

**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, 2009

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

FINANCIAL STATEMENTS WITH ADDITIONAL INFORMATION

DECEMBER 31, 2009 AND 2008

CONTENTS

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis	3 - 3f
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	27
Schedule of Employer Contributions	28
Notes to Schedule of Funding Progress and Schedule of Employer Contributions	29
Additional Information	
Additions by Source	30
Deductions by Type	30
Schedules of Administrative Expenses	31
Schedules of Investment Expenses	32
Employee/Spouse Annuities	33
Employee Retirements	33
Age and Service Distribution	33
Participant Data	34

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying statements of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2009 and 2008 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, 2009 and 2008 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 3f and the required supplementary information consisting of the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedules on pages 27 through 29 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 30 through 32 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, 2007, 2006, 2005 and 2004 (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 30 was fairly stated in all material respects in relations to the basic financial statements taken as a whole. 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 LLC

June 23, 2010

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, 2009. This discussion is presented as a narrative overview of the financial activities and significant changes of the Plan and should be read in conjunction with the Plan's financial statements.

Overview of the Financial Statements

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

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

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

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

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

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

Financial Highlights

The **net assets** of the Plan increased by \$137,450,705, a 15.07% increase during 2009. The increase in net assets was directly attributable to an increase in the value of investments due to improved market performance during the year.

The **gross rate of return** of the investment portfolio for 2009 was 27.8% versus 2008's return of -36.1%. The global market recovery that took place in 2009, to strong market performance returns across all of the Plan's investment classes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Financial Highlights (continued)

The **actuarial funding** of the Plan for 2009 was 36.51%, contrasted against 2008's funding level of 39.77%. The decrease in the funding level during 2009 was primarily due to the partial recognition of the 2008 loss on investments which is actuarially smoothed over a period of five years.

Plan Net Assets

A summary of the Plan net assets is provided below:

		Plan Net Assets As of December 31,		Increase/(Decrease) in	
	<u>2009</u>	<u>2008</u>	<u>Dollars</u>	<u>Percent</u>	
Receivables	\$ 101,871,671	\$ 95,788,768	\$ 6,082,903	6.4%	
Prepaid expenses	167,828	134,760	33,068	24.5%	
Investments, at fair value	952,946,394	828,317,897	124,628,497	15.0%	
Collateral held for securities on loan	<u>147,437,779</u>	<u>127,822,514</u>	<u>19,615,265</u>	15.3%	
Total assets	<u>1,202,423,672</u>	<u>1,052,063,939</u>	<u>150,359,733</u>	14.3%	
Payables	3,341,766	10,048,003	(6,706,237)	-66.7%	
Securities lending collateral	<u>147,437,779</u>	<u>127,822,514</u>	<u>19,615,265</u>	15.3%	
Total liabilities	<u>150,779,545</u>	<u>137,870,517</u>	<u>12,909,028</u>	9.4%	
Plan net assets	<u>\$ 1,051,644,127</u>	<u>\$ 914,193,422</u>	<u>\$ 137,450,705</u>	15.0%	

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

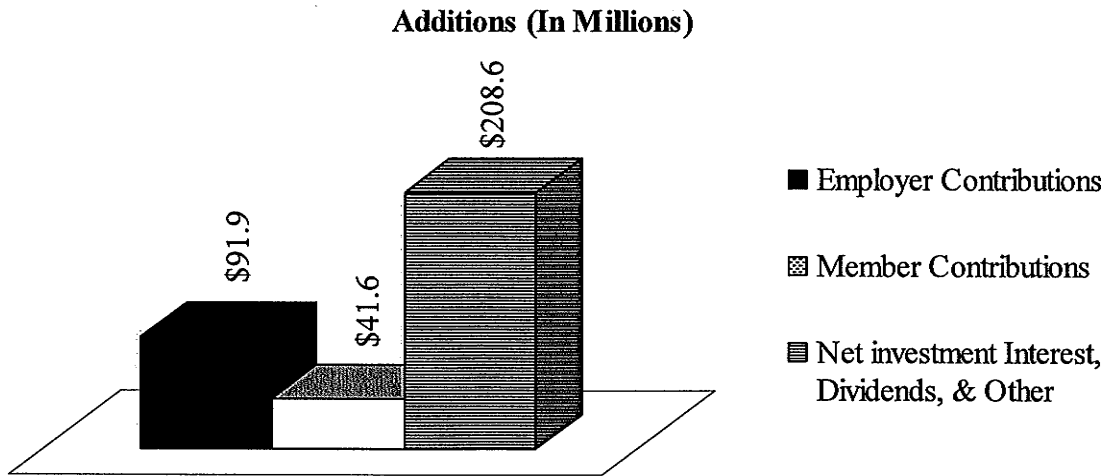
Changes in Plan Net Assets

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

Changes in Plan Net Assets For the Years Ended December 31,		Increase/(Decrease) in	
	<u>2009</u>	<u>2008</u>	<u>Dollars</u> <u>Percent</u>
Additions:			
Employer contributions	\$ 91,856,806	\$ 83,744,704	\$ 8,112,102 9.7%
Member contributions	41,604,787	40,479,884	1,124,903 2.8%
Net investment income (loss)	207,884,248	(485,729,182)	693,613,430 142.8%
Net securities lending income	680,174	1,636,044	(955,870) -58.4%
Other	9,466	107,321	(97,855) -91.2%
Total additions	<u>342,035,481</u>	<u>(359,761,229)</u>	<u>701,796,710</u> 195.1%
Deductions:			
Benefits	196,391,656	187,496,591	8,895,065 4.7%
Annuitant health care	2,645,135	2,486,950	158,185 6.4%
Refunds of contributions	2,109,170	2,659,788	(550,618) -20.7%
Litigation settlement	417,059	16,750	400,309 2389.9%
Administrative expenses	3,021,756	2,839,557	182,199 6.4%
Total deductions	<u>204,584,776</u>	<u>195,499,636</u>	<u>9,085,140</u> 4.6%
Net increase (decrease) in plan net assets	<u>\$ 137,450,705</u>	<u>\$ (555,260,865)</u>	<u>\$ 692,711,570</u> 124.8%

