

**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, 2007

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2007 AND 2006

CONTENTS

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis	3 - 3e
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	24
Schedule of Employer Contributions	25
Notes to Schedule of Funding Progress and Schedule of Employer Contributions	26
Additional Information	
Additions by Source	27
Deductions by Type	27
Schedules of Administrative Expenses	28
Schedules of Investment Expenses	29
Employee/Spouse Annuities	30
Employee Retirements	30
Age and Service Distribution	30
Participant Data	31

REPORT OF INDEPENDENT AUDITORS

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, 2007 and 2006 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, 2007 and 2006 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 3e and the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on pages 23 through 25 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 made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 26 through 28 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 for, 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, 2005, 2004, 2003 and 2002 (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 26 was fairly stated in all material respects in relations to the basic financial statements taken as a whole. The information presented on pages 29 and 30, 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

June 13, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007. 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.

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

Financial Highlights

The **net assets** of the Plan increased by \$77.97 million, a 5.6% increase during 2007. The increase in assets was directly attributable to an increase in the value of total investments achieved by investment returns.

The **gross rate of return** of the investment portfolio for 2007 was 12.2% versus 2006's return of 15.5%. Above benchmark performance returns across many of the Plan's equity and fixed income investments contributed to 2007's results.

The **actuarial funding** of the Plan for 2007 was 42.14%, contrasted against 2006's funding level of 40.36%. The slight increase in the funding level during 2007 was primarily due to the cost of the pay increases from the 2006 contract were less than the actuarial assumption. The increase was also caused by the recognition of the current year and deferred gains from previous years accrued by the required smoothing method.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Plan Net Assets

A summary of the Plan net assets is provided below:

	Plan Net Assets (in millions) As of December 31,		Increase/(Decrease) in	
	14.14%		Dollars	Percent
	<u>2007</u>	<u>2006</u>		
Cash and cash equivalents	\$ 54.1	\$ 47.4	\$ 6.7	14.1%
Receivables and prepaid expenses	91.9	158.3	(66.4)	(41.9)
Investments, at fair value	1,332.0	1,263.7	68.3	5.4
Collateral held for securities on loan	<u>232.6</u>	<u>223.0</u>	<u>9.6</u>	4.3
Total assets	<u>1,710.6</u>	<u>1,692.4</u>	<u>18.2</u>	1.1
Payables	8.5	78.0	(69.5)	(89.1)
Securities lending collateral	<u>232.6</u>	<u>222.9</u>	<u>9.7</u>	4.4
Total liabilities	<u>241.1</u>	<u>300.9</u>	<u>(59.8)</u>	(19.9)
Plan net assets	<u>\$1,469.5</u>	<u>\$1,391.5</u>	<u>\$ 78.0</u>	5.6

Changes in Plan Net Assets

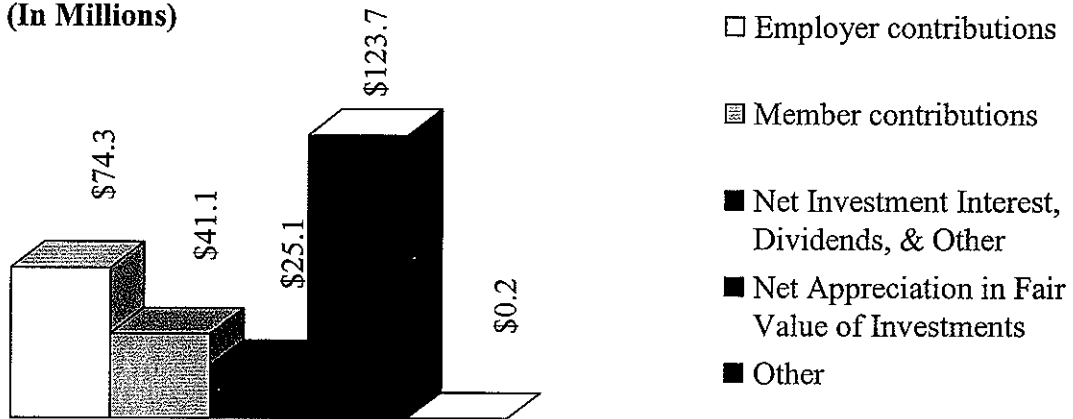
A summary of the changes in Plan net assets, reflecting the changes in resources available to pay benefits to members, retirees and beneficiaries, is provided below:

	Changes in Plan Net Assets (in millions) For the Years Ended December 31,		Increase/(Decrease) in	
	<u>2007</u>	<u>2006</u>	Dollars	Percent
Additions:				
Employer contributions	\$ 74.3	\$ 79.0	\$ (4.7)	(6.0)%
Plan member contributions	41.1	44.2	(3.1)	(7.0)
Net investment and securities lending income	148.8	174.4	(25.6)	(14.7)
Other	<u>.2</u>	<u>.1</u>	<u>.1</u>	100.0
Total additions	<u>264.4</u>	<u>297.7</u>	<u>(33.3)</u>	
Deductions:				
Pension benefits	179.4	174.4	5.0	2.8
Annuitant health care	2.2	2.2	-	-
Refunds of contributions	1.7	1.6	.1	5.4
Administrative expenses	<u>3.1</u>	<u>2.7</u>	<u>.4</u>	16.6
Total deductions	<u>186.4</u>	<u>180.9</u>	<u>5.5</u>	
Net increase in plan net assets	<u>\$ 78.0</u>	<u>\$ 116.8</u>	<u>\$ (38.8)</u>	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Additions to Plan Net Assets

Additions (In Millions)



Employer contributions decreased \$4.70 million (6.0%) between 2007's employer contribution of \$74.3 million and 2006's employer contribution of \$79.0 million. This decrease reflects the timing of required City of Chicago employer contributions in 2006 which corresponds to increased member contributions received in 2004 attributable to the new contract that was settled and retroactive salaries that were paid.

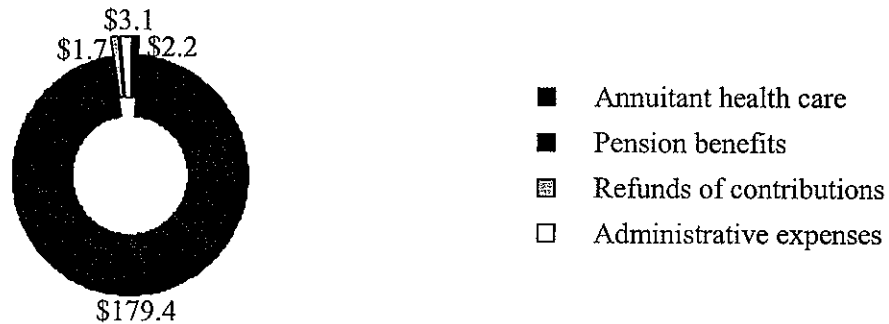
Plan member contributions decreased \$3.1 million (7.0%), from \$44.2 million in 2006 to \$41.1 million in 2007 as a result of the retroactive salary increase payments made in 2006 in accordance with the new contract signed in 2006 between the City of Chicago and Local 2.

Net investment and securities lending income decreased by 25.6 million (14.7%). For 2007, the Plan earned \$148.8 million in portfolio income and gains that were derived from strong showings in portfolio equity and fixed income holdings. Net investment and securities lending income for 2006 was \$174.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Deductions to Plan Net Assets

Deductions (In Millions)



Pension benefit payments to retirees and plan participants increased \$5.0 million (2.8%) between 2006 and 2007 resulting from the automatic annual increase for firemen annuitants.

Annuitant health care and administrative expenses remained relatively constant between 2007 and 2006.

Refund of contributions increased by \$87,276 (5.4%) between 2007's refunds of \$1,706,383 and 2006's refunds of \$1,619,107.

Administrative expenses of \$3,084,127 in 2007 increased \$437,388 (16.5%) over the 2006 expenses of \$2,646,739, yet it was \$20,404 (-1%) below the budgeted amount of \$3,104,531. Budgeted purchase of scanning equipment necessary to implement a long term document back up system, first full year for the premium of the trustees fiduciary insurance bond, and the required payout of members legal fees under the provisions of Sec 6-222(b) accounted for the majority of the increase in 2007's administrative expense.

Funding Status

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

	Actuarial Values (in millions) December 31,		Increase in	
	2007	2006	Dollars	Percent
Actuarial assets	\$ 1,375.0	\$ 1,264.5	\$110.5	8.74%
Actuarial liabilities	<u>3,263.0</u>	<u>3,133.1</u>	<u>129.9</u>	4.15
Unfunded actuarial liabilities	<u>\$ 1,888.0</u>	<u>\$ 1,868.6</u>	<u>\$ 19.4</u>	1.04
Funded ratio	<u>42.14%</u>	<u>40.36%</u>		

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Funding Status (continued)

Actuarial assets increased from \$1.26 billion in 2006 to \$1.38 billion in 2007 (\$110.5 million; 8.74%) due to the strong investment gains of 2007 as well as recognition of deferred gains from prior years due to the required actuarial smoothing of gains and losses from current and prior years.

Actuarial liabilities increased from \$3.13 billion in 2006 to \$3.26 billion in 2007 (\$129.9 million; 4.15%), due to the employer cost exceeding the actual contributions that were received.

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 increase in the funded ratio from 40.36% in 2006 to 42.14% in 2007 was due to the actual cost of the pay increases being less than the assumption. Also, the increase was attributable to the investment gain of the current year and deferred gains from previous years accumulated by the required actuarial smoothing method.

