% simple interest for 20 years for members born in or after 1955; 3.0% simple interest for life for members born before 1955
Mortality rates	1983 Group Annuity Mortality Table, sex distinct.
Disabled mortality rates	1992 Railroad Retirement Board's Disabled Annuitant's Mortality Table
Termination rates	Based on recent experience of the Plan
Retirement rates	Rates of retirement for each age from 50 to 65 based on recent experience of the Plan. All employees are assumed to retire by age 65.

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES

Employer obligations are funded through the City which are 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, 2010 and 2009 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be \$222,815,766 and \$208,237,148 for 2010 and 2009, respectively. The minimum annual projected contribution was based on an annual payroll of \$400,404,320 for 5,052 active participants during 2010 and \$400,912,173 for 5,137 active participants during 2009 and was computed as follows:

	2010 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 68,407,195	\$ 1,511,790	\$ 69,918,985
40-year level dollar amortization of the unfunded liability	<u>187,621,614</u>	<u>2,915,939</u>	<u>190,537,553</u>
	256,028,809	4,427,729	260,456,538
Less estimated plan member contributions	<u>(37,640,772)</u>	-	<u>(37,640,772)</u>
Annual required contribution to be financed by tax levy	<u>\$ 218,388,037</u>	<u>\$ 4,427,729</u>	<u>\$ 222,815,766</u>
Required tax levy multiple			<u>6.24</u>
	2009 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 69,161,598	\$ 1,492,199	\$ 70,653,797
40-year level dollar amortization of the unfunded liability	<u>171,900,784</u>	<u>2,878,030</u>	<u>174,778,814</u>
	241,062,382	4,370,229	245,432,611
Less estimated plan member contributions	<u>(37,195,463)</u>	-	<u>(37,195,463)</u>
Annual required contribution to be financed by tax levy	<u>\$ 203,866,919</u>	<u>\$ 4,370,229</u>	<u>\$ 208,237,148</u>
Required tax levy multiple			<u>5.72</u>

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

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

NOTE 9. 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 establishes 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:

	<u>2010</u>	<u>2009</u>
Prior Service Annuity Reserve	\$ 1,431,459,965	\$ 1,379,998,894
City Contribution Reserve	724,590,057	686,604,602
Annuity Payment Reserve	682,471,519	667,049,258
Salary Deduction Reserve	598,628,457	567,334,824
Death Benefit Reserve (deficit)	(12,426,798)	(11,564,793)
Ordinary Disability Reserve (deficit)	214,986	(752,756)
Supplementary Payment Reserve	344,116	75,556
Gift Reserve	4,150,045	4,205,047
Reserve (deficit)	<u>(2,323,354,170)</u>	<u>(2,241,306,505)</u>
Total net assets held in trust for pension benefits	<u>\$ 1,106,078,177</u>	<u>\$ 1,051,644,127</u>

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 maintained for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Reserve.

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

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 maintained 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.

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, 2010 and 2009, the Plan's actuary has determined that an increase in actuarial reserves of \$352,028,479 and \$322,107,465 respectively, is required. The net increase in Plan net assets for the years ended December 31, 2010 and 2009 of \$54,434,050 and \$137,450,705 respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an increase in the Plan deficit by \$297,594,429 and \$184,656,760 for the years ended December 31, 2010 and 2009, respectively.

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

As reported by the actuary, the changes in the Plan (deficit) during the years ended December 31, 2010 and 2009 consisted of the following:

	<u>2010</u>	<u>2009</u>
Plan (deficit) at the beginning of the year	\$ <u>(2,207,539,617)</u>	\$ <u>(2,022,882,857)</u>
Gains (losses) during the year attributable to:		
Salary changes	54,625,757	45,845,082
Investment return	(76,812,217)	(102,990,113)
Employer cost in excess of contributions	(120,172,857)	(97,766,391)
Demographic assumptions	(6,709,702)	(17,294,358)
Programming changes	-	(11,829,539)
Retroactive pay adjustments	(142,091,101)	-
All other sources	<u>(6,434,309)</u>	<u>(621,441)</u>
Net (loss)	<u>(297,594,429)</u>	<u>(184,656,760)</u>
Plan (deficit) at the end of the year	\$ <u>(2,505,134,046)</u>	\$ <u>(2,207,539,617)</u>

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed 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 21, 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, sex distinct.

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 in 2000). Emergency medical technicians are assumed to retire by age 65.

Investment rate of return:

8% per year for pensions, 4.5% per year for the health insurance supplement with the rate effective as of December 31, 2005.

Salary increase:

4% per year, plus an additional percentage related to service and promotion.

