

**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, 2012

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of Firemen's Annuity and Benefit Fund of Chicago (the Plan) which comprise the statements of plan net position as of December 31, 2012 and 2011, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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 as of December 31, 2012 and 2011, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 4c and the required supplementary information consisting of the schedule of funding progress, the schedule of employer contributions and the notes to those schedules on pages 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements as a whole. The accompanying supplementary information on pages 31 through 32 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information consisting of the additions by source, deductions by type, and schedules of investment services, professional services, and administrative expenses, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Matters (continued)

Previously Audited Information

We also have previously audited the basic financial statements for the years ended December 31, 2010, 2009, 2008, and 2007 (which are not presented herein), and we expressed unqualified opinions on those financial statements. In our opinion, the information on page 31 is fairly stated in all material respects in relation to the basic financial statements from which it has been derived. Our reports for 2010, 2009, 2008 and 2007 on the required supplementary information (pages 28 and 29) stated that we applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information, but did not audit the information and expressed no opinion on it

Unaudited Information

The information presented on pages 33 and 34, 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 Professionals LLP

Chicago, Illinois

June 17, 2013

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

DECEMBER 31, 2012 AND 2011

The discussion and analysis of the financial position and performance of the Firemen's Annuity and Benefit Fund of Chicago (the Plan) provides a comprehensive review of the Plan's financial activities for the years ended December 31, 2012 and 2011. The purpose of this discussion and analysis is to look at the Plan's financial performance as a whole; readers should review the financial statements, notes to the financial statements, required supplementary, and supplementary information in order to enhance their understanding of the Plan's financial condition.

Financial Statements

The financial statements consist of the Statements of Plan Net Position, Statements of Changes in Plan Net Position, and Notes to Financial Statements. The financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer, the City of Chicago, is bound by statute to provide the contributions. Plan member contributions are recognized in the period due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Financial Highlights

A summary of the Statements of Plan Net Position is provided below:

	Plan Net Position As of December 31,		Increase/(Decrease) in	
	2012	2011	Dollars	Percent
Assets				
Receivables	\$ 94,553,758	\$ 94,909,534	\$ (355,776)	(.4)%
Prepaid expenses	158,739	137,026	21,713	15.8 %
Investments, at fair value	942,774,569	904,152,540	38,622,029	4.3 %
Collateral held for securities on loan	161,363,241	148,322,719	13,040,522	8.8 %
Total assets	<u>1,198,850,307</u>	<u>1,147,521,819</u>	<u>51,328,488</u>	4.5 %
Liabilities				
Payables	5,064,268	5,425,551	(361,283)	(6.7)%
Securities lending collateral	161,363,241	148,322,719	13,040,522	8.8 %
Total liabilities	<u>166,427,509</u>	<u>153,748,270</u>	<u>12,679,239</u>	8.2 %
Plan net position	<u>\$ 1,032,422,798</u>	<u>\$ 993,773,549</u>	<u>\$ 38,649,249</u>	3.9 %

Financial Highlights (continued)

Plan net position at December 31, 2012 was \$1,032,422,798 compared to \$993,773,549 at December 31, 2011, which represents a 3.9% increase. This increase was primarily due to strong market performance across all asset classes as demonstrated by a 16.2% return on Fund investments. Overall growth of Plan assets was significantly offset by the liquidation of marketable securities to meet monthly benefit obligations.

A summary of the Statements of Changes in Plan Net Position is provided below:

Changes in Plan Net Position For the Years Ended December 31,

	<u>2012</u>	<u>2011</u>	<u>Increase/(Decrease) in</u>	
			<u>Dollars</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 84,144,328	\$ 85,498,002	\$ (1,353,674)	(1.6)%
Plan member contributions	53,272,730	51,917,510	1,355,220	2.6 %
Net investment income (loss)	134,480,603	(23,010,560)	157,491,163	684.4 %
Net securities lending income	715,889	560,186	155,703	27.8 %
Other	3,459,687	33,594	3,426,093	NM
Total additions	<u>276,073,237</u>	<u>114,998,732</u>	<u>161,074,505</u>	140.1 %
Deductions:				
Benefits	228,585,731	218,897,479	9,688,252	4.4 %
Annuitant health care	2,622,445	2,628,163	(5,718)	(.2)%
Refunds of contributions	2,631,674	2,054,456	577,218	28.1 %
Litigation settlement	520,173	510,747	9,426	1.8 %
Professional services	546,384	720,396	(174,012)	(24.2)%
Administrative expenses	2,517,581	2,492,119	25,462	1.0 %
Total deductions	<u>237,423,988</u>	<u>227,303,360</u>	<u>10,120,628</u>	4.5 %
Net increase/(decrease) in plan net position	<u>\$ 38,649,249</u>	<u>\$ (112,304,628)</u>	<u>\$ 150,953,877</u>	134.4 %