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Additions to Plan Net Assets



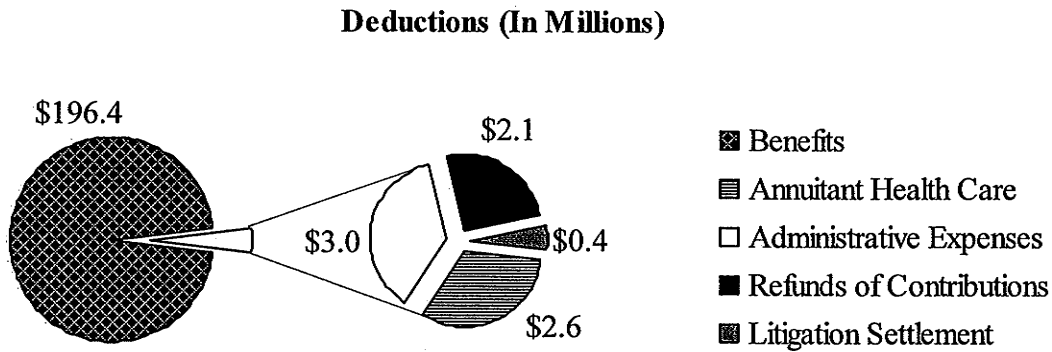
Employer contributions increased \$8,112,102 or 9.7% between 2009's employer contribution of \$91,856,806 and 2008's employer contribution of \$83,744,704. This increase in the required City of Chicago employer contributions is attributable to the 2007 members salaries corresponding to the contract settled in 2006.

Member contributions increased \$1,124,903 or 2.8%, from \$40,479,884 in 2008 to \$41,604,787 in 2009.

Investment, securities lending, and other income increased by \$692,559,705 or 142.5% from (\$483,985,817) in 2008 to \$208,573,888 in 2009. The increase is due to the gain on the fair value of investments resulting from the 2009 world capital market recovery.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Deductions to Plan Net Assets



Benefit payments to retirees and plan participants increased \$8,895,065 or 4.7% from \$187,496,591 in 2008 to \$196,391,656 in 2009. The increase was due to the automatic annual increase for firemen annuitants, and the new annuitants coming on the pension roll are at a higher rate than those removed.

Annuitant health care expenses increased \$158,185 or 6.4% from \$2,486,950 in 2008 to \$2,645,135 in 2009. The increase was due to 2009 being the first full year that recognized the increase in the monthly subsidized rate \$55/\$85 for medicare/non-medicare annuitants to \$65/\$95 for medicare/non-medicare annuitants effective June 1, 2008.

Refunds of contributions decreased by \$550,618 or 20.7% from \$2,659,788 in 2008 to \$2,109,170 in 2009 due to decrease in the average refund amount.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Funding Status

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

Actuarial Values (in Millions)				
December 31,				
	<u>2009</u>	<u>2008</u>	Increase/(Decrease) in	
			<u>Dollars</u>	<u>Percent</u>
Actuarial assets	\$ 1,269.2	\$ 1,335.7	\$ (66.5)	-5.0%
Actuarial liabilities	<u>3,476.8</u>	<u>3,358.6</u>	<u>118.2</u>	3.5%
Unfunded actuarial liabilities	<u>\$ 2,207.6</u>	<u>\$ 2,022.9</u>	<u>\$ 184.7</u>	9.1%
Funded ratio	<u>36.51%</u>	<u>39.77%</u>		

Actuarial assets decreased from \$1,335.7 million in 2008 to \$1,269.2 million in 2009 (\$66.5 million; 5.0%) due to the five year smoothing adjustment that recognized a portion of the 2008 investment losses continuing until 2012.

Actuarial liabilities increased from \$3,358.6 million in 2008 to \$3,476.8 million in 2009 (\$118.2 million; 3.5%) due to actuarially required contributions exceeding the actual contributions 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 decrease in the funded ratio from 39.77% in 2008 to 36.51% in 2009 was primarily due to the partial recognition of the 2008 loss on investments which is actuarially smoothed over a period of five years.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

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>2009</u>	<u>2008</u>
Equities	30.8%	-43.0%
S&P 500 Benchmark	26.5%	-37.0%
Fixed income	25.5%	-10.1%
Lehman Brothers/Barclays Aggregate Benchmark	5.9%	5.2%
Total Plan	27.8%	-36.1%

The value of the Plan's investments, including cash and cash equivalents, increased from \$828,317,897 in 2008 to \$952,946,394 in 2009, an increase of \$124,628,497 or 15.0%. The second quarter of 2009 marked the onset of a robust recovery in world capital markets which produced strong performance across all asset classes creating a significant increase in value. Total return for the entire investment portfolio in 2009 was 27.8% compared with -36.1% in 2008.