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

Health insurance supplement:

Assume for valuation purposes that the current health insurance supplement will continue for life for all employee annuitants (and their future widows). The amount of Plan-paid health insurance is \$95 per month for each annuitant (employees and widows) not qualified to receive Medicare benefits and \$65 per month if qualified. Assume that all annuitants age 65 and over will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Assume future widows of retirees to be eligible for Medicare as well as widow annuitants who are currently receiving a health insurance supplement.

A Schedule of Funding Progress is located in the Required Supplementary Information on page 28. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 10. EMPLOYER CONTRIBUTIONS (TAXES) RECEIVABLE - NET

Employer contribution receivable at December 31, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Property taxes	\$ 79,131,756	\$ 81,449,908
Personal property replacement taxes	22,638,554	22,244,921
Less allowance for uncollectible accounts	<u>(8,739,241)</u>	<u>(8,009,361)</u>
Total	<u>\$ 93,031,069</u>	<u>\$ 95,685,468</u>

NOTE 11. ANNUITANT HEALTH INSURANCE

The Plan and the City of Chicago 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. The Plan, in accordance with State Statutes, subsidizes the cost of monthly group health care premiums up to \$95 per month for non-Medicare recipients and \$65 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, 2010 and 2009, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,173 and 3,174 respectively. The Plan's share of the Program cost subsidy for 2010 and 2009 was \$2,644,290 and \$2,645,135 respectively.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

The Plan, as an employer, contributes premiums for health and dental insurance for three retired employees. The Plan's contribution towards insurance premiums for 2010 and 2009 was \$17,476 and \$18,107 respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

At December 31, 2010 and 2009, the Plan held investments with a total fair value of approximately \$42,980,000 and \$47,000,000 respectively, in its investment managers.

The Plan has allowed the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund (Corporation) to utilize its facilities and equipment to accommodate the once a year distribution to widows and orphans in December at no additional expense to the Plan. This distribution by the Corporation, to the widows and orphans, had been handled by the Plan.

Three of the Plan's Trustees and the Executive Director are also directors of the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund.

During the years ended December 31, 2010 and 2009, the Firemen's Annuity and Benefit Fund of Chicago contributed \$400,000 to the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund from the balances in the gift reserve account as allowed under the discretionary authority granted by 40ILCS Act 5, Article 6-202 to render financial assistance to qualified widows and children annuitants of the participants of the Firemen's Annuity and Benefit Fund of Chicago.

NOTE 14. LEASE AGREEMENTS

The Plan leases office facilities with lease payments subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through March 2020.

During 2006, the Plan entered into a noncancellable operating lease for office space for disaster recovery at an offsite facility which is subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through September 2016.

Rental expense for 2010 and 2009 was \$204,920 and \$190,360 respectively.

NOTE 14. LEASE AGREEMENTS (CONTINUED)

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

Year ending December 31,	
2011	\$ 149,848
2012	155,279
2013	160,756
2014	166,278
2015	171,845
2016 through 2020	<u>577,736</u>
Total	<u>\$ 1,381,742</u>

NOTE 15. COMMITMENT

The Plan had a total capital commitment to eleven limited partnerships totaling \$70,500,000. As of December 31, 2010, \$50,835,224 has been invested, leaving a commitment of \$19,664,776.

NOTE 16. LITIGATION

The Plan is involved in on-going litigations pertaining to the potential eligibility for and the effective beginning date of higher "duty death widow" benefits to a fixed number of current widow annuitants. If determined adversely to the Plan's position, the Plan has estimated a liability for retroactive payments of up to \$1,885,000 plus future benefit payments to be paid over the lifetime of eligible widows. The Plan continues to vigorously defend against these cases and cannot adequately assess the outcome of these matters.

NOTE 17. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Statement No. 54 is effective for the Plan's fiscal year ending December 31, 2011.

NOTE 17. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE (CONTINUED)

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement considers the timing and frequency of the measurement of actuarial liabilities for OPEB by agent employers and also considers the guidelines regarding the use of the alternative measurement method by agent employers with small individual OPEB plans. The provisions related to the frequency and timing of measurements are effective for the Plan's fiscal year ending December 31, 2012.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Statement No. 59 is effective for the Plan's fiscal year ending December 31, 2011.

In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement improves financial reporting by addressing issues related to service concession arrangements, which are a type of public-private or public-public partnership. Statement No. 60 is effective for the Plan's fiscal year ending December 31, 2012.