NM = Not meaningful

Financial Highlights (continued)

In 2012, the Plan received approximately \$8.3 million in additional member contributions due to a court ordered payment in the Lewis class action lawsuit against the City of Chicago. Despite this payment, 2012 member contributions increased only \$1.4 million (2.6%) because 2011 included \$6.8 million in retroactive member contributions attributable to the settlement of a labor contract between the City of Chicago and the Chicago Fire Fighter's Union Local 2. "Other" revenues increased significantly due to approximately \$3.4 million in interest payments attributable to the payout in the Lewis lawsuit. Professional services expenditures decreased 24.2% due to a decrease in the amount of legal and actuarial services required by the Plan.

In 2012, the Plan's investment income increased by \$157,491,163 (684.4%) over 2011. 2012 was a year marked by uncertainty and volatility in the markets. Despite concerns over the U.S. fiscal crisis, elections and a slowdown in the global economy, global markets performed surprisingly well. The Plan's realized return on investments for 2012 was 16.2% in comparison to negative 2.0% in 2011. Over the last ten years, the Plan's annual return is over 9%, which is 1% above our actuarial assumed expected rate of return of 8%.

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>2012</u>	<u>2011</u>
Equities	17.7%	(4.6)%
S&P 500 Benchmark	16.0%	2.1 %
Fixed income	14.0%	6.2 %
Barclays Aggregate Benchmark	4.2%	7.8 %
Total Plan	16.2%	(2.0)%

Funding Status

The Plan experienced a decrease in actuarial assets and an increase in actuarial liabilities in 2012. Actuarial assets decreased 9.8% due to the five year smoothing adjustment that recognized a portion of the 2011 investment loss. Actuarial liabilities increased 4.3% due to the Plan's costs exceeding the actuarial contributions that were received. These factors contributed to a 9.9% increase in the Plan's unfunded actuarial liability and a decrease in the funded ratio from 28.26% in 2011 to 24.43% in 2012. 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.

Actuarial Values (in Millions) For the Years Ended December 31,

	<u>2012</u>	<u>2011</u>	Increase/(Decrease) in	
			<u>Dollars</u>	<u>Percent</u>
Actuarial assets	\$ 993.3	\$ 1,101.7	\$ (108.4)	(9.8)%
Actuarial liabilities	<u>4,066.3</u>	<u>3,898.9</u>	<u>167.4</u>	4.3 %
Unfunded actuarial liabilities	<u>\$ 3,073.0</u>	<u>\$ 2,797.2</u>	<u>\$ 275.8</u>	<u>9.9 %</u>
Funded ratio	<u>24.43%</u>	<u>28.26%</u>		

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, 2012. Comments, questions or concerns regarding this report or requests for additional information should be addressed to:

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

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF PLAN NET POSITION

DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Receivables		
Employer - net	\$ 86,514,430	\$ 88,208,670
Investment income	2,646,437	3,143,455
Unsettled trades	2,699,113	1,679,686
Other	<u>2,693,778</u>	<u>1,877,723</u>
Total receivables	<u>94,553,758</u>	<u>94,909,534</u>
Prepaid expenses	<u>158,739</u>	<u>137,026</u>
Investments		
Corporate bonds	92,344,320	80,463,129
U.S. and Foreign Government obligations	71,401,152	69,643,751
Equities	641,119,374	627,552,759
Cash deposits and short-term investments	47,497,299	36,573,831
Pooled funds	41,029,835	37,918,125
Private equity and venture capital	<u>49,382,589</u>	<u>52,000,945</u>
Total investments	<u>942,774,569</u>	<u>904,152,540</u>
Collateral held for securities on loan	<u>161,363,241</u>	<u>148,322,719</u>
Total assets	<u>1,198,850,307</u>	<u>1,147,521,819</u>
LIABILITIES		
Unsettled trades	3,134,034	3,635,624
Accounts payable and accrued expenses	1,356,585	1,218,650
Securities lending collateral	161,363,241	148,322,719
Participant accounts	557,734	557,213
Securities lending payable	<u>15,915</u>	<u>14,064</u>
Total liabilities	<u>166,427,509</u>	<u>153,748,270</u>
NET POSITION HELD IN TRUST		
RESTRICTED FOR PENSION BENEFITS	<u>\$ 1,032,422,798</u>	<u>\$ 993,773,549</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ADDITIONS		
Contributions		
Employer		
Property taxes - net	\$ 62,589,174	\$ 63,682,006
Personal property replacement taxes	20,191,450	20,406,446
Exempt rank funding	<u>1,363,704</u>	<u>1,409,550</u>
Total employer contributions	<u>84,144,328</u>	<u>85,498,002</u>
Plan member		
Annuities	44,815,609	51,770,206
Death benefits	143,708	147,304
Lewis class contributions		
Annuities	8,270,780	-
Death benefits	<u>42,633</u>	<u>-</u>
Total plan member contributions	<u>53,272,730</u>	<u>51,917,510</u>
Investment income (loss)		
Net appreciation (depreciation) in fair value of investments	116,444,228	(44,453,844)
Interest	8,660,396	13,391,007
Dividends	<u>15,687,810</u>	<u>13,955,923</u>
	140,792,434	(17,106,914)
Less investment expenses	<u>(6,311,831)</u>	<u>(5,903,646)</u>
Net investment income (loss)	<u>134,480,603</u>	<u>(23,010,560)</u>
Securities lending		
Income	586,087	472,635
Borrower rebates	368,107	273,999
Management fees	<u>(238,305)</u>	<u>(186,448)</u>
Net securities lending income	<u>715,889</u>	<u>560,186</u>
Gift Fund donations	<u>5,470</u>	<u>6,220</u>
Miscellaneous income	<u>2,049</u>	<u>10,671</u>
Tax levy interest	<u>6,737</u>	<u>16,703</u>
Interest on Lewis class contributions	<u>3,445,431</u>	<u>-</u>
Total additions	<u>276,073,237</u>	<u>114,998,732</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
DEDUCTIONS		
Benefits		
Age and service benefits		
Employees	\$ 169,798,868	\$ 158,576,222
Spouses	31,198,636	30,934,405
Dependents	883,793	1,057,352
Total age and service benefits	<u>201,881,297</u>	<u>190,567,979</u>
Disability benefits		
Duty	16,497,765	17,988,870
Occupational	8,645,233	8,925,389
Ordinary	149,936	208,341
Total disability benefits	<u>25,292,934</u>	<u>27,122,600</u>
Gift Fund payments	600,000	500,000
Death benefits	811,500	706,900
Total benefits	228,585,731	218,897,479
Annuitant health care	2,622,445	2,628,163
Refunds of contributions	2,631,674	2,054,456
Litigation settlement	520,173	510,747
Professional services	546,384	720,396
Administrative expenses	2,517,581	2,492,119
Total deductions	<u>237,423,988</u>	<u>227,303,360</u>
NET INCREASE (DECREASE)	38,649,249	(112,304,628)
NET POSITION HELD IN TRUST RESTRICTED		
FOR PENSION BENEFITS		
Beginning of year	<u>993,773,549</u>	<u>1,106,078,177</u>
End of year	<u>\$ 1,032,422,798</u>	<u>\$ 993,773,549</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Pronouncements - In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for the financial statements with periods beginning after December 15, 2011.

Method of Accounting - The financial statements are presented using the accrual basis of accounting. Employer contributions are recognized when due and the employer, the City of Chicago, is bound by statute 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 Firemen's Annuity and Benefit Fund of Chicago (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 17, 2013, 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 40 ILCS, 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 established 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 prepared by the Plan's administrative staff. 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 40 ILCS 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, 2012 and 2011 was \$418,964,763 and \$425,385,354 respectively.

The Plan provides retirement benefits, as well as, death and disability benefits. Employees who reach compulsory retirement age of 63, except for emergency medical technicians, which is age 65, 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 years with partial City contributions. This cannot exceed 50%.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

At age 50 or more with 10 or more but less than 20 years of service, a Tier 1 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. For Tier 2 employees, the annuity is based on an accrual rate of 2.5% reduced by one half of one percent per month for retirement prior to age 55, subject to a maximum of 75%.

Employees with at least 20 years of service are entitled to receive a minimum formula annuity upon attainment of age 50 for Tier 1 employees and 55 for Tier 2 employees, 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. For Tier 1 employees, 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. For Tier 2 employees, the final average salary is based on 96 consecutive months within the last 120 months, capped at \$106,800 indexed annually at the lesser of 3% and 50% of the Consumer Price Index (CPI-U). 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%.

