POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

COMPONENT UNIT FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

COMPONENT UNIT
FINANCIAL STATEMENTS

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Member of the
American Institute
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Independent Auditors' Report

Board of Trustees
Policemen's Annuity and Benefit
Fund of Chicago

We have audited the accompanying statements of plan net assets of the Policemen's Annuity and Benefit Fund of Chicago (Fund) 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 Fund'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 the 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 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 plan net assets of the Policemen's Annuity and Benefit Fund of Chicago as of December 31, 2007 and 2006, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board (GASB). 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 we express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental schedules listed in the table of contents are required by the GASB. The other supplementary schedules of administrative expenses, consulting costs and investment fees are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Fund. The required supplementary information and other supplemental schedules of administrative expenses, consulting costs and investment fees are the responsibility of the management of the Fund. The information on those schedules has been subjected to the auditing procedures applied in the audits of the basic financial statements of the Fund and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hill, Taylor LLC

May 15, 2008

Management's Discussion and Analysis

The Management's Discussion and Analysis section of this report is intended to serve as an introduction to the Policemen's Annuity and Benefit Fund of Chicago's financial statements and to supplement the information contained therein.

Overview of Financial Statements and Accompanying Information

The basic financial statements are prepared in accordance with generally accepted accounting principles as established by the Governmental Accounting Standards Board (GASB) and are described below:

- **The Statements of Plan Net Assets** report the Fund's assets, liabilities and the resultant net assets where Assets minus Liabilities equal Net Assets available at the end of the year.

- **The Statements of Changes in Plan Net Assets** show the sources and uses of funds during the calendar year, where Additions minus Deductions equal the Net Increase (or Decrease) in Net Assets available for the year.

- **The Notes to the Financial Statements** are an integral part of the financial statements and include important information and schedules to provide a better understanding of the data provided in the financial statements. Information contained in the note disclosures discusses the accounting policies, benefits, contributions, fund reserves and various other relevant topics.

Due to the long-term nature of the Fund, additional information is provided to supplement the information included in the financial statements. Two required supplementary schedules for the Pension and Health Insurance, respectively, are provided that include historical trend information for the past six years for the Pension and since adoption of GASB Statement No. 43 for the Health Insurance to aid in analysis of the funded status of the plan and the progress being made in accumulating sufficient assets to pay benefits when due.

- **The Schedule of Funding Progress** contains actuarial valuations of the status of the plan in an ongoing as well as a historical basis. Actuarial Liabilities in excess of Actuarial Valuation of Assets indicates that insufficient assets have been accumulated to fund future benefits of current members and retirees.

- **The Schedule of Employer Contributions** contains historical trend information regarding the value of total annual contributions the employer must pay as determined under the parameters in GASB Statement No. 25 for the Pension and GASB Statement No. 43 for the Health Insurance and the related percentage the employer has contributed to meet its requirement.

- **The Notes to the Required Supplementary Information** provides background information and the actuarial method and assumptions used to aid in understanding the required supplementary schedules.

Additional schedules provided include the *Schedule of Administrative Expenses, Schedule of Consulting Costs* and *Schedule of Investment Fees* to reflect the costs involved in managing a defined benefit pension plan.

Financial Highlights

- The Retirement Board of the Policemen's Annuity and Benefit Fund of Chicago's net assets increased by $141.1 million or 3.4% to $4.33 billion, in 2007 from $4.2 billion at year-end 2006. The increase was mainly attributable to appreciation in the fair value of investments. The investment return for 2007 was 8.8%, down from 12.1% in 2006. This decline was chiefly due to a downturn in U.S. equity markets in the fourth quarter of 2007. U.S. equities sustained in aggregate a loss of almost 4.5% in the fourth quarter, triggered by the sub-prime mortgage crisis and the subsequent credit crunch.

- The funding objective of the Plan is to meet its long-term defined pension benefit obligations. The Funding Ratio of the plan on a market value basis experienced a slight decrease from 51.65% at year-end 2006 to 51.59% for 2007. The Fund uses a 5-year actuarial smoothing method in valuing its assets to determine its funded status and the required contributions necessary to fund the plan going forward. This actuarial valuation method reduces the effect of short-term market volatility and provides more stable trend valuation for the long-term planning needs of the Fund.

- Revenues for the Fund were consistent with 2006 except for investment income. For 2007, the net appreciation of $265.4 million contributed to the overall increase in net assets of $141.1 million. Total contributions by the employees and employer were $272.0 million for 2007 as compared to $249.7 million for 2006. The significant increase is due to the fact that the regular 2007 employer contributions were supplemented by one-time debt proceeds of $12.2 million which did not occur in 2006.

- Expenses for the Fund continue to be dominated by the benefit payments made for annuitants and disability recipients. Benefit payments for 2007, excluding death benefits and refunds, were $469.7 million, up from $450.9 million in 2006. Death benefits and refunds of employee deductions remained consistent from 2006 to 2007 and account for only 1.7% of total benefit expenses. The Fund's administrative expenses for 2007 were $3.1 million, comparable to $2.7 million in 2006.

- Investment management fees increased from $12.5 million in 2006 to $13.7 million in 2007, reflecting a re-allocation of fund assets from passive index funds to actively-managed funds with the greater expense incurred by the later type of asset management. The move towards actively-managed funds in 2007 is in keeping with the Fund's long-term investment policy of increasing the portfolio's rate of return. The move towards actively managed funds has also led to an increase in net income from securities lending activities from $1.4 million in 2006 to $2.1 million in 2007, resulting from a material increase in the portfolio's pool of securities eligible for securities lending.