Investments

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>2007</u>	<u>2006</u>
Equities	13.2%	18.4%
S & P 500 - benchmark	5.5%	15.8%
Fixed income	5.0%	7.6%
Lehman Bros. Aggregate - benchmark	7.2%	3.8%
Total Plan	12.2%	15.5%

The value of the Plan's investments, including cash and cash equivalents, increased from \$1.311 billion in 2006 to \$1.386 billion in 2007, an increase of \$74.9 million (5.7%). Strong performance across all asset classes contributed to the increase in value. Total return for the entire investment portfolio in 2007 was 12.2%, compared with 15.5% in 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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, 2007. 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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
RECEIVABLES		
Employer - net	\$ 81,051,388	\$ 78,822,884
Investment income	4,059,451	4,831,392
Unsettled trades	2,981,343	71,255,751
Other	3,755,688	3,249,162
Total receivables	<u>91,847,870</u>	<u>158,159,189</u>
PREPAID EXPENSES	<u>110,308</u>	<u>155,725</u>
INVESTMENTS		
Corporate bonds	121,249,460	119,159,822
U.S. and Foreign Government obligations	82,286,635	73,241,910
Equities	1,033,309,346	999,537,970
Cash deposits and short-term investments	54,100,424	47,362,629
Mutual funds	69,593,552	62,800,621
Private equity and venture capital	25,482,713	9,010,406
Total investments	<u>1,386,022,130</u>	<u>1,311,113,358</u>
COLLATERAL HELD FOR SECURITIES ON LOAN	<u>232,617,278</u>	<u>222,953,380</u>
Total assets	<u>1,710,597,586</u>	<u>1,692,381,652</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unsettled trades	6,245,041	75,689,410
Accounts payable and accrued expenses	1,885,181	1,870,717
Securities lending collateral	232,617,278	222,953,380
Participant accounts	395,799	383,832
Total liabilities	<u>241,143,299</u>	<u>300,897,339</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 1,469,454,287</u>	<u>\$ 1,391,484,313</u>
(A schedule of funding progress is presented on page 23)		

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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
ADDITIONS		
Contributions		
Employer		
Property taxes - net	\$ 62,344,568	\$ 66,326,250
Personal property replacement taxes	10,621,000	11,314,000
Exempt rank funding	1,305,398	1,331,133
Total employer contributions	<u>74,270,966</u>	<u>78,971,383</u>
Plan member		
Annuities	40,969,853	44,068,926
Death benefits	150,378	152,943
Total plan member contributions	<u>41,120,231</u>	<u>44,221,869</u>
Investment income		
Net appreciation in fair value of investments	123,711,433	147,561,347
Interest	14,944,732	16,675,649
Dividends	16,362,450	15,955,720
Other	127,385	127,696
	155,146,000	180,320,412
Less investment expenses	<u>(7,537,201)</u>	<u>(6,622,559)</u>
Net investment income	<u>147,608,799</u>	<u>173,697,853</u>
Securities lending		
Income	13,929,100	10,503,150
Expenses		
Borrower rebates	(12,332,848)	(9,558,264)
Management fees	<u>(398,842)</u>	<u>(236,087)</u>
Net securities lending income	<u>1,197,410</u>	<u>708,799</u>
Gift fund donations	<u>130,584</u>	<u>72,412</u>
Litigation settlement	<u>31,082</u>	<u>-</u>
Miscellaneous income	<u>-</u>	<u>15,798</u>
Total additions	<u>264,359,072</u>	<u>297,688,114</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, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
DEDUCTIONS		
Pension benefits		
Age and service benefits		
Employees	\$ 127,034,299	\$ 121,785,251
Spouses	28,362,084	29,036,627
Dependents	1,024,031	1,141,990
Total age and service benefits	<u>156,420,414</u>	<u>151,963,868</u>
Disability benefits		
Duty	13,594,701	14,386,009
Occupational	8,025,292	6,551,197
Ordinary	210,215	266,389
Total disability benefits	<u>21,830,208</u>	<u>21,203,595</u>
Gift fund payments	<u>425,854</u>	<u>441,500</u>
Death benefits	<u>673,956</u>	<u>778,400</u>
Total pension benefits	179,350,432	174,387,363
Annuitant health care	2,248,156	2,208,075
Refunds of contributions	1,706,383	1,619,107
Administrative expenses	<u>3,084,127</u>	<u>2,646,739</u>
Total deductions	<u>186,389,098</u>	<u>180,861,284</u>
NET INCREASE	77,969,974	116,826,830
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>1,391,484,313</u>	<u>1,274,657,483</u>
End of year	<u>\$ 1,469,454,287</u>	<u>\$ 1,391,484,313</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2007 AND 2006

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.

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.

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.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

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, 2007 and 2006 was \$389,124,547 and \$387,442,074 respectively.