Participants should refer to the applicable State Statutes for more complete information.

At December 31, 2012 and 2011, participation consisted of the following:

	<u>2012</u>	<u>2011</u>
Retirees and beneficiaries currently receiving benefits	4,613	4,478
Terminated plan participants entitled to but not yet receiving benefits	60	67
Active plan participants	<u>4,740</u>	<u>4,842</u>
Total participants	<u>9,413</u>	<u>9,387</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, 2012 and 2011.

	<u>2012</u>	<u>2011</u>
Corporate bonds:		
Not on securities loan	\$ 80,251,202	\$ 71,645,072
On securities loan	12,093,118	8,818,057
U.S. and Foreign Government obligations:		
Not on securities loan	59,070,455	61,762,548
On securities loan	12,330,697	7,881,203
Equities:		
Not on securities loan	505,681,335	497,457,430
On securities loan	135,438,039	130,095,329
Cash deposits and short-term investments	47,497,299	36,573,831
Pooled funds:		
Equity mutual funds	13,345,338	12,088,948
Fixed income mutual funds	27,684,497	25,829,177
Private equity and venture capital	49,382,589	52,000,945
	<u>942,774,569</u>	<u>904,152,540</u>
Collateral held for securities on loan	<u>161,363,241</u>	<u>148,322,719</u>
Total investments and collateral held for securities on loan	<u>\$ 1,104,137,810</u>	<u>\$ 1,052,475,259</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, 2012 and 2011, the Plan’s exposure to such risk was \$3,224,862 and \$1,773,174 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 credit 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, 2012 and 2011, 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, 2012 and 2011 of the lowest credit quality rating 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, as applicable:

<u>Type of Investment</u>	<u>Rating</u>	<u>2012</u>	<u>2011</u>
Corporate bonds	Aaa/AAA	\$ 2,412,475	\$ 3,432,512
	Aa/AA	4,368,305	3,350,536
	A/A	14,976,176	15,831,033
	Baa/BBB	28,655,014	21,950,396
	Ba/BB	13,955,514	9,986,186
	B/B	13,849,152	10,884,386
	Caa/CCC	4,400,381	4,408,461
	Ca/CC	523,738	398,102
	D/D	711,647	259,150
	Not Rated	6,255,329	7,331,269
U.S. Government Guaranteed		<u>2,236,589</u>	<u>2,631,098</u>
		<u>92,344,320</u>	<u>80,463,129</u>
U.S. and Foreign Government obligations	Aaa/AAA	16,077,477	7,838,909
	Aa/AA	11,215,546	12,810,170
	A/A	2,218,964	4,444,407
	Baa/BBB	3,885,426	2,749,992
	Ba/BB	1,725,184	1,410,327
	Ca/CC	-	279,714
	Not Rated	2,668,901	528,922
U.S. Government Guaranteed		<u>33,609,653</u>	<u>39,581,310</u>
		<u>71,401,151</u>	<u>69,643,751</u>
Cash deposits and short-term investments	Not Rated	<u>47,497,300</u>	<u>36,573,831</u>
Pooled funds			
Fixed income mutual funds	Not Rated	<u>27,684,497</u>	<u>25,829,177</u>
Total		<u>\$ 238,927,268</u>	<u>\$ 212,509,888</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, 2012 and 2011 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2012</u>	<u>2011</u>
Corporate bonds	Less than 1 year	\$ 771,051	\$ 2,197,285
	1-5 years	13,154,143	12,159,700
	6 - 10 years	34,709,787	24,786,636
	Over 10 years	<u>43,709,339</u>	<u>41,319,508</u>
		<u>92,344,320</u>	<u>80,463,129</u>
U.S. and Foreign Government obligations	Less than 1 year	9,834,529	8,143,347
	1-5 years	13,607,325	16,211,630
	6 - 10 years	14,161,712	11,363,200
	Over 10 years	<u>33,797,585</u>	<u>33,925,574</u>
		<u>71,401,151</u>	<u>69,643,751</u>
Cash deposits and short-term investments	Less than 1 year	<u>47,497,300</u>	<u>36,573,831</u>
Pooled funds	Less than 1 year	1,734,516	1,568,640
	1-5 years	<u>25,949,981</u>	<u>24,260,537</u>
		<u>27,684,497</u>	<u>25,829,177</u>
Total		<u>\$ 238,927,268</u>	<u>\$ 212,509,888</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, 2012 and 2011 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2012</u>	Fair Value (USD) <u>2011</u>
Corporate bonds:		
Australian dollar	\$ 741,357	\$ 1,242,227
British pound	340,703	-
Canadian dollar	155,102	144,148
European euro	1,720,058	142,041
Japanese yen	-	197,986
Mexican peso	498,031	277,256
New Zealand dollar	708,382	681,142
U.S. dollar	<u>88,180,687</u>	<u>77,778,329</u>
	<u>\$ 92,344,320</u>	<u>\$ 80,463,129</u>
U.S. and Foreign Government obligations:		
Canadian dollar	2,985,173	6,078,621
Colombian peso	-	725,582
European euro	2,605,407	1,547,837
Indian rupee	-	631,252
Indonesian rupiah	-	1,389,515
Malaysian ringgit	751,345	444,025
Mexican peso	2,010,017	1,085,545
New Zealand dollar	818,735	763,441
Philippines peso	1,336,774	1,159,998
South Korean won	-	1,129,036
U.S. dollar	<u>60,893,700</u>	<u>54,688,899</u>
	<u>\$ 71,401,151</u>	<u>\$ 69,643,751</u>
Pooled funds:		
Canadian dollar	-	185,215
Hong Kong dollar	583,227	-
U.S. dollar	<u>40,446,608</u>	<u>37,732,910</u>
	<u>\$ 41,029,835</u>	<u>\$ 37,918,125</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2012</u>	Fair Value (USD) <u>2011</u>
Equities:		
Australian dollar	\$ 4,233,945	\$ 3,256,644
Brazilian real	7,767,471	8,438,220
British pound	38,546,467	32,588,708
Canadian dollar	6,934,604	7,783,505
Chilean peso	1,137,141	847,947
Columbian peso	435,042	-
Czech koruna	125,034	140,033
Danish krone	2,058,568	772,896
Egyptian pound	197,261	236,471
European euro	45,957,641	36,002,452
Hong Kong dollar	11,418,027	9,027,962
Hungarian forint	303,891	211,027
Indian rupee	3,639,330	2,711,665
Indonesian rupiah	1,237,900	1,016,708
Israeli shekel	657,008	428,474
Japanese yen	34,571,885	33,045,443
Malaysian ringgit	727,215	533,409
Mexican peso	2,085,083	1,204,058
Nigerian naira	159,559	-
Norwegian krone	3,051,048	1,396,829
Pakistan rupee	269,239	219,407
Philippines peso	494,529	790,506
Polish zlotych	521,826	273,766
Singapore dollar	1,611,477	1,632,690
South African rand	4,523,845	3,007,827
South Korean won	8,431,418	7,431,564
Swedish krona	964,936	1,854,322
Swiss franc	6,547,033	6,607,889
Taiwan dollar	3,773,708	3,575,945
Thailand baht	2,411,889	1,399,362
Turkish lira	1,440,926	801,988
U.S. dollar	444,884,428	460,315,042
	<u>\$ 641,119,374</u>	<u>\$ 627,552,759</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

During 2012 and 2011, net realized gain (loss) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was \$33,831,809 and \$50,999,173 respectively. These amounts are included in the net appreciation (depreciation) in fair value of investments as reported on the Statements of Changes in Plan Net Position. 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.

NOTE 5. SECURITIES LENDING (CONTINUED)

The average term of securities loaned was 70 days in 2012 and 89 days in 2011; 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, 2012 and 2011 of 35 days and 15 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, 2012 and 2011, the fair value (carrying amount) of loaned securities was \$159,861,854 and \$146,794,589 respectively. As of December 31, 2012 and 2011, the fair value (carrying amount) of cash collateral received by the Plan was \$161,363,241 and \$148,322,719 respectively. The cash collateral is included as an asset and a corresponding liability on the statements of plan net position. As of December 31, 2012 and 2011 the fair value (carrying amount) of non-cash collateral received by the Plan was \$1,062,705 and \$2,526,041 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.

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.

There were no losses due to default of a borrower or the lending agent during the years ended December 31, 2012 and 2011.

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, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Options	\$ 4,938	\$ 938
Forward currency contract receivables	5,144,222	5,308,244
Forward currency contract payables	(5,218,791)	(5,220,567)
Swap assets	14,580	87,493
Swap liabilities	(19,525)	(99,587)
Futures purchase commitments	(14,447,053)	(19,035,237)
Futures sales commitments	14,447,053	19,035,237
Total	<u>\$ (74,576)</u>	<u>\$ 76,521</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 currency contracts are used to hedge against fluctuations in foreign currency-denominated assets used primarily in portfolio trade settlements. These contracts are a cash contract where 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.