Plan Net Assets

A summary of the Plan's Net Assets is presented below:

Plan Net Assets
(In millions)
As of December 31, 2007 and 2006

	2007	2006	2007-2006 Change $	2007-2006 Change %
Cash and cash equivalents	$ 136.7	$ 99.2	$ 37.5	37.8%
Receivables	195.1	172.2	22.9	13.3
Brokers – unsettled trades	205.9	177.1	28.8	16.3
Investments, at fair value	4,051.8	3,930.3	121.5	3.1
Invested securities lending collateral	516.0	564.2	(48.2)	(8.5)
Total assets	5,105.5	4,943.0	162.5	
Brokers – unsettled trades	251.3	180.0	71.3	39.6
Securities lending payable	516.0	564.2	(48.2)	(8.5)
Accounts payable and accrued expenses	5.0	6.7	(1.7)	(25.4)
Total liabilities	772.3	750.9	21.4	
Net Plan Assets	$ 4,333.2	$ 4,192.1	$ 141.1	

Net increase of plan net assets was $141.1 million and $237.3 million in 2007 and 2006, respectively. Advancing financial markets produced an increase in the investments at fair value for 2007.

Changes in Plan Net Assets

The following table reflects a comparative summary of various changes in Plan Net Assets.

Changes in Plan Net Assets
(In millions)
Years Ended December 31, 2007 and 2006

	2007	2006	2007-2006 Change $	2007-2006 Change %
Additions:				
Member contributions	$ 93.3	$ 92.0	$ 1.3	1.4%
Employer contributions	178.7	157.7	21.0	13.3
Net investment gains (losses) and investment income	347.8	445.9	(98.1)	(22.0)
Securities lending income	2.1	1.4	0.7	50.0
Miscellaneous income	0.0	1.1	(1.1)	(100.0)
Total additions	621.9	698.1	(76.2)	

	2007	2006	2007-2006 Change $	%
Deductions:				
Annuity and disability benefits	$ 471.5	$ 452.8	$ 18.7	4.1%
Refunds of contributions	6.2	5.3	0.9	17.0
Administrative expenses	3.1	2.7	0.4	14.8
Total deductions	480.8	460.8	20.0	
Net Increase	$ 141.1	$ 237.3	$ (96.2)	

Revenues – Additions to Plan Net Assets

- Member contributions increased by 1.4% to $93.3 million in 2007 from $92.0 million in 2006. This increase reflects the impact of retroactive salary increases for the active membership under the employment contract covering the period from July 1, 2003 through June, 30 2007.

- Employer contributions increased from the prior year by 13.3% (from $157.7 million received in 2006 to $178.7 million received in 2007). Employer contributions are mandated by a statutorily set multiplier of 2.0 times member contributions collected two years prior. Since member contributions increased materially two years prior, due to retroactive annuity adjustments from a new contract, the employer contribution increased measurably in 2007. Also, the Fund received one-time debt proceeds of $12.2 million in 2007 in addition to its distributions of real estate tax receipts from the employer.

- The net gain on total investment activity was $347.8 million in 2007, compared to $445.9 million in 2006. The decreased was due chiefly to poor performance in the financial market in the last quarter of 2007. Net investment activity decreased due to decline in market appreciation in 2007, which produced an 8.8% return for the year compared to a 12.1% gain for 2006.

Expenses – Deductions from Plan Net Assets

- Pension, disability and death benefits rose from $452.8 million to $471.5 million in 2007, an increase of 4.1% from 2006. The increases in benefits were attributable to two factors, a statutory change that improved the formula for employee annuity benefits as well as retroactive annuity adjustments due to a new employment contract. Also, benefit payments increased because of the 3% automatic increase (cost of living) payable for those retired annuitants eligible to receive it contributed to the total increase in benefit payments.

Plan Membership

The following table reflects the changes in plan membership from year-end 2006 to year-end 2007.

Changes in Plan Membership
As of December 31, 2007 and 2006

	2007	2006	Change	%
Retirees and beneficiaries receiving benefits	12,135	12,026	109	0.9%
Active employees	13,748	13,749	(1)	0.0
Terminated (inactive members) employees entitled to benefits or refunds of contributions	554	595	(41)	(6.9)
Total	26,437	26,370	67	(6.0)%

Funding Status

The actuarial value of assets, using the GASB 25 and 43 methods, for the December 31, 2007 valuation was $4.2 billion and the actuarial liability was $8.4 billion. The actuarial liability increased significantly by $282.8 million in 2007, from $8.1 billion in 2006 to $8.4 billion in 2007. The assets currently fund 50.4% of this liability, an increase from the 49.3% funded ratio in 2006. The increase in the funded ratio largely resulted from the diminishing effects of poor investments returns for the years 2001 and 2002. Fiscal year 2001 is no longer being absorbed in a five-year actuarial smoothing of assets method used to determine the actuarial value of assets. As markets continue to advance, as they did in 2006 and for the first three quarters of 2007, the Fund expects a more positive trend to return to the funded ratio near term if the Fund can continue to achieve a rate of return above its actuarial assumption of 8%.

Late in 2007, the Mayor of the City of Chicago announced the formation of a special Commission to propose ways to improve the financial strength of the City's four pension funds. The Police Pension Fund has been experiencing a drag on its funding progress from the impact that negative cash flows have on long-term investment returns. Negative cash flow occurs when employee and employer contributions are not sufficient enough to offset total annual benefit expenses, requiring the Fund to tap into its investment portfolio to assist in paying benefits when due.

The executive directors from each of the four City pension funds are serving on this mayoral commission as well as an elected trustee representing each pension. Several union-appointed representatives and private-sector business leaders also serve on the Commission. The Commission is expected to issue a recommendation in 12 to 18 months.

Investment Activities

At year-end 2007, the Fund assets achieved a total fund return of 8.8% compared to 12.1% in 2006. Most of this decrease was due to negative results posted by the U.S. equity market in the fourth quarter of 2007. Domestically, the fund managers returned 7.5% in 2007, down 39% from the average return of 12.2% in 2006. International stocks returned an average of 16.4% for the year, down 31% from a return of 23.7% in 2006. The Fund's investment asset allocation stayed within policy limits with 44.6% of assets invested in domestic equity, 17.9% in international equity, 30.6% invested in fixed income, 5.1% in private equity, 1.6% in real estate and an initial allocation to infrastructure investments of 0.2%.