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. This statement improves financial reporting for a governmental financial reporting entity by modifying certain requirements for inclusion of component units in the financial reporting entity. This statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The statement also clarifies the reporting of equity interests in legally separate organizations. Statement No. 61 is effective for the Plan's fiscal year ending December 31, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is to incorporate into GASB's authoritative literature certain accounting and financial reporting guidance that is included in certain pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. Statement No. 62 is effective for the Plan's fiscal year ending December 31, 2012.

The Plan is currently evaluating the impact of adopting the above Statements.

REQUIRED SUPPLEMENTARY INFORMATION

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Year Ended</u> <u>December 31,</u>	<u>Actuarial</u> <u>Value of Assets</u> <u>(a)</u>	<u>Actuarial Accrued</u> <u>Liability (AAL)</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL (UAAL)</u> <u>(b-a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>of Covered</u> <u>Payroll</u> <u>(b-a)/(c)</u>
<i>Pension Benefits</i>						
2005	\$1,203,654,052	\$ 2,882,935,717	\$ 1,679,281,665	41.75%	\$ 341,252,492	492.09%
2006	\$1,264,497,434	\$ 3,088,124,064	\$ 1,823,626,630	40.95%	\$ 387,442,074	470.68%
2007	\$1,374,960,353	\$ 3,215,874,182	\$ 1,840,913,829	42.76%	\$ 389,124,547	473.09%
2008	\$1,335,695,474	\$ 3,311,268,993	\$ 1,975,573,519	40.34%	\$ 396,181,778	498.65%
2009	\$1,269,231,178	\$ 3,428,838,267	\$ 2,159,607,089	37.02%	\$ 400,912,173	538.67%
2010	\$1,198,113,789	\$ 3,655,025,957	\$ 2,456,912,168	32.78%	\$ 400,404,320	613.61%
<i>Health Insurance Supplement</i>						
2005	\$ -	\$ 44,237,156	\$ 44,237,156	0.00%	\$ 341,252,492	12.96%
2006	\$ -	\$ 45,017,463	\$ 45,017,463	0.00%	\$ 387,442,074	11.62%
2007	\$ -	\$ 47,096,707	\$ 47,096,707	0.00%	\$ 389,124,547	12.10%
2008	\$ -	\$ 47,309,338	\$ 47,309,338	0.00%	\$ 396,181,778	11.94%
2009	\$ -	\$ 47,932,528	\$ 47,932,528	0.00%	\$ 400,912,173	11.96%
2010	\$ -	\$ 48,221,878	\$ 48,221,878	0.00%	\$ 400,404,320	12.04%
<i>Total</i>						
2005	\$1,203,654,052	\$ 2,927,172,873	\$ 1,723,518,821	41.12%	\$ 341,252,492	505.06%
2006	\$1,264,497,434	\$ 3,133,141,527	\$ 1,868,644,093	40.36%	\$ 387,442,074	482.30%
2007	\$1,374,960,353	\$ 3,262,970,889	\$ 1,888,010,536	42.14%	\$ 389,124,547	485.19%
2008	\$1,335,695,474	\$ 3,358,578,331	\$ 2,022,882,857	39.77%	\$ 396,181,778	510.59%
2009	\$1,269,231,178	\$ 3,476,770,795	\$ 2,207,539,617	36.51%	\$ 400,912,173	550.63%
2010	\$1,198,113,789	\$ 3,703,247,835	\$ 2,505,134,046	32.35%	\$ 400,404,320	625.65%

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>Required</u> <u>Contribution (1)</u> <u>(ARC) (a)</u>	<u>Actual</u> <u>Employer</u> <u>Contribution</u> <u>(b)</u>	<u>Percent of</u> <u>ARC</u> <u>Contributed</u> <u>(b/a)</u>
<i>Pension Benefits</i>			
2005	\$ 161,696,388	\$ 90,128,915	55.74%
2006	\$ 160,246,525	\$ 76,763,308	47.90%
2007	\$ 188,201,379	\$ 72,022,810	38.27%
2008	\$ 189,940,561	\$ 81,257,754	42.78%
2009	\$ 203,866,919	\$ 89,211,671	43.76%
2010	\$ 218,388,037	\$ 80,947,311	37.07%
<i>Health Insurance Supplement</i>			
2005	\$ -	\$ -	0.00%
2006	\$ 4,075,175	\$ 2,208,075	54.18%
2007	\$ 4,176,767	\$ 2,248,156	53.83%
2008	\$ 4,307,852	\$ 2,486,950	57.73%
2009	\$ 4,370,229	\$ 2,645,135	60.53%
2010	\$ 4,427,729	\$ 2,644,290	59.72%
<i>Total</i>			
2005	\$ 161,696,388	\$ 90,128,915	55.74%
2006	\$ 164,321,700	\$ 78,971,383	48.06%
2007	\$ 192,378,146	\$ 74,270,966	38.61%
2008	\$ 194,248,413	\$ 83,744,704	43.11%
2009	\$ 208,237,148	\$ 91,856,806	44.11%
2010	\$ 222,815,766	\$ 83,591,601	37.52%

(1) Annual Required Contribution (ARC) - This is the actuarially determined amount needed to finance benefits.