The Plan's derivative instruments are reported at fair value in equity and cash deposits and short-term investments on the Statements of Plan Net Position. The gain or loss on derivative instruments is reported as part of investment income on the Statements of Changes in Plan Net Position.

NOTE 7. FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2012, the most recent actuarial valuation date, the Plan was 24.43% funded on an actuarial basis. The actuarial accrued liability for benefits was \$4,066,343,811 and the actuarial value of assets was \$993,283,741 resulting in an unfunded actuarial accrued liability (UAAL) of \$3,073,060,070. The covered payroll (annual payroll of active employees covered by the Plan) was \$418,964,763 and the ratio of the UAAL to the covered payroll was 733.49%.

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, 2012
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Five Year Smoothed Market

Actuarial assumptions:

Investment rate of return	8.0% per year for pensions and 4.5% per year for the health insurance supplement
Projected salary increases	2012 - 4.0% per year, 2011 - 4.25% 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	RP-2000 Combined Healthy Mortality Table, sex distinct.

NOTE 7. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Actuarial assumptions (continued):

Disabled mortality rates	RP-2000 Combined Healthy Mortality Table, sex distinct, set forward six years.
Termination rates	Based on recent experience of the Plan
Retirement rates	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

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, 2012 and 2011 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be \$275,781,387 and \$254,525,565 for 2012 and 2011, respectively. The minimum annual projected contribution was based on an annual payroll of \$418,964,763 for 4,740 active participants during 2012 and \$425,385,354 for 4,842 active participants during 2011 and was computed as follows:

	2012 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 73,067,873	\$ 1,419,104	\$ 74,486,977
30-year level dollar amortization of the unfunded liability	<u>238,358,093</u>	<u>2,856,565</u>	<u>241,214,658</u>
	311,425,966	4,275,669	315,701,635
Less estimated plan member contributions	<u>(39,920,248)</u>	-	<u>(39,920,248)</u>
Annual required contribution to be financed by tax levy	<u>\$ 271,505,718</u>	<u>\$ 4,275,669</u>	<u>\$ 275,781,387</u>
Required tax levy multiple			<u>7.47</u>

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

	2011 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 74,337,928	\$ 1,535,416	\$ 75,873,344
30-year level dollar amortization of the unfunded liability	<u>213,309,081</u>	<u>2,933,876</u>	<u>216,242,957</u>
	287,647,009	4,469,292	292,116,301
Less estimated plan member contributions	<u>(37,590,736)</u>	<u>-</u>	<u>(37,590,736)</u>
Annual required contribution to be financed by tax levy	<u>\$ 250,056,273</u>	<u>\$ 4,469,292</u>	<u>\$ 254,525,565</u>
Required tax levy multiple			<u>6.94</u>

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 position held in trust for pension benefits as of December 31, 2012 and 2011 were comprised of the following reserve surplus (deficit) balances:

	<u>2012</u>	<u>2011</u>
Prior Service Annuity Reserve	\$ 1,725,238,142	\$ 1,546,305,851
City Contribution Reserve	762,458,771	754,343,760
Annuity Payment Reserve	840,330,236	748,377,216
Salary Deduction Reserve	629,088,540	622,803,838
Death Benefit Reserve (deficit)	(14,403,025)	(13,367,531)
Ordinary Disability Reserve	301,100	242,722
Supplementary Payment Reserve	151,057	233,884
Gift Reserve	5,649,180	4,836,392
Reserve (deficit)	<u>(2,916,391,203)</u>	<u>(2,670,002,583)</u>
Total net position held in trust for pension benefits	<u>\$ 1,032,422,798</u>	<u>\$ 993,773,549</u>

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

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.

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, 2012 and 2011, the Plan's actuary has determined that an increase in actuarial reserves of \$314,551,957 and \$179,718,688 respectively, is required. The net increase/(decrease) in Plan net position for the years ended December 31, 2012 and 2011 of \$38,649,249 and (\$112,304,628) respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an increase in the Plan deficit by \$275,902,708 and \$292,023,316 for the years ended December 31, 2012 and 2011, 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, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Plan (deficit) at the beginning of the year	\$ (2,797,157,362)	\$ (2,505,134,046)
Gains (losses) during the year attributable to:		
Salary changes	34,030,459	43,535,222
Investment return	(99,980,377)	(102,693,719)
Employer cost in excess of contributions	(168,392,809)	(137,833,108)
Demographic assumptions	(30,886,665)	(14,434,661)
Programming changes	-	(10,142,608)
Assumption changes	-	(47,816,880)
All other sources	924,343	(22,637,562)
Net (loss) excluding Lewis Group	(264,305,049)	(292,023,316)
(Loss) from Lewis Group	(11,597,659)	-
Net (loss)	(275,902,708)	(292,023,316)
Plan (deficit) at the end of the year	<u>\$ (3,073,060,070)</u>	<u>\$ (2,797,157,362)</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:

RP-2000 Combined Healthy Mortality Table, sex distinct

Disabled mortality:

RP-2000 Combined Healthy Mortality Table, sex distinct, set forward six years

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.