Investment Returns
Years Ended December 31, 2007 and 2006

	2007	2006
Total Fund	8.8%	12.1%
Benchmark portfolio	7.9	13.3
@EKA Public Fund Index	8.7	13.8
Domestic equities	7.5%	12.2%
Benchmark (Wilshire 5000)	5.6	15.8
International equities	16.4%	23.7%
Benchmark (MSCI All-Country)	16.7	26.7
Fixed income	5.1%	4.6%
Benchmark (Lehman Aggregate)	7.0	4.3

Effects of Economic Factors

The financial position of the plan has remained consistent overall. Actual portfolio returns in 2006 of 12.1% and 2007 of 8.8% have exceeded the 8.0% actuarial rate of return, but the Fund's liabilities have increased due to plan benefits improvements. The impact of the sub-prime mortgage collapse in U.S. equity markets resulted in negative portfolio performance for the fourth quarter of 2007.

Contact Information

This financial report is designed to provide the employer, plan participants and others with a general overview of the Plan's finances and to show accountability for the monies received. Questions concerning any data provided in this report can be submitted to:

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221 N. LaSalle
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POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF PLAN NET ASSETS

DECEMBER 31, 2007 AND 2006

	2007	2006
Assets		
Cash	$ 250	$ 250
Receivables:		
Employer tax levies, net of allowance for loss of $14,812,131 in 2007 and $15,751,762 in 2006	175,156,206	152,064,197
Member contributions	8,338,948	8,173,403
Interest and dividends	11,569,438	11,950,142
Accounts receivable - due from brokers	205,888,263	177,139,566
	400,952,855	349,327,308
Investments at fair value:		
Common stock and other equity	1,603,774,230	1,569,866,651
Collective investment, stock	334,686,255	410,476,372
Collective investment, fixed income	297,077,039	381,052,756
International equity	717,502,770	548,499,467
Bonds and notes	882,980,818	828,525,881
Short term instruments	136,713,405	99,206,041
Infrastructure	8,263,605	-
Real estate	65,241,080	27,579,058
Venture capital	142,311,495	164,262,438
	4,188,550,697	4,029,468,664
Invested securities lending cash collateral	516,052,543	564,202,733
Total Assets	5,105,556,345	4,942,998,955
Liabilities		
Refunds and accounts payable	4,958,163	6,697,824
Trade accounts payable - due to brokers	251,311,712	180,022,199
Securities lending cash collateral	516,052,543	564,202,733
Total Liabilities	772,322,418	750,922,756
Net assets held in trust for pension benefits (A schedule of funding progress is presented on page 28.)	$ 4,333,233,927	$ 4,192,076,199

See accompanying notes to financial statements.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

STATEMENTS OF CHANGES IN PLAN NET ASSETS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Additions		
Contributions:		
Employer	$ 178,678,154	$ 157,689,286
Plan member salary deductions	93,299,996	91,965,685
Total contributions	271,978,150	249,654,971
Investment income:		
Net appreciation in fair value of investments	265,358,442	373,574,074
Interest	53,094,326	47,278,483
Dividends	42,467,732	38,141,915
Real estate	1,564,726	273,704
	362,485,226	459,268,176
Investment activity expenses:		
Investment management fees	(13,657,186)	(12,477,272)
Custodial fees	(661,616)	(521,115)
Investment consulting fees	(360,649)	(379,077)
Total investment activity expenses	(14,679,451)	(13,377,464)
Net income from investing activities	347,805,775	445,890,712
From securities lending activities:		
Securities lending income	33,941,848	29,767,186
Borrower rebates	(31,143,858)	(27,921,696)
Bank fees	(689,609)	(461,155)
Net income from securities lending activities	2,108,381	1,384,335
Total net investment income	349,914,156	447,275,047
Miscellaneous income	27,821	1,069,991
Total Additions	621,920,127	698,000,009
Deductions		
Pension and disability benefits	469,723,677	450,901,638
Death benefits	1,754,836	1,886,443
Refunds of employee deductions	6,206,813	5,271,842
	477,685,326	458,059,923
Administrative expenses	3,077,073	2,700,475
Total Deductions	480,762,399	460,760,398
Net Increase	141,157,728	237,239,611
Net assets held in trust for pension benefits:		
Beginning of year	4,192,076,199	3,954,836,588
End of year	$ 4,333,233,927	$ 4,192,076,199

See accompanying notes to financial statements.

1. **Plan Description:**

Pension Plan

The Policemen's Annuity and Benefit Fund of Chicago (Fund) is the administrator of a defined benefit, single-employer pension plan with a defined contribution minimum for the purpose of providing benefits to the policemen of the City of Chicago (City), their widows and children. Any employee of the City employed under the provisions of the municipal personnel ordinance as police service is covered by the Fund. The defined benefits as well as the employer and employee contribution levels are mandated in Illinois Compiled Statutes (40 ILCS 5/5) and may be amended only by the Illinois State Legislature. The Fund is governed by an 8-member Board of Trustees (four appointed by the City, three elected by the policemen, and one elected by the annuitants) whose duties are to administer the Fund under the Illinois Pension Code.

The City of Chicago payrolls for employees covered by the Fund for the years ended December 31, 2007 and 2006 were $1,038,957,026 and $1,012,983,634, respectively. At December 31, 2007 and 2006, the Fund membership consisted of the following:

	2007	2006
Active employees	13,748	13,749
Retirees and beneficiaries currently receiving benefits	12,135	12,026
Terminated employees entitled to benefits or a refund of contributions but not yet receiving them	554	595
	26,437	26,370

The Fund provides retirement benefits as well as death and disability benefits. Employees age 50 or more with at least 10 years of service are entitled to receive a money purchase annuity and partial City contributions if less than 20 years of service. Effective in 2003, the mandatory retirement age for a participant is 63. Employees age 50 or more with at least 20 years of service are entitled to receive a minimum formula annuity of 2.5% per year for the first 20 years of service plus 2.5% per year for each following year or fraction thereof times the final average salary (highest average annual salary for any 4 consecutive years within the last 10 years of service immediately preceding the date of retirement). The annuity shall not exceed 75% of the highest average annual 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% on each January 1st thereafter, if born before January 1, 1955.