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, 2008. 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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
RECEIVABLES		
Employer - net	\$ 95,685,468	\$ 86,243,498
Investment income	3,835,976	4,151,541
Unsettled trades	550,977	2,725,638
Other	1,799,250	2,668,091
Total receivables	<u>101,871,671</u>	<u>95,788,768</u>
PREPAID EXPENSES	<u>167,828</u>	<u>134,760</u>
INVESTMENTS		
Corporate bonds	112,103,668	103,931,947
U.S. and Foreign Government obligations	68,028,194	66,078,997
Equities	658,641,830	549,230,147
Cash deposits and short-term investments	44,508,950	37,770,866
Pooled funds	43,802,223	48,415,945
Private equity and venture capital	25,861,529	22,889,995
Total investments	<u>952,946,394</u>	<u>828,317,897</u>
COLLATERAL HELD FOR SECURITIES ON LOAN	<u>147,437,779</u>	<u>127,822,514</u>
Total assets	<u>1,202,423,672</u>	<u>1,052,063,939</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Unsettled trades	976,904	6,439,895
Accounts payable and accrued expenses	1,271,140	1,075,755
Securities lending collateral	147,437,779	127,822,514
Participant accounts	555,362	444,525
Securities lending payable	538,360	2,087,828
Total liabilities	<u>150,779,545</u>	<u>137,870,517</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 1,051,644,127</u>	<u>\$ 914,193,422</u>

(A schedule of funding progress is presented on page 27)

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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ADDITIONS		
Contributions		
Employer		
Property taxes - net	\$ 69,611,885	\$ 61,638,565
Personal property replacement taxes	20,930,000	20,831,000
Exempt rank funding	1,314,921	1,275,139
Total employer contributions	<u>91,856,806</u>	<u>83,744,704</u>
Plan member		
Annuities	41,451,639	40,331,459
Death benefits	153,148	148,425
Total plan member contributions	<u>41,604,787</u>	<u>40,479,884</u>
Investment income		
Net appreciation (depreciation) in fair value of investments	188,959,612	(510,474,269)
Interest	12,262,897	14,734,028
Dividends	11,788,213	16,679,437
Other	20,095	78,584
	<u>213,030,817</u>	<u>(478,982,220)</u>
Less investment expenses	<u>(5,146,569)</u>	<u>(6,746,962)</u>
Net investment income (loss)	<u>207,884,248</u>	<u>(485,729,182)</u>
Securities lending		
Income	583,698	5,920,554
Expenses		
Borrower rebates	274,150	(3,762,882)
Management fees	(177,674)	(521,628)
Net securities lending income	<u>680,174</u>	<u>1,636,044</u>
Gift fund donations	<u>7,255</u>	<u>50,201</u>
Litigation settlements	<u>2,211</u>	<u>57,120</u>
Total additions	<u>342,035,481</u>	<u>(359,761,229)</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, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
DEDUCTIONS		
Benefits		
Age and service benefits		
Employees	\$ 140,551,640	\$ 133,611,646
Spouses	29,992,585	28,607,253
Dependents	857,490	908,782
Total age and service benefits	<u>171,401,715</u>	<u>163,127,681</u>
Disability benefits		
Duty	15,965,119	14,074,392
Occupational	7,822,807	8,538,606
Ordinary	139,615	193,066
Total disability benefits	<u>23,927,541</u>	<u>22,806,064</u>
Gift fund payments	<u>400,000</u>	<u>725,246</u>
Death benefits	<u>662,400</u>	<u>837,600</u>
Total benefits	196,391,656	187,496,591
Annuitant health care	2,645,135	2,486,950
Refunds of contributions	2,109,170	2,659,788
Litigation settlement	417,059	16,750
Administrative expenses	3,021,756	2,839,557
Total deductions	<u>204,584,776</u>	<u>195,499,636</u>
NET INCREASE (DECREASE)	137,450,705	(555,260,865)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	<u>914,193,422</u>	<u>1,469,454,287</u>
End of year	<u>\$ 1,051,644,127</u>	<u>\$ 914,193,422</u>

See accompanying notes to financial statements.

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

New Accounting Pronouncement - Effective during the year ended December 31, 2009, the Plan implemented GASB 56, *Codification of Accounting and Financial Reporting Guidance in the AICPA Statement on Standards on Auditing Standards*. The pronouncement establishes accounting and financial reporting standards for related party transactions, subsequent and going concern considerations. The adoption of the statement did not have a significant impact on the Fund.

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 23, 2010, which is the date the financial statements were available to be issued.