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.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

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, 2007 and 2006 participation consisted of the following:

	<u>2007</u>	<u>2006</u>
Retirees and beneficiaries currently receiving benefits	4,391	4,382
Terminated plan participants entitled to but not yet receiving benefits	171	177
Active plan participants	<u>4,938</u>	<u>5,078</u>
Total participants	<u>9,500</u>	<u>9,637</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, 2007 and 2006.

<u>Investments</u>	<u>2007</u>	<u>2006</u>
Corporate bonds:		
Not on securities loan	\$ 100,584,291	\$ 89,320,195
On securities loan	20,665,169	29,839,627
U.S. and Foreign Government obligations:		
Not on securities loan	67,887,547	54,325,261
On securities loan	14,399,088	18,916,649
Equities:		
Not on securities loan	842,373,919	831,746,634
On securities loan	190,935,427	167,791,336
Cash deposits and short-term investments	54,100,424	47,362,629
Equity mutual funds	21,522,095	283,380
Fixed income mutual funds	48,071,457	62,517,241
Private equity and venture capital	25,482,713	9,010,406
	<u>1,386,022,130</u>	<u>1,311,113,358</u>
Collateral held for securities on loan	<u>232,617,278</u>	<u>222,953,380</u>
Total investments and invested securities lending cash collateral	<u>\$ 1,618,639,408</u>	<u>\$ 1,534,066,738</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, 2007 and 2006, the Plan’s exposure to such risk was \$2,174,373 and \$690,431 respectively, comprised of foreign currencies held outside the custodial bank.

For investments 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, 2007 and 2006, the Fund’s investments exposure to custodial risk was \$0 and \$21,281 that was 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, 2007 and 2006 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>2007</u>	<u>2006</u>
Corporate bonds	Aaa/AAA	\$ 15,202,010	\$ 10,985,386
	Aa/AA	11,721,273	8,697,056
	A/A	10,817,410	8,839,811
	Baa/BBB	34,531,927	26,941,171
	Ba/BB	12,949,487	10,369,485
	B/B	11,037,651	20,788,112
	Caa/CCC	8,636,526	6,496,728
	Not Rated	16,353,176	26,042,073
		<u>121,249,460</u>	<u>119,159,822</u>
Foreign Government obligations	Aaa/AAA	12,542,171	6,859,328
	Aa/AA	-	1,350,863
	A/A	366,951	-
	Baa/BBB	3,948,835	4,312,902
	Ba/BB	3,350,343	1,509,562
	Not Rated	874,746	-
		<u>21,083,046</u>	<u>14,032,655</u>
U.S. Government obligations	Not Rated	<u>61,203,589</u>	<u>59,209,255</u>
Total U.S. and Foreign Government obligations		<u>82,286,635</u>	<u>73,241,910</u>
Cash deposits and short-term investments	Not Rated	<u>54,100,424</u>	<u>47,362,629</u>
Fixed income mutual funds	Not Rated	<u>48,071,457</u>	<u>62,517,241</u>
Total		<u>\$ 305,707,976</u>	<u>\$ 302,281,602</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, 2007 and 2006 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2007</u>	<u>2006</u>
Corporate bonds	Less than 1 year	\$ 3,504,949	\$ 13,874,253
	1-5 years	27,718,306	24,825,750
	6 - 10 years	25,310,689	29,402,830
	Over 10 years	64,715,516	51,056,989
		<u>121,249,460</u>	<u>119,159,822</u>
U.S. and Foreign Government obligations	Less than 1 year	7,952,920	2,929,278
	1-5 years	17,273,356	14,242,730
	6 - 10 years	5,337,048	9,925,650
	Over 10 years	51,723,311	46,144,252
		<u>82,286,635</u>	<u>73,241,910</u>
Total		<u>\$ 203,536,095</u>	<u>\$ 192,401,732</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, 2007 and 2006 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2007</u>	Fair Value (USD) <u>2006</u>
Corporate bonds:		
British pound	\$ -	\$ 939,638
Canadian dollar	273,458	756,082
Indonesian rupiah	1,122,685	574,301
Japanese yen	3,752,532	3,726,032
Malaysian ringgit	1,938,693	-
Mexican peso	345,729	369,450
Netherlands guilders	-	10,555
New Zealand dollar	1,162,820	-
Republic of Korea won	904,235	-
Singapore dollar	1,550,241	1,432,728
South African rand	367,511	-
Thailand baht	-	893,824
U.S. dollar	<u>109,831,556</u>	<u>110,457,212</u>
	<u>121,249,460</u>	<u>119,159,822</u>
U.S. and Foreign Government obligations:		
Australian dollar	1,900,416	-
Brazilian real	2,858,006	-
Canadian dollar	6,147,959	1,350,815
Colombian peso	588,714	-
Icelandic krona	890,164	-
Japanese yen	2,355,520	-
Mexican peso	3,553,412	3,735,670
Norwegian krone	-	1,438,805
Singapore dollar	2,421,904	2,226,955
South African rand	366,951	-
Swedish krona	-	1,726,030
U.S. dollar	<u>61,203,589</u>	<u>62,763,635</u>
	<u>82,286,635</u>	<u>73,241,910</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2007</u>	Fair Value (USD) <u>2006</u>
Equities:		
Austrailian dollar	\$ 6,588,279	\$ 4,623,210
Brazilian real	7,966,369	6,384,050
British pound	32,459,920	38,843,998
Canadian dollar	7,026,763	4,807,896
Czech Republic koruny	658,128	217,759
Chilean peso	853,016	668,649
Danish krone	248,262	929,366
Egyptian pound	1,157,192	443,668
European euro	53,518,847	64,691,767
Hong Kong dollar	6,642,125	6,890,460
Hungarian forint	774,308	666,502
Indonesian rupiah	541,411	1,446,638
Israel new shekels	1,351,570	1,230,180
Japanese yen	43,192,330	39,537,937
Malaysian ringgit	1,481,859	1,455,681
Mexican peso	3,040,039	3,938,445
New Zeland dollar	794,332	914,777
Norwegian krone	1,128,254	649,064
Pakistan rupees	286,316	256,562
Philippines pesos	403,198	395,623
Polish zlotych	1,042,845	667,539
Republic of Korea won	10,464,690	9,671,016
Singapore dollar	2,175,964	4,359,233
South African rand	4,913,902	4,758,666
Swedish krona	930,004	2,968,727
Swiss franc	9,533,822	12,107,932
Taiwan dollar	7,784,712	7,550,221
Thailand baht	654,317	659,744
Turkish lira	1,628,125	709,841
United Arab Emirates - emirati dirham	226,385	-
U.S. dollar	823,842,062	777,092,819
	<u>1,033,309,346</u>	<u>999,537,970</u>
Total	<u>\$ 1,236,845,441</u>	<u>\$ 1,191,939,702</u>