If born after January 1, 1955, then the monthly annuity is increased by 1.5% of the original annuity at the first of the month following the later of age 60 or the first anniversary of retirement, and 1.5% on each January 1st thereafter, but not to exceed a total of 30%.

Covered employees are required to contribute 9.0% of their salary to the Fund. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest. The City is required by State statutes to contribute the remaining amounts necessary to finance the requirements of the Fund. It is required to levy a tax at a rate not more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 2.00 annually.

Health Insurance Supplement

(a) **Plan Description**

The City offers group health benefits to annuitants and their eligible dependents through the City's health care plans.

(b) **Funding Policy**

Premiums are set by the City with the City pays 50% of the claims or premiums, whichever are applicable, and the remaining amount to be paid by all annuitants participating in the plans. Currently, the Fund pays to the City on behalf of each of the annuitants who chooses to participate in any of the City's health care plans up to a maximum of $85 per month from July 1, 2003 through June 30, 2008 and $95 per month from July 1, 2008 through June 30, 2013 for each annuitant who is not qualified to receive Medicare benefits; and up to a maximum of $55 per month from July 1, 2003 through June 30, 2008, and $65 per month from July 1, 2008 through June 30, 2013 for each annuitant who is qualified to receive Medicare benefits.

The health insurance supplement is financed with current contributions on a pay-as-you-go basis. There is no separate healthcare account established by the Fund to pay the health insurance supplement.

At December 31, 2007 and 2006, the number of annuitants or surviving spouses who have subsidized health insurance totaled 9,890 and 9,656, respectively. The Plan's share of the Program cost subsidy for 2007 and 2006 was $8,107,708 and $8,041,573, respectively.

(c) **Annual OPEB Cost and Net OPEB Obligation**

The Fund's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the Fund's annual OPEB cost for 2007 and 2006, the amounts actually contributed to the plan, and changes in the Fund's net OPEB obligation to the Retiree Health Insurance Supplement:

	2007	2006
Annual required contribution	$ 11,220,081	$ 11,076,022
Interest on net OPEB obligation	256,327	253,416
Adjustment to annual required contribution	(1,310,756)	(2,423,507)
Annual OPEB expense	10,165,652	8,905,931
Contributions made	(8,107,708)	(8,041,573)
Increase in net OPEB obligation	2,057,944	864,358
Net OPEB obligation at beginning of year	176,981,897	176,117,539
Net OPEB obligation at end of year	$ 179,039,841	$ 176,981,897

The Fund contributed 72.26% and 72.60% of the annual required OPEB contribution to the Retiree Health Insurance Supplement for 2007 and 2006, respectively.

(d) **Funded Status and Funding Progress**

As of December 31, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $179,039,841, none of which was funded. The unfunded actuarial accrued liability for 2006 was $176,981,897. The covered payroll (annual payroll of active employees covered by the plan) was $1,038,957,026 for 2007 and $1,012,983,634 for 2006; and the ratio of the unfunded actuarial accrued liability to the covered payroll was 17.23% for 2007 and 14.47% for 2006. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. A schedule of funding progress is presented in the required supplementary information on page 31. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

(e) **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return which is based upon the employer's assumed return on its assets and an annual healthcare cost trend rate of 9.0% initially, reduced by increments of 1.0 percentage point per year to an ultimate rate of 5.0% after four years. Both rates include a 3.0% general inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years.

2. Summary of Significant Accounting Policies:

(a) Reporting Entity

Accounting principles generally accepted in the United States of America as established by the Governmental Accounting Standards Board (GASB) define a financial reporting entity as consisting of the primary government and its component units for which the primary government is financially accountable. Financial accountability includes appointing a voting majority of a component unit's governing board, the ability of the primary government to impose its will on the component unit or a potential for the component unit to provide specific financial benefits to, or to impose specific financial burdens on the primary government. A primary government may also be financially accountable for its component units that are fiscally dependent on it.

Based on the above criteria, the Fund is considered to be a component unit of the City of Chicago. The Fund is part of the City's financial reporting entity and it is included in the City's pension trust funds' financial statements.

(b) Basis of Accounting

The Fund's financial statements are prepared on the accrual basis of accounting. Employee and employer contributions are recognized as additions in the period in which employee services are performed. Benefits and refunds are recognized as deductions when payable. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

(c) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

(d) Investments

The Fund is authorized by 40 ILCS 5/1-113 to invest in bonds, notes and other direct obligations of the United States Government and United States Government agencies; corporate bonds, debentures and notes; certain notes secured by mortgages, including pass through securities; common and preferred stocks; certain pooled funds and various types of investment securities. Investment made in accordance with the State Statutes shall be deemed to be prudent.

(e) Method Used to Value Investments

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Fixed income securities are valued principally using quoted market prices provided by independent pricing services. For collective investments, the net asset value is determined and certified by the investment managers as of the reporting date. Real estate investments are valued by appraisals. Investments that do not have an established market are reported at estimated fair value.

(f) Furniture and Office Equipment

Furniture and office equipment are not capitalized as they are immaterial and are charged to expenses in the year of purchase.

(g) Administrative Expenses

Administrative expenses are budgeted and approved by the Board of Trustees of the Fund. Administrative expenses are funded by the employer contributions.

(h) Securities Lending Transactions

Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets in the statements of plan net assets. Securities received as collateral are reported as assets only if the Fund has the ability to pledge or sell them without a borrower default. Liabilities resulting from these transactions are reported in the statements of plan net assets. The costs of securities lending transactions are reported as deductions in the statements of changes in plan net assets at gross amounts.