NOTE 2. PLAN DESCRIPTION

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

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

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

Any employee of the City of Chicago employed under the provisions of the Municipal Personnel Ordinance as fire service is covered by the Firemen's Annuity and Benefit Fund of Chicago. Covered employees are required to contribute 9.125% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with statutory interest. The City of Chicago, for its employer's portion, is required by the Statutes to contribute the remaining amounts necessary to finance the requirements of the Plan. The City's total contribution is limited to an amount not more than the total amount of contributions made by the employees to the Plan in the calendar year two years prior to the year for which annual applicable tax is levied, multiplied by 2.26. The source of funds for the City's contribution has been designated by State Statutes as the City's annual property tax levy. The City of Chicago's payroll for employees covered by the Plan for the years ended December 31, 2009 and 2008 was \$400,912,173 and \$396,181,778 respectively.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

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

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

Employees with at least 20 years of service are entitled to receive a minimum formula annuity upon attainment of age 50, of 50% of final average salary plus an additional amount equal to 2.5% of final average salary for each year of service or fraction thereof in excess of 20 years of service. Final average salary is based on the highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement. This annuity shall not exceed 75% of the final average salary. The monthly annuity is increased by 3% of the original annuity at the first of the month following the later of age 55 or the first anniversary of retirement and by 3% each first day of January thereafter, if born before January 1, 1955. There is no limit on the increases. If born after January 1, 1955, the monthly annuity is increased by 1.5% of the original annuity at the first of the month following the later of age 60 or the first anniversary of retirement and 1.5% on each first day of January thereafter, but not to exceed a total increase of 30%.

At December 31, 2009 and 2008, participation consisted of the following:

	<u>2009</u>	<u>2008</u>
Retirees and beneficiaries currently receiving benefits	4,432	4,381
Terminated plan participants entitled to but not yet receiving benefits	78	71
Active plan participants	<u>5,137</u>	<u>5,037</u>
Total participants	<u>9,647</u>	<u>9,489</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, 2009 and 2008.

	<u>2009</u>	<u>2008</u>
Corporate bonds:		
Not on securities loan	\$ 100,166,795	\$ 92,049,514
On securities loan	11,936,873	11,882,433
U.S. and Foreign Government obligations:		
Not on securities loan	60,901,856	60,732,196
On securities loan	7,126,338	5,346,801
Equities:		
Not on securities loan	535,121,323	440,786,265
On securities loan	123,520,507	108,443,882
Cash deposits and short-term investments	44,508,950	37,770,866
Pooled funds:		
Equity mutual funds	13,384,543	9,565,974
Fixed income mutual funds	30,417,680	38,849,971
Private equity and venture capital	25,861,529	22,889,995
	<u>952,946,394</u>	<u>828,317,897</u>
Collateral held for securities on loan	<u>147,437,779</u>	<u>127,822,514</u>
Total investments and invested securities lending cash collateral	<u>\$ 1,100,384,173</u>	<u>\$ 956,140,411</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, 2009 and 2008, the Plan’s exposure to such risk was \$1,304,202 and \$2,174,373 respectively, comprised of foreign currencies held outside the custodial bank.

For investment securities, custodial credit risk is the risk that, in the event of the failure of the counter party, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the Plan’s name, and held by the counter party. To minimize custodial risk, the Plan’s custodian physically (or through agreement with a sub-custodian) maintains possession of securities owned by the Plan. In addition, the Plan seeks to maintain a fully invested position in accordance with established target asset allocation and minimize cash deposits. At December 31, 2009 and 2008, 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, 2009 and 2008 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>2009</u>	<u>2008</u>
Corporate bonds	Aaa/AAA	\$ 7,638,532	\$ 13,213,054
	Aa/AA	5,120,530	2,923,249
	A/A	19,476,504	24,891,520
	Baa/BBB	29,592,033	25,686,141
	Ba/BB	19,872,761	8,471,238
	B/B	13,384,057	5,917,825
	Caa/CCC	6,939,511	4,411,293
	Ca/CC	2,092,198	-
	C/C	121,110	131,250
	D/D	17,813	2,715,381
	Not Rated	4,984,445	13,882,429
U.S. Government Guaranteed		<u>2,864,174</u>	<u>1,688,567</u>
		<u>112,103,668</u>	<u>103,931,947</u>
Foreign Government obligations	Aaa/AAA	11,432,566	6,598,945
	Aa/AA	124,481	-
	A/A	1,209,585	996,900
	Baa/BBB	4,436,061	3,187,427
	Ba/BB	764,388	2,555,551
	Not Rated	-	119,288
		<u>17,967,081</u>	<u>13,458,111</u>
U.S. Government obligations	Not Rated	<u>50,061,113</u>	<u>52,620,886</u>
Total U.S. and Foreign Government obligations		<u>68,028,194</u>	<u>66,078,997</u>
Cash deposits and short-term investments	Not Rated	<u>44,508,950</u>	<u>37,770,866</u>
Pooled funds:			
Fixed income mutual funds	Not Rated	<u>30,417,680</u>	<u>38,849,971</u>
Total		<u>\$ 255,058,492</u>	<u>\$ 246,631,781</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, 2009 and 2008 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2009</u>	<u>2008</u>
Corporate bonds	Less than 1 year	\$ 1,425,964	\$ 6,197,156
	1-5 years	29,637,718	25,737,611
	6 - 10 years	25,854,339	23,686,450
	Over 10 years	55,185,647	48,310,730
		<u>112,103,668</u>	<u>103,931,947</u>
U.S. and Foreign Government obligations	Less than 1 year	6,055,960	2,980,821
	1-5 years	18,675,001	9,904,928
	6 - 10 years	9,415,252	6,527,812
	Over 10 years	33,881,981	46,665,436
		<u>68,028,194</u>	<u>66,078,997</u>
Total		<u>\$ 180,131,862</u>	<u>\$ 170,010,944</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, 2009 and 2008 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2009</u>	Fair Value (USD) <u>2008</u>
Corporate bonds:		
Australian dollar	\$ 763,647	\$ 565,758
Canadian dollar	1,320,472	205,842
European euro	-	213,831
Indonesian rupiah	595,688	954,331
Japanese yen	2,970,897	2,744,269
Mexican peso	259,142	215,763
New Zealand dollar	1,632,166	1,238,079
Republic of Korea won	-	674,687
Singapore dollar	-	1,188,771
U.S. dollar	104,561,656	95,930,616
	<u>\$ 112,103,668</u>	<u>\$ 103,931,947</u>
U.S. and Foreign Government obligations:		
Australian dollar	\$ 2,235,010	\$ 1,582,263
Brazilian real	-	2,038,990
Canadian dollar	5,890,664	3,367,821
Colombian peso	644,099	516,561
Icelandic krona	455,887	-
Indonesian rupiah	197,239	54,282
Mexican peso	1,077,733	2,809,342
New Zealand dollar	1,209,585	996,900
Norwegian krone	901,042	-
U.S. dollar	55,416,935	54,712,838
	<u>\$ 68,028,194</u>	<u>\$ 66,078,997</u>