NOTE 3. INVESTMENT SUMMARY (CONTINUED)

During 2007 and 2006, net realized gain on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was \$121,280,621 and \$153,089,375 respectively. These amounts are included in the net appreciation in fair value of investments as reported on the Statement 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.

NOTE 5. SECURITIES LENDING (CONTINUED)

The average term of securities loaned was 97 days in 2007 and 101 days in 2006; 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, 2007 and 2006 of 26 days and 41 days, respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loans.

As of December 31, 2007 and 2006, the fair value (carrying amount) of loaned securities was \$225,999,684 and \$216,547,612 respectively. As of December 31, 2006 and 2005, the fair value (carrying amount) of collateral received by the Plan was \$232,617,278 and \$222,953,380 respectively. Therefore, as of December 31, 2007 and 2006, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan.

During 2007 and 2006, there were no losses due to default of a borrower or the lending agent. The contract with the lending agent requires it to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

NOTE 6. 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, futures, forward contracts and swaps 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.

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. As of December 31, 2007, the carrying value of the Plan's option holdings was \$117,369.

NOTE 6. DERIVATIVES (CONTINUED)

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. Futures contracts are marked to market and are recorded in the Statement of Plan Net Assets at fair value. At December 31, 2007, the Plan had \$300,000 of cash as an initial margin deposit for outstanding futures contracts. The Plan's investments at December 31, 2007 included the following futures commitments:

Future Purchase Commitment	\$ 39,178,963
Future Sales Commitment	\$ 39,178,963

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. At December 31, 2007, the Plan's investments included the following currency forward contract balances:

Forward Currency Contract Receivables	\$ 351,526
Forward Currency Contract Payables	\$ 352,439

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. As of December 31, 2007, the carrying value of the Plan's swap assets were \$153,435 and swap liabilities with an amount of \$516,900. The Plan also had a liability of \$1,093 in swaptions as of December 31, 2007.

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

NOTE 7. 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.

NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

The actuarial valuations of the Plan as of December 31, 2007 and 2006 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be \$194,248,413 and \$192,378,146 for 2007 and 2006, respectively. The minimum annual projected contribution was based on an annual payroll of \$389,124,547 for 4,938 active participants during 2007 and \$387,442,074 for 5,078 active participants during 2006 and was computed as follows:

	<u>2007 Levy</u>		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 66,217,607	\$ 1,443,723	\$ 67,661,330
40-year level dollar amortization of the unfunded liability	<u>160,255,572</u>	<u>2,864,129</u>	<u>163,119,701</u>
	226,473,179	4,307,852	230,781,031
Less estimated plan member contributions	<u>(36,532,618)</u>	<u>-</u>	<u>(36,532,618)</u>
Annual required contribution to be financed by tax levy	<u>\$ 189,940,561</u>	<u>\$ 4,307,852</u>	<u>\$ 194,248,413</u>
Required tax levy multiple			<u>5.39</u>
	<u>2006 Levy</u>		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 65,821,043	\$ 1,437,750	\$ 67,258,793
40-year level dollar amortization of the unfunded liability	<u>158,759,837</u>	<u>2,739,017</u>	<u>161,498,854</u>
	224,580,880	4,176,767	228,757,647
Less estimated plan member contributions	<u>(36,379,501)</u>	<u>-</u>	<u>(36,379,501)</u>
Annual required contribution to be financed by tax levy	<u>\$ 188,201,379</u>	<u>\$ 4,176,767</u>	<u>\$ 192,378,146</u>
Required tax levy multiple			<u>5.61</u>

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

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation 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>2007</u>	<u>2006</u>
Prior Service Annuity Reserve	\$ 1,235,933,213	\$ 1,137,972,227
City Contribution Reserve	626,976,487	590,699,579
Annuity Payment Reserve	615,988,250	593,205,455
Salary Deduction Reserve	518,289,584	488,956,188
Death Benefit Reserve	(9,724,732)	(8,925,590)
Ordinary Disability Reserve	(539,921)	(407,007)
Supplementary Payment Reserve	432,657	663,498
Gift Reserve	3,429,685	2,871,665
Reserve (deficit)	<u>(1,521,330,936)</u>	<u>(1,413,551,702)</u>
Total net assets held in trust for pension benefits	<u>\$ 1,469,454,287</u>	<u>\$ 1,391,484,313</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.

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.

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES

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, 2007 and 2006, the Plan's actuary has determined that an increase in actuarial reserves of \$97,336,417 and \$306,189,258 respectively, is required. The net increase in Plan net assets revenue over expenses for the years ended December 31, 2007 and 2006 of \$77,969,974 and \$116,826,830 respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an (increase) in the Plan deficit by \$(19,366,443) and \$(189,362,428) for the years ended December 31, 2007 and 2006, respectively.

As reported by the actuary, the changes in the Plan (deficit) during the years ended December 31, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Plan (deficit) at the beginning of the year	\$ (1,868,644,093)	\$ (1,679,281,665)
Gains (losses) during the year attributable to:		
Gain (loss) from salary changes	22,711,274	(105,514,447)
Gain on investment return	79,713,180	24,389,764
Employer cost in excess of contributions	(100,457,203)	(68,623,327)
(Loss) from demographic assumptions	(8,726,594)	(21,421,453)
(Loss) from retroactive benefit increases	-	(6,651,379)
(Loss) from additional Bertucci liability	-	(7,878,491)
(Loss) from all other sources	(12,607,100)	(3,663,095)
Net (loss)	<u>(19,366,443)</u>	<u>(189,362,428)</u>
Plan (deficit) at the end of the year	<u>\$ (1,888,010,536)</u>	<u>\$ (1,868,644,093)</u>

NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25. The Plan (deficit) above will not equal the Plan surplus (deficit) denoted on page 18, 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, which contains a 3.5% inflation assumption and a 4.5% real rate of return assumption. 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.

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 the Plan paid health insurance from July 1, 2003 through June 30, 2008 is \$85 per month for each annuitant (employees and widows) not qualified to receive Medicare benefits and \$55 per month if qualified. After June 30, 2008, the amounts will be \$95 and \$65, respectively. 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 23. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 9. EMPLOYER CONTRIBUTIONS (TAXES) RECEIVABLE - NET

Employer contribution receivable at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Property taxes	\$ 75,967,934	\$ 73,235,842
Personal property replacement taxes	11,926,398	12,645,133
Less allowance for uncollectible accounts	<u>(6,842,944)</u>	<u>(7,058,091)</u>
Total	<u>\$ 81,051,388</u>	<u>\$ 78,822,884</u>

NOTE 10. 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 currently, in accordance with State Statutes, subsidizes the cost of monthly group health care premiums up to \$85 per month for non-Medicare recipients and \$55 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, 2007 and 2006, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,155 and 3,103 respectively. The Plan's share of the Program cost subsidy for 2007 and 2006 was \$2,248,156 and \$2,208,075 respectively.

NOTE 11. RELATED PARTY TRANSACTIONS

At December 31, 2007 and 2006, the Plan held investments with a total fair value of \$32,507,306 and \$6,907,552 respectively, in its investment managers.

The Plan has allowed the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund (Corporation) to utilize the 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 produced by the Plan.

Two of the Firemen's Annuity and Benefit Fund of Chicago directors are also trustees of the Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund, and the Executive Director of the Firemen's Annuity and Benefit Fund of Chicago serves as another director of Ende, Menzer, Walsh & Quinn Retirees', Widows' and Children's Assistance Fund.