3. Cash and Investment Risk Disclosure:

(a) Cash

The bank balance and carrying amount of the Fund's deposits, excluding $250 of petty cash, at December 31, 2007 were $524,732 and $(1,112,586), respectively; and they were $509,520 and $(614,732) at December 31, 2006, respectively. The entire bank balance at December 31, 2007 and 2006 is on deposit with the City Treasurer and is insured or collateralized by securities held by the City Treasurer in the Fund's name.

(b) **Investment Policy**

The Fund's overall investment policy is based on the following principles established by the Trustees:

- Maintain a long-term investment horizon for the Fund
- Emphasize equity investments to enhance long-term return
- Diversify investments across several asset classes
- Avoid market timing strategies

In order to minimize the impact of large losses and to reduce annual variability of returns, the Fund's assets are allocated across major asset classes and diversified broadly within each asset class.

(c) **Investment Summary**

The following table presents a summary of the Fund's investments by type at December 31, 2007 and 2006:

	2007	2006
U.S. Government and agency fixed income	$ 377,137,151	$ 397,636,968
U.S. corporate fixed income	505,843,667	430,888,913
U.S. fixed income funds	297,077,039	381,052,756
U.S. equities	1,603,774,230	1,569,866,651
U.S. stock funds	334,686,255	410,476,372
Foreign equities	717,502,770	548,499,467
Pooled short-term investment funds	63,487,605	68,623,813
Infrastructure	8,263,605	-
Real estate	65,241,080	27,579,058
Private equity	142,311,495	164,262,438
U.S. miscellaneous	17,323,000	763,000
Commercial paper	-	6,190,266
U.S. Treasury bills	4,192,072	8,498,370
SWAPS	178,465	-
Cash and cash equivalents	51,532,263	15,130,592
Total investments at fair value	$ 4,188,550,697	$ 4,029,468,664

(d) **Investment Risks**

The Fund's investments are subject to certain types of risks, including interest rate risk, credit risk, custodial credit risk, concentration of credit risk, and foreign currency risk. The following describes those risks:

Interest Rate Risk – Interest rate risk is the risk that the fair value of debt securities decreases due to increases in the prevailing market interest rate. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Fund manages its exposure to fair value loss arising from increasing interest rates by complying with the following policy: all fixed income investments must be managed by external money managers. The Fund employs seven such managers. The specific guidelines for each manager require that the manager be responsible for determining the maturities for all fixed income securities in their portfolio. Additionally, the Fund's policy in managing its exposure to interest rate risks is by purchasing a combination of shorter term and longer term investments and by timing cash flow from maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The following tables show the segmented time distribution of the Fund's investments into time periods of maturities based on the investments' cash flows.

At December 31, 2007, the Fund had the following investments and maturities:

		Investment Maturities			
Investment Type	Market Value	Less than 1 Year	1 to 6 years	7 to 10 years	More Than 10 years
Asset backed securities	$ 48,852,205	$ 765,962	$ 24,383,941	$ 3,425,767	$ 20,276,535
Commercial mortgage backed securities	92,647,231	-	-	530,263	92,116,968
Corporate bonds	250,749,025	13,185,343	100,396,930	75,442,329	61,724,423
Government agency securities	38,422,214	1,459,913	23,384,537	11,059,467	2,518,297
Government bonds	96,357,798	504,141	42,796,094	18,365,749	34,691,814
Government mortgage backed securities	232,095,695	-	2,021,527	22,769,488	207,304,680
Index linked government bonds	6,434,659	-	699,405	-	5,735,254
Municipal principal bonds	3,826,786	-	-	480,728	3,346,058
Non-government backed collateralized mortgage obligations	113,595,205	623,935	-	5,326,893	107,644,377
Total	$ 882,980,818	$ 16,539,294	$ 193,682,434	$ 137,400,684	$ 535,358,406

At December 31, 2006, the Fund had the following investments and maturities:

Investment Type	Market Value	Investment Maturities: Less than 1 Year	1 to 6 years	7 to 10 years	More Than 10 years
Asset backed securities	$ 51,880,789	$ 1,026,125	$ 23,584,831	$ 8,344,855	$ 18,924,978
Commercial mortgage backed securities	53,746,166	-	-	-	53,746,166
Corporate bonds	232,028,675	3,138,430	94,052,080	71,468,224	58,369,941
Government agency securities	51,442,296	670,193	24,125,549	24,653,757	1,992,797
Government bonds	118,142,805	4,427,677	76,636,288	4,667,006	32,411,834
Government mortgage backed securities	204,418,504	-	1,204,702	8,977,481	194,236,321
Municipal bonds	1,458,394	-	389,413	337,822	731,159
Non-government backed collateralized mortgage obligations	93,233,283	-	208,010	4,404,120	88,621,153
Other fixed income	22,174,969	-	-	22,174,969	-
Total	$ 828,525,881	$ 14,262,425	$ 220,200,873	$ 145,028,234	$ 449,034,349

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings issued by national ratings agencies such as Moody's and Standard and Poor's. The Fund's investment policy limits its investments in corporate bonds to those that are rated Baa or better by nationally recognized rating agencies.

The following table provides information on the credit ratings associated with the Fund's investments in debt securities. Rates were obtained from Standard and Poor's:

	Fair Value	
	2007	2006
Quality Rating -		
AAA	$ 304,053,978	$ 227,770,426
AA	60,524,815	29,788,431
A	61,527,498	69,788,862
BBB	92,786,236	90,894,788
BB	17,115,783	11,219,049
B	28,248,182	26,358,496
Not rated	77,890,384	82,339,282
Other	3,622,904	2,491,401
Total credit risk of debt securities	645,769,780	540,650,735
U.S. Government & agencies	237,211,038	287,875,146
	$ 882,980,818	$ 828,525,881

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund 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 the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. The Fund's master custodian holds all investments of the Fund in the Fund's name. As of December 31, 2007 and 2006, deposits of $1,704,739 and $294,862, were exposed to custodial credit risk as uninsured and uncollateralized.