Salary increase:

2012 - 4.0% per year, 2011 - 4.25% 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 contributions receivable at December 31, 2012 and 2011 consist of the following:

	<u>2012</u>	<u>2011</u>
Property taxes	\$ 72,161,324	\$ 73,276,722
Personal property replacement taxes	22,964,704	23,228,550
Less allowance for uncollectible accounts	<u>(8,611,598)</u>	<u>(8,296,602)</u>
Total	<u>\$ 86,514,430</u>	<u>\$ 88,208,670</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, 2012 and 2011, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,136 and 3,146 respectively. The Plan's share of the Program cost subsidy for 2012 and 2011 was \$2,622,445 and \$2,628,163 respectively.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

The Plan, as an employer, contributed premiums for health and dental insurance for four retired employees in both 2012 and 2011. The Plan's contribution towards insurance premiums for 2012 and 2011 was \$30,383 and \$28,738 respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

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, 2012 and 2011, the Firemen's Annuity and Benefit Fund of Chicago contributed \$600,000 and \$500,000 respectively, 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 2012 and 2011 was \$200,872 and \$187,585 respectively.

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

Year ending December 31,	
2013	\$ 160,756
2014	166,278
2015	171,845
2016	162,798
2017	123,307
2018 through 2020	<u>291,631</u>
Total	<u>\$ 1,076,615</u>

NOTE 15. COMMITMENT

The Plan had a total capital commitment to eleven limited partnerships totaling \$70,500,000. As of December 31, 2012, \$54,558,096 has been invested, leaving a commitment of \$15,941,904.

NOTE 16. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE

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 March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for the Plan's fiscal year ending December 31, 2013.

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting guidance by reporting conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Government Fund Type Definition*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 is effective for the Plan's fiscal year ending December 31, 2013.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. For defined benefit plans, the Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employer and nonemployer contributing entities for benefits provided through the pension plan. Statement No. 67 also enhances footnote disclosures and required supplementary information for pension plans. Statement No. 67 is effective for the Plan's fiscal year ending December 31, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employer whose employees are provided with defined contribution pensions. Statement No. 68 is effective for the Plan's fiscal year ending December 31, 2015.

NOTE 16. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE (CONTINUED)

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. Statement No. 69 is effective for the Plan's fiscal year ending December 31, 2014.

In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This Statement also requires the issuing government to recognize revenue to the extent of the reduction in its guaranteed liabilities. Statement No. 70 is effective for the Plan's fiscal year ending December 31, 2014.

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>						
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%
2011	\$ 1,101,741,862	\$ 3,851,918,889	\$ 2,750,177,027	28.60%	\$ 425,385,354	646.51%
2012	\$ 993,283,741	\$ 4,020,137,920	\$ 3,026,854,179	24.71%	\$ 418,964,763	722.46%
<i>Health Insurance Supplement</i>						
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%
2011	\$ -	\$ 46,980,335	\$ 46,980,335	0.00%	\$ 425,385,354	11.04%
2012	\$ -	\$ 46,205,891	\$ 46,205,891	0.00%	\$ 418,964,763	11.03%
<i>Total</i>						
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%
2011	\$ 1,101,741,862	\$ 3,898,899,224	\$ 2,797,157,362	28.26%	\$ 425,385,354	657.56%
2012	\$ 993,283,741	\$ 4,066,343,811	\$ 3,073,060,070	24.43%	\$ 418,964,763	733.49%

See accompanying notes to Schedule of Funding Progress and Schedule of Employer Contributions.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual Required Contribution (1) (ARC) (a)	Actual Employer Contribution (b)	Percent of ARC Contributed (b/a)
<i>Pension Benefits</i>			
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%
2011	\$ 250,056,273	\$ 82,869,839	33.14%
2012	\$ 271,505,718	\$ 81,521,883	30.03%
<i>Health Insurance Supplement</i>			
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%
2011	\$ 4,469,292	\$ 2,628,163	58.80%
2012	\$ 4,275,669	\$ 2,622,445	61.33%
<i>Total</i>			
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%
2011	\$ 254,525,565	\$ 85,498,002	33.59%
2012	\$ 275,781,387	\$ 84,144,328	30.51%

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

See accompanying notes to Schedule of Funding Progress and Schedule of Employer Contributions.