During the year ended December 31, 2007, the Firemen's Annuity and Benefit Fund of Chicago contributed \$419,500 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 12. 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 2007 and 2006 was \$189,801 and \$169,460 respectively.

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

Year ending December 31,	
2008	\$ 129,908
2009	137,162
2010	144,461
2011	149,847
2012	155,279
2013 through 2017	784,985
2018 through 2020	<u>291,630</u>
Total	<u>\$ 1,793,272</u>

NOTE 13. COMMITMENT

As of December 31, 2007, the Plan had a total capital commitment to eight limited partnership agreements totaling \$45,500,000. As of December 31, 2007, \$25,155,828 has been invested, leaving a commitment of \$20,344,172.

NOTE 14. LITIGATION

The Plan is involved in a number of cases involving the calculation of widow annuity payments as to the effective date of higher paying "duty death" widow benefits. If determined adversely to the Plan's position, the Plan's retroactive annuity payments may exceed \$2,000,000. The Plan continues to vigorously defend against these cases and cannot adequately assess the outcome of these matters. Legal counsel is unable to quantify the economic impact to the Plan if these, and all future widows similarly situated, are found to be entitled to the higher "duty death" widow benefits.

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>						
2002	\$ 1,209,768,204	\$ 2,088,706,217	\$ 878,938,013	57.92%	\$ 277,053,144	317.25%
2003 (1)	\$ 1,194,007,767	\$ 2,517,268,107	\$ 1,323,260,340	47.43%	\$ 335,170,501	394.80%
2004	\$ 1,182,578,954	\$ 2,793,524,355	\$ 1,610,945,401	42.33%	\$ 334,423,753	481.71%
2005	\$ 1,203,654,052	\$ 2,838,698,581	\$ 1,635,044,529	42.40%	\$ 341,252,492	479.13%
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%
<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%
<i>Total</i>						
2002	\$ 1,209,768,204	\$ 2,088,706,217	\$ 878,938,013	57.92%	\$ 277,053,144	317.25%
2003 (1)	\$ 1,194,007,767	\$ 2,517,268,107	\$ 1,323,260,340	47.43%	\$ 335,170,501	394.80%
2004	\$ 1,182,578,954	\$ 2,793,524,355	\$ 1,610,945,401	42.33%	\$ 334,423,753	481.71%
2005	\$ 1,203,654,052	\$ 2,882,935,737	\$ 1,679,281,685	41.75%	\$ 341,252,492	492.09%
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%

(1) = Change in actuarial assumptions.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>December 31,</u>	Annual Required Contribution (1) <u>(ARC) (a)</u>	Actual Employer Contribution <u>(b)</u>	Percent of ARC Contributed <u>(b/a)</u>
<i>Pension Benefits</i>			
2002	\$ 105,106,367	\$ 59,452,787	56.56%
2003	\$ 111,079,054	\$ 60,234,206	54.23%
2004	\$ 134,762,334	\$ 55,532,454	41.21%
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%
<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%
<i>Total</i>			
2002	\$ 105,106,367	\$ 59,452,787	56.56%
2003	\$ 111,079,054	\$ 60,234,206	54.23%
2004	\$ 134,762,334	\$ 55,532,454	41.21%
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%

(1) Annual Required Contribution (ARC) - This is the actuarially determined amount needed to finance all 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, 2007
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

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>
2002	\$ 59,452,787	21.46%	\$ 27,622,476	\$ (143,540,961)	\$ 77,722	\$ (56,387,976)
2003	\$ 60,234,206	17.97%	\$ 42,665,388	\$ 249,995,138	\$ 83,850	\$ 352,978,582
2004	\$ 55,532,454	16.61%	\$ 37,734,425	\$ 139,496,742	\$ 24,322,475 (2)	\$ 257,086,096
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

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

(2) Includes payment of \$24,201,945 from Municipal Employees' Annuity and Benefit Fund of Chicago.

DEDUCTIONS BY TYPE

<u>Year Ended December 31,</u>	<u>Pension Benefits</u>	<u>Health Insurance</u>	<u>Refunds</u>	<u>Administrative Expenses</u>	<u>Total Deductions</u>
2002	\$ 135,866,359	\$ 1,843,850	\$ 1,080,393	\$ 1,959,054	\$ 140,749,656
2003	\$ 145,811,829	\$ 2,001,403	\$ 1,360,018	\$ 2,046,754	\$ 151,220,004
2004	\$ 154,171,122	\$ 2,184,105	\$ 2,017,047	\$ 2,096,598	\$ 160,468,872
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