Concentration of Credit Risk – The Fund's investment policy limits the aggregate amount that can be invested in each asset class. Domestic equity, international equity, fixed income, private equity and real estate are limited to 45%, 15%, 33%, 5% and 2% of the market value of the aggregate portfolio, respectively.

The Fund has no significant investments in any organization that represent 5% or more of net assets held in trust for pension benefits.

Foreign Currency Risk – This is the risk that changes in exchange rates will adversely affect the fair value of an investment. International equity securities purchased by the Fund meet exchange listing requirements and all foreign equities held by the Fund are denominated in U.S. dollars.

The Fund does not have a formal investment policy governing foreign currency risk, but does manage its exposure to loss in the fair value of assets by requiring managers of foreign investments to maintain diversified portfolios in order to minimize foreign current and security risk.

	Fair Value	
	2007	2006
Currency		
Australian Dollar	$ 28,439,364	$ 19,731,453
Brazilian Real	2,809,428	2,214,143
British Pound Sterling	98,282,762	102,018,243
Canadian Dollar	23,891,877	24,828,052
Czech Koruna	1,097,173	-
Danish Krone	3,914,486	1,869,082
Egyptian Pound	2,432,630	269,984
Euro Currency Unit	189,299,832	191,907,981
Hong Kong Dollar	43,589,740	31,110,448
Hungarian Forint	669,211	394,914
Indian Rupee	5,672,056	1,865,269
Indonesian Rupiah	4,325,303	2,463,402
Israeli Shekel	653,150	(1,379,615)
Japanese Yen	108,613,550	124,193,613
Malaysian Ringgit	6,285,987	770,105
Mexican Peso	2,292,091	6,458,144
New Taiwan Dollar	14,638,415	-
New Zealand Dollar	-	(350,841)
Norwegian Krone	6,936,939	5,140,350
Polish Zloty	660,528	-
Singapore Dollar	7,749,478	15,407,784
South African Rand	8,570,121	8,309,474
South Korean Won	12,499,164	14,481,959
Swedish Krona	12,458,757	17,703,268
Swiss Franc	67,286,249	60,076,552
Taiwan Dollar	-	12,918,301
Thia Baht	769,123	802,178
Turkish Lira	1,370,937	993,648
Total	$ 655,208,351	$ 644,197,891

(e) **Derivatives**

The Fund's investment managers may enter into derivative transactions as permitted by their guidelines for hedging or risk reduction, not for speculative purposes. A derivative financial instrument is an investment whose payoff depends upon the value of an underlying such as bond or stock prices, a market index, or commodity prices. Derivative financial instruments involve, to varying degrees, credit risk and market risk. The Fund held fixed income future contracts of $12,640,840 and $7,595,438 at December 31, 2007 and 2006, respectively.

4. **Securities Lending Program:**

State statutes and Board of Trustees policies permit the Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's master custodian, Northern Trust Bank, lends securities of the type on loan at year-end for collateral in the form of cash, irrevocable letters of credit or other securities of 102 percent for U.S. securities. At year-end, the Fund has no credit risk exposure to borrowers because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund. The contract with the Fund's master custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the Fund or the borrower, although the average term of the loans is 95 days. Cash collateral is invested in the lending agent's short-term investment pool, which at year-end has a weighted-average maturity of 27 days. The relationship between the maturities of the investment pool and the Fund's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Fund cannot determine. The Fund cannot pledge or sell collateral securities received unless the borrower defaults.

Loans outstanding as of December 31, 2007 and 2006 are as follows:

	2007	2006
Market value of securities loaned	$ 519,603,447	$ 570,835,841
Market value of cash collateral from borrowers	516,052,543	564,202,733
Market value of non-cash collateral from borrowers	18,543,037	23,170,427

5. **Contributions:**

The Fund's funding policy provides for an employer contribution which when added to the amounts contributed by the employees will be sufficient for the requirements of the Fund. This amount cannot be more than an amount equal to the total amount of contributions by the employees to the Fund made in the calendar year two years prior to the year of employer contribution multiplied by 2.00.

The total annual actuarial required contribution to the Fund (financed by the employees and the City) is equal to the normal cost plus interest only on the unfunded actuarial accrued liabilities determined using the entry age normal method. This actuarial cost method amortizes the costs of the participants' benefits over the entire career of each member as a level of percentage of compensation. The employer contribution required for interest only on the unfunded actuarial accrued liabilities results in a decreasing annual employer cost expressed as a percentage of payroll as future payrolls increase. Since the tax levy is expressed as a multiple of the total salary deductions made two years prior, the City is effectively contributing a level annual percentage of payrolls.

6. The Fund as Employer – Post-Employment Benefits Other Than Pensions:

(a) Plan Description

The Policemen's Annuity and Benefit Fund of Chicago (PABF), as an employer, administers a single-employer defined benefit post-retirement healthcare plan ("Retiree Health Plan"). The Retiree Health Plan provides lifetime health and dental care insurance for eligible retirees and their spouses through the PABF's group health insurance plan, which covers both active and retired members. Currently 7 retirees are in the plan and 20 active employees could be eligible at retirement. Benefit subsidy provisions have been established by the PABF's Board of Trustees. The amount of the subsidy varies based upon the retiree's years of service with PABF. These benefit subsidy provisions can be modified or terminated at the sole discretion of the PABF Board.

(b) Funding Policy

The contribution requirements of plan members and the PABF are established by the PABF's Board of Trustees within the provisions of the Illinois statutes. The required contribution is based on projected pay-as-you-go financing requirements. For 2007, PABF contributed $420,728 to the plan for current premiums, including an $83,879 subsidy for retiree health and dental care premiums (76.0% of total premiums this year). Plan members receiving benefits contributed $26,544, or 24.0% of the total premiums, through their required contributions of between $79 and $493 per month based upon their coverage.