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

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2009</u>	Fair Value (USD) <u>2008</u>
Equities:		
Australian dollar	\$ 3,642,128	\$ 2,698,133
Brazilian real	9,091,750	4,265,406
British pound	22,654,806	17,228,600
Canadian dollar	4,342,925	2,680,302
Czech Republic koruny	180,401	184,795
Chilean peso	285,862	482,985
Danish krone	647,885	1,073,268
Egyptian pound	727,299	240,306
European euro	40,795,219	28,025,596
Hong Kong dollar	10,573,747	5,283,401
Hungarian forint	792,009	468,600
Indian rupee	3,736,030	1,308,680
Indonesian rupiah	1,350,997	339,593
Israel new shekels	1,005,490	683,079
Japanese yen	27,861,441	25,703,703
Malaysian ringgit	941,331	551,418
Mexican peso	2,203,768	1,273,859
New Zealand dollar	463,644	317,557
Norwegian krone	421,849	239,760
Pakistan rupees	213,220	103,819
Philippines pesos	213,760	105,489
Polish zlotych	637,961	341,534
Republic of Korea won	6,512,894	3,276,976

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

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2009</u>	Fair Value (USD) <u>2008</u>
Equities (continued):		
Singapore dollar	\$ 1,609,179	\$ 1,085,109
South African rand	4,035,291	2,116,072
Swedish krona	1,062,261	337,066
Swiss franc	5,528,129	5,845,017
Taiwan dollar	6,390,730	2,024,274
Thailand baht	943,478	300,933
Turkish lira	1,352,123	457,417
U.S. dollar	<u>498,424,223</u>	<u>440,187,400</u>
	<u>\$ 658,641,830</u>	<u>\$ 549,230,147</u>

During 2009 and 2008, net realized gain (loss) on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was (\$75,132,716) and (\$80,986,818) 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 Assets. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments. Investments purchased in a previous year and sold in the current year result in their realized gains and losses being reported in the current year and their net appreciation (depreciation) in plan assets being reported in both the current year and the previous year(s).

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

NOTE 4. FOREIGN SECURITIES

The Plan does not isolate that portion of net appreciation (depreciation) in fair value of investments resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such fluctuations are included with net appreciation (depreciation) in fair value of investments. Net realized gains and losses on foreign currency transactions represent net exchange gains or losses on closed foreign currency contracts, disposition of foreign currencies, and the difference between the amount of investment income and foreign withholding taxes recorded on the Plan's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized gains and losses on foreign currency transactions arise from changes in the value of open foreign currency contracts and assets and liabilities other than investments at the year end, resulting from changes in the exchange rate.

NOTE 5. SECURITIES LENDING

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

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

The average term of securities loaned was 65 days in 2009 and 64 days in 2008; 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, 2009 and 2008 of 47 days and 22 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, 2009 and 2008, the fair value (carrying amount) of loaned securities was \$142,583,718 and \$125,673,116 respectively. As of December 31, 2009 and 2008, the fair value (carrying amount) of collateral received by the Plan was \$147,437,779 and \$127,822,514 respectively.

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

NOTE 5. SECURITIES LENDING (CONTINUED)

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower. The contract with the lending agent requires it to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

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

There were no losses due to default of a borrower or the lending agent during 2009.

NOTE 6. DERIVATIVES

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

A derivative security is a financial contract whose value is based on, or "derived" from, a traditional security, an asset, or a market index. Derivative instruments include options, 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, 2009 and 2008, the carrying value of the Plan's option holdings were \$(27,894) and \$(448,447).

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, 2009 and 2008, the Plan had \$100,000 of cash as an initial margin deposit for outstanding futures contracts. The Plan's investments at December 31, 2009 and 2008 included the following futures commitments:

	<u>2009</u>	<u>2008</u>
Future Purchase Commitment	<u>\$ 35,521,456</u>	<u>\$ 35,003,451</u>
Future Sales Commitment	<u>\$ 35,521,456</u>	<u>\$ 35,003,451</u>

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, 2009 and 2008, the Plan's investments included the following forward currency contract balances:

	<u>2009</u>	<u>2008</u>
Forward Currency Contract Receivables	<u>\$ 8,355,899</u>	<u>\$ 742,769</u>
Forward Currency Contract Payable	<u>\$ 8,175,898</u>	<u>\$ 762,508</u>

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, 2009 and 2008, the carrying value of the Plan's swap assets were \$275,113 and \$361,537 respectively, and swap liabilities with an amount of \$375,648 and \$1,443,503 respectively.