**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, 2012
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Remaining 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	Pension - 2012 - 4% per year, 2011 - 4.25% per year, plus an additional percentage related to service and promotion Health insurance supplement - 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
Mortality	RP-2000 Combined Healthy Mortality Table, sex distinct
Disabled mortality	RP-2000 Combined Healthy Mortality Table, sex distinct, set forward six years
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.

SUPPLEMENTARY INFORMATION

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SUPPLEMENTARY 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>
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
2011	\$ 85,498,002	20.10%	\$ 51,917,510	\$ (22,450,374)	\$ 33,594	\$ 114,998,732
2012	\$ 84,144,328	20.08%	\$ 53,272,730	\$ 135,196,492	\$ 3,459,687	\$ 276,073,237

(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>Professional Services and Administrative Expenses</u>	<u>Total Deductions</u>
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
2011	\$ 218,897,479	\$ 2,628,163	\$ 2,054,456	\$ 510,747	\$ 3,212,515	\$ 227,303,360
2012	\$ 228,585,731	\$ 2,622,445	\$ 2,631,674	\$ 520,173	\$ 3,063,965	\$ 237,423,988

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SUPPLEMENTARY INFORMATION

**SCHEDULES OF INVESTMENT SERVICES, PROFESSIONAL SERVICES
AND ADMINISTRATIVE EXPENSES**

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
INVESTMENT SERVICES		
Advisory	\$ 6,009,201	\$ 5,302,045
Consulting	245,130	236,250
Custodial	57,500	365,351
Total investment services	<u>\$ 6,311,831</u>	<u>\$ 5,903,646</u>
PROFESSIONAL SERVICES		
Accounting	\$ 5,700	\$ 5,000
Actuarial	90,593	219,513
Audit	48,000	33,000
Consulting	18,361	18,311
Legal	293,354	342,015
Medical	83,659	94,590
Payroll administration	6,717	7,967
Total professional services	<u>\$ 546,384</u>	<u>\$ 720,396</u>
ADMINISTRATIVE EXPENSES		
Disaster recovery	\$ 24,281	\$ 24,038
Employee benefits	405,803	356,410
Equipment and maintenance	20,195	37,221
General and administrative	163,604	163,347
Insurance and surety bond	157,522	164,409
Office salaries	1,478,617	1,477,467
Printing and postage	66,687	81,642
Rent	200,872	187,585
Total administrative expenses	<u>\$ 2,517,581</u>	<u>\$ 2,492,119</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SUPPLEMENTARY INFORMATION (UNAUDITED)

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>
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
2011	2,665	\$ 61,879	1,254	\$ 18,700
2012	2,821	\$ 64,860	1,261	\$ 19,573

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>
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
2011	58.5	29.4	\$ 98,859	197
2012	58.5	30.4	\$ 103,819	275

AGE AND SERVICE DISTRIBUTION

<u>Year</u>	<u>Number of Actives</u>	<u>Average Salary</u>	<u>Average Age</u>	<u>Average Service</u>
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
2011	4,842	\$ 87,853	45.9	16.3
2012	4,740	\$ 88,389	46.1	16.3

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SUPPLEMENTARY INFORMATION (UNAUDITED)

PARTICIPANT DATA

	<u>2012</u>	<u>2011</u>
ACTIVE MEMBERS		
Number	<u>4,740</u>	<u>4,842</u>
Annual payroll	<u>\$ 418,964,763</u>	<u>\$ 425,385,354</u>
Average salary	<u>\$ 88,389</u>	<u>\$ 87,853</u>
Average age	<u>46.1</u>	<u>45.9</u>
Average service	<u>16.3</u>	<u>16.3</u>
ANNUITANTS AND BENEFICIARIES		
Retired employees	2,821	2,665
Widow/widower, parent and compensation annuitants	1,359	1,354
Children and dependents	83	85
Duty disabilities	232	249
Occupational disabilities	116	121
Ordinary disabilities	<u>2</u>	<u>4</u>
Total annuitants and beneficiaries	<u>4,613</u>	<u>4,478</u>
TOTAL BENEFITS	<u>\$ 228,585,731</u>	<u>\$ 218,897,479</u>