(c) Annual OPEB Cost and Net OPEB Obligation

PABF's annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The calculations assume an opening transition liability of zero as of December 31, 2006. The following table shows the components of the PABF's annual OPEB cost for 2007, the amount actually contributed to the plan, and changes in the PABF's net OPEB obligation to the Retiree Health Plan:

	2007
Annual required contribution	$ 261,500
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB expense	261,500
Contributions made	(88,800)
Increase in net OPEB obligation	172,700
Net OPEB obligation at beginning of year	-
Net OPEB obligation at end of year	$ 172,700

In 2007, PABF contributed 34.0% of the annual required OPEB contribution to the plan.

(d) **Funded Status and Funding Progress**

As of December 31, 2007, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $3,021,300, none of which was funded. The covered payroll (annual payroll of active employees covered by the plan) was $1,150,900 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 262.5%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. Since the PABF does not intend to fund the plan, no schedule of funding progress is presented.

(e) **Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculations.

In the December 31, 2007 actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return which is based upon the employer's assumed return on its assets and an annual healthcare cost trend rate of 9.0% initially, reduced by increments of 1.0 percentage point per year to an ultimate rate of 5.0% after four years. Both rates include a 3.0% general inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll over a period of 30 years.

7. **Reserves:**

The Fund maintains several reserves as required by the Illinois Pension Code and Board policy. The following are brief descriptions of the reserves.

(a) **City Contribution Reserve**

	2007	2006
Balances at December 31	$ 1,922,681,788	$ 1,812,623,964

The City Contribution Reserve is maintained for the payment of the City's portion of future retirement benefits for active and inactive participants. Interest at 3% is credited to this reserve annually. When the amount of annuity for a policeman or widow is fixed, the City Contribution Reserve is charged with the amount of the present value of retirement benefit and the Annuity Payment Reserve is credited with such amount.

The City Contribution Reserve does not equal the present value of expected retirement benefits. The unfunded liability as calculated by the actuary was $3,988,670,821 in 2007 and $3,941,570,358 in 2006.

(b) **Salary Deduction Reserve**

	2007	2006
Balances at December 31	$ 1,060,202,962	$ 1,000,682,920

The Illinois Pension Code requires the Fund to maintain separate accounts for each policeman for the amounts of salary deductions with interest at 3% per year. When a policeman retires, the amount of his annuity is charged to the Salary Deduction Reserve and credited to the Annuity Payment Reserve. If a policeman takes a separation refund, his salary deductions are refunded to him and charged to the Salary Deduction Reserve. This reserve is fully funded.

(c) **Annuity Payment Reserve**

	2006	2007
Balances at December 31	$ 636,950,919	$ 682,879,418

When the amount of annuity has been fixed, the present value of expected benefit is transferred from the City Contribution Reserve and the Salary Deduction Reserve to the Annuity Payment Reserve for the payment of annuity. All age and service annuities, widow's annuities and refunds are charged to this reserve.

Annually, the actuary calculates the present value of all annuities. The Investment and Interest Reserve will transfer amounts to the Annuity Payment Reserve to ensure that the balance in the Annuity Payment Reserve equals the present value of annuities. This reserve is fully funded.

(d) **Prior Service Annuity Reserve**

	2007	2006
Balances at December 31	$ 1,181,599,800	$ 1,091,780,544

The Prior Service Annuity Reserve is increased by the City's contributions for policemen and widows' prior service annuities and all prior service annuities payable to policemen and widows are charged to this reserve.

(e) **Gift Reserve**

	2007	2006
Balances at December 31	$ 13,530,344	$ 12,465,043

The Gift Reserve is maintained for gifts, grants, bequests or other amounts received by the Fund. The Board of Trustees determines the use of these funds. Interest is credited to the Gift Reserve annually.

(f) **Investment and Interest Reserve**

All gains and losses from investments and investment earnings are recorded in the Investment and Interest Reserve. Interest due to the City Contribution Reserve, Salary Deduction Reserve, Prior Service Annuity Reserve, Gift Reserve and Supplementary Payment Reserve is transferred from the Investment and Interest Reserve to those reserves.

(g) **Ordinary Death Benefit Reserve**

	2007	2006
Balances at December 31	$ (12,276,132)	$ (10,522,052)

Amounts contributed by policemen and the City for death benefits are credited to the Ordinary Death Benefit Reserve. Death benefit payments are charged to this reserve. The Ordinary Death Benefit Reserve has a deficit of $12,276,132 at December 31, 2007 and $10,522,052 at December 31, 2006, respectively.

(h) **Automatic Increase Reserve**

	2007	2006
Balances at December 31	$ (469,903,156)	$ (398,281,040)

The Automatic Increase Reserve is credited with amounts deducted from the salaries of policemen and matching contributions by the City for automatic increase in annuity with interest thereon. Payments of increased annuities and salary deduction refunds for increase in annuity are charged to this reserve. At December 31, 2007 and 2006, the

Automatic Increase Reserve has a deficit of $469,903,156 and $398,281,040, respectively.

(i) **Supplementary Payment Reserve**

	2007	2006
Balances at December 31	$ 447,402	$ 447,402

The Supplementary Payment Reserve receives amounts transferred from the Investment and Interest Reserve for supplemental increases in annuity for certain eligible retirees. This reserve is fully funded.

(j) **Child's Annuity Reserve**

Amounts contributed by the City for child's annuity are credited to the Child's Annuity Reserve and payments of child's annuity are charged to this reserve.

(k) **Duty Disability Reserve**

The Duty Disability Reserve is increased by the City's contributions for duty disability benefits, child's disability benefit and compensation annuity; and decreased by the payments of these benefits.

(l) **Ordinary Disability Reserve**

Amounts contributed by the City for ordinary disability benefits are credited to the Ordinary Disability Reserve. Payments of ordinary disability benefits are charged to this reserve.

(m) **Hospitalization Fund Reserve**

The health care premiums are paid from the tax levies and are credited to the reserve for Group Hospitalization Fund. Premium payments to the City are charged against this reserve.