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. FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2009, the most recent actuarial valuation date, the Plan was 36.51% funded on an actuarial basis. The actuarial accrued liability for benefits was \$3,476,770,795 and the actuarial value of assets was \$1,269,231,178 resulting in an unfunded actuarial accrued liability (UAAL) of \$2,207,539,617. The covered payroll (annual payroll of active employees covered by the Plan) was \$400,912,173 and the ratio of the UAAL to the covered payroll was 550.63%.

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, 2009
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Remaining amortization period	30 years
Asset valuation method	Five Year Smoothed Market

Actuarial assumptions:

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

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES

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

The actuarial valuations of the Plan as of December 31, 2009 and 2008 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be \$222,815,766 and \$208,237,148 for 2009 and 2008, respectively. The minimum annual projected contribution was based on an annual payroll of \$400,912,173 for 5,137 active participants during 2009 and \$396,181,778 for 5,037 active participants during 2008 and was computed as follows:

	2009 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 68,407,195	\$ 1,511,790	\$ 69,918,985
40-year level dollar amortization of the unfunded liability	<u>187,621,614</u>	<u>2,915,939</u>	<u>190,537,553</u>
	256,028,809	4,427,729	260,456,538
Less estimated plan member contributions	<u>(37,640,772)</u>	-	<u>(37,640,772)</u>
Annual required contribution to be financed by tax levy	<u>\$ 218,388,037</u>	<u>\$ 4,427,729</u>	<u>\$ 222,815,766</u>
Required tax levy multiple			<u>6.24</u>
	2008 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 69,161,598	\$ 1,492,199	\$ 70,653,797
40-year level dollar amortization of the unfunded liability	<u>171,900,784</u>	<u>2,878,030</u>	<u>174,778,814</u>
	241,062,382	4,370,229	245,432,611
Less estimated plan member contributions	<u>(37,195,463)</u>	-	<u>(37,195,463)</u>
Annual required contribution to be financed by tax levy	<u>\$ 203,866,919</u>	<u>\$ 4,370,229</u>	<u>\$ 208,237,148</u>
Required tax levy multiple			<u>5.72</u>

NOTE 8. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

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

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES

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

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

	<u>2009</u>	<u>2008</u>
Prior Service Annuity Reserve	\$ 1,379,998,894	\$ 1,272,532,962
City Contribution Reserve	686,604,602	664,859,151
Annuity Payment Reserve	667,049,258	623,925,028
Salary Deduction Reserve	567,334,824	549,556,218
Death Benefit Reserve (deficit)	(11,564,793)	(10,726,172)
Ordinary Disability Reserve (deficit)	(752,756)	(658,001)
Supplementary Payment Reserve	75,556	238,441
Gift Reserve	4,205,047	3,647,436
Reserve (deficit)	<u>(2,241,306,505)</u>	<u>(2,189,181,641)</u>
Total net assets held in trust for pension benefits	<u>\$ 1,051,644,127</u>	<u>\$ 914,193,422</u>

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

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

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

The Salary Deduction Reserve is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are maintained until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Reserve. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve. The Annuity Payment Reserve receives the amounts transferred from the individual accounts in the City Contribution Reserve and the Salary Deduction Reserve when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this reserve.

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

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

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

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

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

During the years ended December 31, 2009 and 2008, the Plan's actuary has determined that an increase (decrease) in actuarial reserves of \$322,107,465 and \$(420,388,544) respectively, is required. The net increase (decrease) in Plan net assets for the years ended December 31, 2009 and 2008 of \$137,450,705 and \$(555,260,865) respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an increase in the Plan deficit by \$184,656,760 and \$134,872,321 for the years ended December 31, 2009 and 2008, 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, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Plan (deficit) at the beginning of the year	\$ (2,022,882,857)	\$ (1,888,010,536)
Gains (losses) during the year attributable to:		
Gain from salary changes	45,845,082	31,648,090
(Loss) on investment return	(102,990,113)	(78,270,397)
Employer cost in excess of contributions	(97,766,391)	(93,321,651)
Gain (loss) from demographic assumptions	(17,294,358)	11,628,074
(Loss) from programming changes	(11,829,539)	(6,483,533)
(Loss) from all other sources	(621,441)	(72,904)
Net (loss)	<u>(184,656,760)</u>	<u>(134,872,321)</u>
Plan (deficit) at the end of the year	<u>\$ (2,207,539,617)</u>	<u>\$ (2,022,882,857)</u>

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25. The Plan (deficit) above will not equal the Plan surplus (deficit) denoted on page 21, which is based on assets valued at actual market value.

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

Mortality:

1983 Group Annuity Mortality Table, sex distinct.

Disabled mortality:

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

Retirement age assumptions:

Assume all employees, except emergency medical technicians, retire by age 63 (mandatory retirement age as enacted by the City of Chicago in 2000). Emergency medical technicians are assumed to retire by age 65.