**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, 2010
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	30 years
Actuarial value of assets	Pension - Five Year Smoothed Market Health insurance supplement - no assets (Pay-As-You-Go)
Actuarial assumptions:	
Investment rate of return	Pension - 8% Health insurance supplement - 4.5%
Projected salary increase	4% per year, plus an additional percentage related to service and promotion
Postretirement increases	1.5% simple interest for 20 years for members born in or after 1955 3% simple interest for life for members born before 1955

ADDITIONAL INFORMATION

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

ADDITIONS BY SOURCE

<u>Year Ended December 31.</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a Percentage of Payroll</u>	<u>Plan Member Contributions</u>	<u>Net Investment and Net Securities Lending Income (Loss) (1)</u>	<u>Other</u>	<u>Total Additions</u>
2005	\$ 90,128,915	26.41%	\$ 35,696,863	\$ 112,016,356	\$ 456,518	\$ 238,298,652
2006	\$ 78,971,383	20.38%	\$ 44,221,869	\$ 174,406,652	\$ 88,210	\$ 297,688,114
2007	\$ 74,270,966	19.09%	\$ 41,120,231	\$ 148,806,209	\$ 161,666	\$ 264,359,072
2008	\$ 83,744,704	21.14%	\$ 40,479,884	\$ (484,093,138)	\$ 107,321	\$ (359,761,229)
2009	\$ 91,856,806	22.91%	\$ 41,604,787	\$ 208,537,084	\$ 36,804	\$ 342,035,481
2010	\$ 83,591,601	20.88%	\$ 41,730,194	\$ 150,834,484	\$ 30,282	\$ 276,186,561

(1) Net investment and securities lending income includes net appreciation (depreciation) 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

<u>Year Ended December 31.</u>	<u>Benefits</u>	<u>Health Insurance</u>	<u>Refunds</u>	<u>Litigation Settlement</u>	<u>Administrative Expenses</u>	<u>Total Deductions</u>
2005	\$ 163,871,251	\$ 2,187,458	\$ 1,469,848	\$ -	\$ 2,290,371	\$ 169,818,928
2006	\$ 174,387,363	\$ 2,208,075	\$ 1,619,107	\$ -	\$ 2,646,739	\$ 180,861,284
2007	\$ 179,350,432	\$ 2,248,156	\$ 1,706,383	\$ -	\$ 3,084,127	\$ 186,389,098
2008	\$ 187,496,591	\$ 2,486,950	\$ 2,659,788	\$ 16,750	\$ 2,839,557	\$ 195,499,636
2009	\$ 196,391,656	\$ 2,645,135	\$ 2,109,170	\$ 417,059	\$ 3,021,756	\$ 204,584,776
2010	\$ 213,159,055	\$ 2,644,290	\$ 1,762,277	\$ 1,139,710	\$ 3,047,179	\$ 221,752,511

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
PERSONNEL SERVICES		
Office salaries	\$ 1,433,940	\$ 1,400,089
Employee benefits	244,228	278,312
Total personnel services	<u>1,678,168</u>	<u>1,678,401</u>
TRUSTEE AND STAFF EDUCATION/TRAINING	<u>4,331</u>	<u>11,417</u>
PROFESSIONAL SERVICES		
Accounting	10,000	10,150
Actuarial	106,650	152,125
Audit	32,000	49,000
Consulting	18,000	18,000
Medical	99,466	116,309
Legal	386,942	366,185
Payroll administration	10,391	5,788
Total professional services	<u>663,449</u>	<u>717,557</u>
MISCELLANEOUS		
Rent	204,920	190,360
Disaster recovery	27,843	26,378
Insurance and surety bond	185,029	158,366
Utilities	21,635	22,094
Equipment and maintenance	24,037	21,157
Printing and postage	77,625	85,703
Office supplies	13,422	16,605
General and administrative	23,207	21,176
Other	123,513	72,542
Total miscellaneous	<u>701,231</u>	<u>614,381</u>
Total administrative expenses	<u>\$ 3,047,179</u>	<u>\$ 3,021,756</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2010 AND 2009