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
PERSONNEL SERVICES		
Office salaries	\$ 1,257,734	\$ 1,127,543
Employee benefits	<u>280,085</u>	<u>238,342</u>
Total personnel services	<u>1,537,819</u>	<u>1,365,885</u>
TRUSTEE AND STAFF EDUCATION/TRAINING	<u>15,151</u>	<u>17,157</u>
PROFESSIONAL SERVICES		
Accounting	25,338	10,749
Actuarial	82,584	85,507
Audit	29,500	28,600
Consulting	17,000	16,000
Medical	129,865	102,492
Legal	356,884	381,106
Payroll administration	<u>6,462</u>	<u>7,883</u>
Total professional services	<u>647,633</u>	<u>632,337</u>
MISCELLANEOUS		
Litigation settlement	106,598	-
Rent	189,801	169,460
Disaster recovery	17,144	80,544
Insurance and surety bond	183,795	88,354
Utilities	18,270	22,218
Equipment and maintenance	107,129	29,572
Printing and postage	124,726	114,175
Office supplies	21,586	20,431
General and administrative	20,799	24,503
Other	<u>93,676</u>	<u>82,103</u>
Total miscellaneous	<u>883,524</u>	<u>631,360</u>
Total administrative expenses	<u>\$ 3,084,127</u>	<u>\$ 2,646,739</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
INVESTMENT MANAGEMENT		
Ariel Capital Management	\$ -	\$ 104,744
BA Partners (Private Equity)	105,000	121,349
Brandes Investment Management	564,111	493,435
Chicago Equity Partners	192,048	186,123
Citigroup Property	229,257	-
Credit Suisse Asset Management	39,753	31,521
Earnest Partners LLC	146,867	140,160
Globeflex Capital	572,697	265,049
Husic Capital Management	459,422	349,001
ICON Advisors	275,850	248,818
ING Aeltus Investment Management	-	148,413
Institutional Capital	-	378,278
INVESCO Capital Management	-	146,798
Keeley Asset Management	402,253	357,531
Logan Capital Investment	270,514	-
Loomis, Sayles & Company	356,534	331,883
LSV Asset Management	528,884	228,988
MacKay Shields Financial Corporation	-	185,428
Marvin Palmer & Associates	362,474	-
Mesirow Financial Corp.	429,487	417,203
Montag & Caldwell	-	186,306
Mueller & Monroe	37,867	32,807
Navellier & Associates	193,267	193,752
Neuberger & Berman	853,490	735,404
Northern Trust Quantitative Advisors	8,539	145,076
Rhumblin	39,488	-
The Boston Company	276,277	237,505
Western Asset Management	264,608	250,502
William Blair & Company	414,118	368,890
	7,022,805	6,284,964
CUSTODIAL BANKING		
The Northern Trust Company	301,896	137,595
INVESTMENT EVALUATION		
Mercer Investment Consulting	212,500	200,000
Total investment expenses	\$ 7,537,201	\$ 6,622,559

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>
2002	2,411	\$ 40,052	1,331	\$ 12,777
2003	2,412	\$ 42,131	1,323	\$ 13,220
2004	2,441	\$ 45,675	1,353	\$ 14,263
2005	2,442	\$ 47,917	1,331	\$ 15,388
2006	2,459	\$ 50,171	1,323	\$ 15,966
2007	2,488	\$ 52,446	1,300	\$ 16,365

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>
2002	59.7	30.8	\$ 64,560	107
2003	60.2	31.7	\$ 71,176	134
2004	60.0	32.1	\$ 82,735	147
2005	59.2	31.4	\$ 81,747	126
2006	57.7	30.1	\$ 85,115	123
2007	58.1	30.0	\$ 89,621	126

AGE AND SERVICE DISTRIBUTION

<u>Year</u>	<u>Number of Actives</u>	<u>Average Salary</u>	<u>Average Age</u>	<u>Average Service</u>
2002	4,910	\$ 56,426	43.1	14.7
2003	4,909	\$ 68,277	43.5	15.0
2004	4,856	\$ 68,868	44.0	15.2
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

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

PARTICIPANT DATA

	<u>2007</u>	<u>2006</u>
ACTIVE MEMBERS		
Number	<u>4,938</u>	<u>5,078</u>
Annual payroll	<u>\$ 389,124,547</u>	<u>\$ 387,442,074</u>
Average salary	<u>\$ 78,753</u>	<u>\$ 76,298</u>
Average age	<u>45.1</u>	<u>44.4</u>
Average service	<u>15.6</u>	<u>15.0</u>
ANNUITANTS AND BENEFICIARIES		
Retired employees	2,488	2,459
Spouse, parent and widow annuitants	1,414	1,437
Children and dependents	105	110
Duty disabilities	266	257
Occupational disabilities	114	113
Ordinary disabilities	<u>4</u>	<u>6</u>
Total annuitants and beneficiaries	<u>4,391</u>	<u>4,382</u>
TOTAL PENSION BENEFITS	<u>\$ 179,350,432</u>	<u>\$ 174,387,363</u>