Investment rate of return:

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

Salary increase:

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

NOTE 9. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

Health insurance supplement:

Assume for valuation purposes that the current health insurance supplement will continue for life for all employee annuitants (and their future widows). The amount of the Plan paid health insurance after June 30, 2008 is \$95 per month (\$85 per month prior to June 30, 2008) for each annuitant (employees and widows) not qualified to receive Medicare benefits and \$65 per month (\$55 per month prior to June 30, 2008) 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 27. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 10. EMPLOYER CONTRIBUTIONS (TAXES) RECEIVABLE - NET

Employer contribution receivable at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Property taxes	\$ 81,449,908	\$ 71,461,615
Personal property replacement taxes	22,244,921	22,106,139
Less allowance for uncollectible accounts	<u>(8,009,361)</u>	<u>(7,324,256)</u>
Total	<u>\$ 95,685,468</u>	<u>\$ 86,243,498</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. Prior to June 1, 2008, the cost of monthly group health care premiums were \$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, 2009 and 2008, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,174 and 3,179 respectively. The Plan's share of the Program cost subsidy for 2009 and 2008 was \$2,645,135 and \$2,486,950 respectively.

NOTE 12. OTHER POSTEMPLOYMENT BENEFITS

The Plan, as an employer, contributes premiums for health and dental insurance for three retired employees. The Plan's contribution towards insurance premiums for 2009 and 2008 was \$18,107 and \$16,500 respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

At December 31, 2009 and 2008, the Plan held investments with a total fair value of approximately \$47,000,000 and \$32,590,000 respectively, in its investment managers.

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

Two 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 year ended December 31, 2009 and 2008 the Firemen's Annuity and Benefit Fund of Chicago contributed \$400,000 and \$693,000 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 2009 and 2008 was \$190,360 and \$189,602 respectively.

NOTE 14. LEASE AGREEMENTS (CONTINUED)

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

Year ending December 31,	
2010	\$ 144,461
2011	149,848
2012	155,279
2013	160,756
2014	166,278
2015 through 2019	716,308
2020	33,273
Total	<u>\$ 1,526,203</u>

NOTE 15. COMMITMENT

As of December 31, 2009, the Plan had a total capital commitment to eleven limited partnerships totaling \$70,500,000. As of December 31, 2009, \$32,810,153 has been invested, leaving a commitment of \$37,689,847.

NOTE 16. LITIGATION

The Plan is involved in on-going litigations pertaining to the potential eligibility for and the effective beginning date of higher "duty death widow" benefits to a fixed number of current widow annuitants. If determined adversely to the Plan's position, the potential increase to future Plan liabilities, including retro-active payments and future benefit payments to be paid over the lifetime of eligible widows, may exceed \$10,000,000. 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.

NOTE 17. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Statement No. 53 is effective for the Plan's fiscal year ending December 31, 2010. The Plan is currently evaluating the impact of adopting Statement No. 53.

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>						
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	\$ 2,882,935,717	\$1,679,281,665	41.75%	\$ 341,252,492	492.09%
2006	\$1,264,497,434	\$ 3,088,124,064	\$1,823,626,630	40.95%	\$ 387,442,074	470.68%
2007	\$1,374,960,353	\$ 3,215,874,182	\$1,840,913,829	42.76%	\$ 389,124,547	473.09%
2008	\$1,335,695,474	\$ 3,311,268,993	\$1,975,573,519	40.34%	\$ 396,181,778	498.65%
2009	\$1,269,231,178	\$ 3,428,838,267	\$2,159,607,089	37.02%	\$ 400,912,173	538.67%
<i>Health Insurance Supplement</i>						
2005	\$ -	\$ 44,237,156	\$ 44,237,156	0.00%	\$ 341,252,492	12.96%
2006	\$ -	\$ 45,017,463	\$ 45,017,463	0.00%	\$ 387,442,074	11.62%
2007	\$ -	\$ 47,096,707	\$ 47,096,707	0.00%	\$ 389,124,547	12.10%
2008	\$ -	\$ 47,309,338	\$ 47,309,338	0.00%	\$ 396,181,778	11.94%
2009	\$ -	\$ 47,932,528	\$ 47,932,528	0.00%	\$ 400,912,173	11.96%
<i>Total</i>						
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	\$ 2,927,172,873	\$1,723,518,821	41.12%	\$ 341,252,492	505.06%
2006	\$1,264,497,434	\$ 3,133,141,527	\$1,868,644,093	40.36%	\$ 387,442,074	482.30%
2007	\$1,374,960,353	\$ 3,262,970,889	\$1,888,010,536	42.14%	\$ 389,124,547	485.19%
2008	\$1,335,695,474	\$ 3,358,578,331	\$2,022,882,857	39.77%	\$ 396,181,778	510.59%
2009	\$1,269,231,178	\$ 3,476,770,795	\$2,207,539,617	36.51%	\$ 400,912,173	550.63%

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended</u> <u>December 31,</u>	<u>Annual</u> <u>Required</u> <u>Contribution (1)</u> <u>(ARC) (a)</u>	<u>Actual</u> <u>Employer</u> <u>Contribution</u> <u>(b)</u>	<u>Percent of</u> <u>ARC</u> <u>Contributed</u> <u>(b/a)</u>
<i>Pension Benefits</i>			
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%
2008	\$ 189,940,561	\$ 81,257,754	42.78%
2009	\$ 203,866,919	\$ 89,211,671	43.76%
<i>Health Insurance Supplement</i>			
2005	\$ -	\$ -	0.00%
2006	\$ 4,075,175	\$ 2,208,075	54.18%
2007	\$ 4,176,767	\$ 2,248,156	53.83%
2008	\$ 4,307,852	\$ 2,486,950	57.73%
2009	\$ 4,370,229	\$ 2,645,135	60.53%
<i>Total</i>			
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%
2008	\$ 194,248,413	\$ 83,744,704	43.11%
2009	\$ 208,237,148	\$ 91,856,806	44.11%

(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, 2009
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

ADDITIONAL INFORMATION

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

ADDITIONS BY SOURCE

<u>Year Ended December 31,</u>	<u>Employer Contributions</u>	<u>Employer Contributions as a Percentage of Payroll</u>	<u>Plan Member Contributions</u>	<u>Net Investment and Net Securities Lending Income (Loss) (1)</u>	<u>Other</u>	<u>Total Additions</u>
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
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	\$ 208,564,422	\$ 9,466	\$ 342,035,481

(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.