	<u>2010</u>	<u>2009</u>
INVESTMENT MANAGEMENT		
Adams Street Partners (Private Equity)	\$ 12,212	\$ 26,383
Advent Capital Management, LLC (Private Equity)	157,213	16,831
Alliance Bernstein (Private Equity)	82,626	12,770
BA Partners (Private Equity)	122,080	233,143
Brandes Investment Partners	372,579	337,722
Chicago Equity Partners, LLC	126,472	130,459
Citigroup Property (Private Equity)	106,670	106,542
Credit Suisse Asset Management, LLC	20,694	19,685
Earnest Partners	127,956	140,351
Epoch Investment Partners	25,824	-
Globeflex Capital L.P.	444,120	364,438
Husic Capital Management	-	18,320
ICON Advisers, Inc.	-	56,108
Keeley Asset Management Corp.	260,458	221,542
Logan Capital Management, Inc.	223,336	175,050
Loomis, Sayles & Company, L.P.	317,489	326,072
LSV Asset Management	426,702	343,662
Marvin & Palmer Associates, Inc.	261,917	223,594
Mesirow Financial (Private Equity)	101,846	102,917
Metropolitan West Capital Management, LLC	212,834	168,805
Muller & Monroe Asset Management, LLC (Private Equity)	15,727	32,893
Neuberger Berman, LLC	694,741	581,685
Pomona Capital (Private Equity)	137,274	396,015
RhumbLine Advisers	29,999	27,369
The Boston Company Asset Management, LLC	226,353	198,876
Western Asset Management Company	217,014	241,011
William Blair & Company	287,316	232,396
	<u>5,011,452</u>	<u>4,734,639</u>
CUSTODIAL BANKING		
Northern Trust	284,865	186,930
INVESTMENT EVALUATION		
Mercer Investment Consulting	<u>225,000</u>	<u>225,000</u>
Total investment expenses	<u>\$ 5,521,317</u>	<u>\$ 5,146,569</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

EMPLOYEE/SPOUSE ANNUITIES

<u>Year</u>	<u>Employee</u>		<u>Widow/Widower (Including Parent)</u>	
	<u>Number of Annuitants</u>	<u>Average Annuity</u>	<u>Number of Annuitants</u>	<u>Average Annuity</u>
2005	2,442	\$ 47,917	1,331	\$ 15,388
2006	2,459	\$ 50,171	1,323	\$ 15,966
2007	2,488	\$ 52,446	1,301	\$ 16,365
2008	2,471	\$ 54,492	1,307	\$ 16,958
2009	2,556	\$ 57,023	1,293	\$ 17,520
2010	2,577	\$ 59,133	1,262	\$ 18,092

EMPLOYEE RETIREMENTS

<u>Year</u>	<u>Average Age at Retirement</u>	<u>Average Years of Service</u>	<u>Average Salary</u>	<u>Number of Retirements</u>
2005	59.2	31.4	\$ 81,747	126
2006	57.7	30.1	\$ 85,115	123
2007	58.1	30.0	\$ 89,621	126
2008	57.4	29.6	\$ 88,841	109
2009	57.8	30.3	\$ 92,010	185
2010	59.0	29.7	\$ 93,933	117

AGE AND SERVICE DISTRIBUTION

<u>Year</u>	<u>Number of Actives</u>	<u>Average Salary</u>	<u>Average Age</u>	<u>Average Service</u>
2005	4,999	\$ 68,264	44.0	15.0
2006	5,078	\$ 76,298	44.4	15.0
2007	4,938	\$ 78,753	45.1	15.6
2008	5,037	\$ 78,654	45.0	15.5
2009	5,137	\$ 78,044	44.7	15.1
2010	5,052	\$ 79,257	45.3	15.7

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

PARTICIPANT DATA

	<u>2010</u>	<u>2009</u>
ACTIVE MEMBERS		
Number	<u>5,052</u>	<u>5,137</u>
Annual payroll	<u>\$ 400,404,320</u>	<u>\$ 400,912,173</u>
Average salary	<u>\$ 79,257</u>	<u>\$ 78,044</u>
Average age	<u>45.3</u>	<u>44.7</u>
Average service	<u>15.7</u>	<u>15.1</u>
ANNUITANTS AND BENEFICIARIES		
Retired employees	2,577	2,556
Spouse, parent and widow annuitants	1,362	1,400
Children and dependents	83	89
Duty disabilities	259	262
Occupational disabilities	124	121
Ordinary disabilities	<u>4</u>	<u>4</u>
Total annuitants and beneficiaries	<u>4,409</u>	<u>4,432</u>
TOTAL BENEFITS	<u>\$ 213,159,055</u>	<u>\$ 196,391,656</u>