(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>Litigation Settlement</u>	<u>Administrative Expenses</u>	<u>Total Deductions</u>
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
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

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
PERSONNEL SERVICES		
Office salaries	\$ 1,400,089	\$ 1,354,626
Employee benefits	<u>278,312</u>	<u>260,800</u>
Total personnel services	<u>1,678,401</u>	<u>1,615,426</u>
TRUSTEE AND STAFF EDUCATION/TRAINING	<u>11,417</u>	<u>23,935</u>
PROFESSIONAL SERVICES		
Accounting	10,150	7,600
Actuarial	152,125	80,799
Audit	49,000	30,500
Computer consulting	18,000	18,361
Medical	116,309	116,714
Legal	366,185	319,142
Payroll administration	<u>5,788</u>	<u>5,588</u>
Total professional services	<u>717,557</u>	<u>578,704</u>
MISCELLANEOUS		
Rent	190,360	189,602
Disaster recovery	26,378	21,739
Insurance and surety bond	158,366	172,160
Utilities	22,094	21,563
Equipment and maintenance	21,157	24,763
Printing and postage	85,703	80,602
Office supplies	16,605	27,308
General and administrative	21,176	21,570
Other	<u>72,542</u>	<u>62,185</u>
Total miscellaneous	<u>614,381</u>	<u>621,492</u>
Total administrative expenses	<u>\$ 3,021,756</u>	<u>\$ 2,839,557</u>

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
INVESTMENT MANAGEMENT		
Adams Street Partners (Private Equity)	\$ 26,383	\$ -
Advent Capital Management (Private Equity)	16,831	-
Alliance Bernstein (Private Equity)	12,770	-
BA Partners (Private Equity)	233,143	201,417
Brandes Investment Management	337,722	410,471
Chicago Equity Partners	130,459	160,063
Citigroup Property (Private Equity)	106,542	179,681
Credit Suisse Asset Management	19,685	41,900
Earnest Partners LLC	140,351	149,933
Evergreen	168,805	111,768
Globeflex Capital	364,438	481,220
Husic Capital Management	18,320	348,145
ICON Advisors	56,108	218,559
Keeley Asset Management	221,542	318,050
Logan Capital Investment	175,050	224,283
Loomis, Sayles & Company	326,072	335,618
LSV Asset Management	343,662	383,850
Marvin Palmer & Associates	223,594	318,936
Mesirow Financial Corp.	102,917	179,378
Mueller & Monroe (Private Equity)	32,893	32,325
Navellier & Associates	-	83,384
Neuberger & Berman	581,685	823,770
Northern Trust Quantitative Advisors	396,015	-
Rhumblin	27,369	33,459
The Boston Company	198,876	244,726
Western Asset Management	241,011	255,880
William Blair & Company	232,396	293,279
	4,734,639	5,830,095
CUSTODIAL BANKING		
The Northern Trust Company	186,930	641,867
INVESTMENT EVALUATION		
Mercer Investment Consulting	225,000	275,000
Total investment expenses	\$ 5,146,569	\$ 6,746,962

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>
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
2008	2,471	\$ 54,492	1,307	\$ 16,598
2009	2,556	\$ 57,023	1,293	\$ 17,520

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>
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
2008	57.4	29.6	\$ 88,841	109
2009	57.8	30.3	\$ 92,010	185

AGE AND SERVICE DISTRIBUTION

<u>Year</u>	<u>Number of Actives</u>	<u>Average Salary</u>	<u>Average Age</u>	<u>Average Service</u>
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
2008	5,037	\$ 78,654	45.0	15.5
2009	5,137	\$ 78,044	44.7	15.1

FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

ADDITIONAL INFORMATION

PARTICIPANT DATA

	<u>2009</u>	<u>2008</u>
ACTIVE MEMBERS		
Number	<u>5,137</u>	<u>5,037</u>
Annual payroll	<u>\$ 400,912,173</u>	<u>\$ 396,181,778</u>
Average salary	<u>\$ 78,044</u>	<u>\$ 78,654</u>
Average age	<u>44.7</u>	<u>45.0</u>
Average service	<u>15.1</u>	<u>15.5</u>
ANNUITANTS AND BENEFICIARIES		
Retired employees	2,556	2,471
Spouse, parent and widow annuitants	1,400	1,415
Children and dependents	89	98
Duty disabilities	262	269
Occupational disabilities	121	124
Ordinary disabilities	<u>4</u>	<u>4</u>
Total annuitants and beneficiaries	<u>4,432</u>	<u>4,381</u>
TOTAL BENEFITS	<u>\$ 196,391,656</u>	<u>\$ 187,496,591</u>