(n) **Expense Reserve**

Amounts contributed toward the cost of administration are credited to the Expense Reserve while expenses of administration are charged to this reserve.

8. Deferred Compensation Plan:

The Fund offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Fund, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is managed by a third-party administrator.

The assets of the plan were placed in trust accounts with the plan administrator for the exclusive benefit of participants and their beneficiaries and are not considered assets of the Fund.

9. **Lease Agreement:**

The Fund leases its office facilities under a noncancellable agreement. The lease expired in 2005 and was renewed for ten years until 2015. Office rental expense amounted to $200,217 and $110,786 for the years ended December 31, 2007 and 2006, respectively.

Future minimum rental payments under the office lease at December 31, 2007 are as follows:

Year	Amount
2008	$ 225,355
2009	229,294
2010	233,234
2011	239,258
2012	244,687
Thereafter	757,691
	$ 1,929,519

10. **Risk Management:**

The Fund is exposed to various risks of loss related to tort, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Fund carries commercial insurance to reduce its exposure to risk of loss. There is no significant reduction in insurance coverage from year to year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – PENSION

YEARS ENDED DECEMBER 31, 2007 AND 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/02	$ 4,124,579,960	$ 6,384,845,959	$ 2,260,265,999	64.60%	$ 866,531,789	260.84%
12/31/03	4,039,695,590	6,581,433,250	2,541,737,660	61.38	887,555,791	286.37
12/31/04	3,933,031,342	7,034,271,474	3,101,240,132	55.91	874,301,958	354.71
12/31/05	3,914,431,654	7,722,737,147	3,808,305,493	50.69	948,973,732	401.31
12/31/06	3,997,990,919	7,939,561,277	3,941,570,358	50.36	1,012,983,634	389.11
12/31/07	4,231,681,817	8,220,352,638	3,988,670,821	51.48	1,038,957,026	383.91

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – PENSION

YEARS ENDED DECEMBER 31, 2007 AND 2006

Year Ended December 31	Contributions Annual Required	Actual Employee	Actual Employer	Percentage Contributed
2002	$ 130,237,405	$ 79,238,513	$ 141,989,027	109.02%
2003	181,545,562	79,816,332	140,807,354	77.56
2004	203,757,534	78,800,816	135,744,173	66.62
2005	238,423,459	89,109,811	178,278,371	74.77
2006	262,657,025	91,965,685	150,717,705	57.38
2007	312,726,608	93,299,996	170,598,268	54.55

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION

YEARS ENDED DECEMBER 31, 2007 AND 2006

Valuation date	December 31, 2007
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial value of assets	5-year smoothed market
Actuarial assumptions:	
Pension investment rate of return	8.0%
Projected salary increases	4.0% per year, plus additional percentage related to service
Cost of living allowance	3.0% (1.5% for retirees born after January 1, 1955)

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS – HEALTH INSURANCE

YEARS ENDED DECEMBER 31, 2007 AND 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/05	$ -	$ 176,117,539	$ 176,117,539	0.00%	$ 948,973,732	18.56%
12/31/06	-	176,981,897	176,981,897	0.00	1,012,983,634	17.47
12/31/07	-	179,039,841	179,039,841	0.00	1,038,957,026	17.23

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS – HEALTH INSURANCE

YEARS ENDED DECEMBER 31, 2007 AND 2006

Year Ended December 31	Contributions			Percentage Contributed
	Annual Required	Employee	Employer	
2006	$ 11,076,022	$ -	$ 8,041,573	72.60%
2007	11,220,081	-	8,107,708	72.26

See notes to required supplementary information.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – HEALTH INSURANCE

YEARS ENDED DECEMBER 31, 2007 AND 2006

Valuation date	December 31, 2007
Actuarial cost method	Entry age normal
Actuarial value of assets	No assets (pay-as-you-go)
Amortization method	Level percent open
Remaining amortization period	30 years
Actuarial assumptions:	
OPEB investment rate of return	4.5%
Projected salary increases	4.0% per year, plus additional percentage related to service

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF ADMINISTRATIVE EXPENSES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Administrative Expenses:		
Personal services	$ 1,542,049	$ 1,432,092
Supplies	12,580	9,342
Professional services	15,228,160	13,759,579
Fiduciary insurance	110,712	119,186
Occupancy and utilities	208,338	112,329
Postage	3,000	6,000
Equipment service and rent	46,309	44,404
Benefit disbursements	193,667	202,125
Miscellaneous	411,709	392,882
	$ 17,756,524	$ 16,077,939

See accompanying independent auditors' report.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF CONSULTING COSTS

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Payment to Consultants:		
External auditors	$ 55,150	$ 34,750
Medical consultant	176,978	87,999
Legal services	215,430	160,927
Actuary service	101,151	98,439
Investment manager fees	13,657,186	12,477,272
Master trustee fees	661,616	521,115
Consulting fees	360,649	379,077
	$ 15,228,160	$ 13,759,579

See accompanying independent auditors' report.

POLICEMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

OTHER SUPPLEMENTARY INFORMATION

SCHEDULE OF INVESTMENT FEES

YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
Investment Managers:		
Ariel Capital Management	$ 352,536	$ 342,245
Artisan Partners	435,163	502,295
Attucks Asset Management	18,961	-
BNY Asset Management	-	186,593
Capital Guardian Trust Co.	720,492	1,092,381
Channing Capital	185,437	176,656
Chicago Equity Partners	623,527	567,387
Cordillera Asset Management	205,578	204,059
Dearborn Partners LLC	164,960	134,149
Denali Advisors	95,806	122,819
Great Lakes Advisors	765,474	435,844
Harris Investments	319,062	212,294
Holland Capital Management	171,427	257,452
Invesco	296,175	479,134
JP Morgan	1,374,235	786,318
LM Capital Group	67,722	42,917
McKinley Capital	515,745	421,978
Montag & Caldwell	753,689	662,382
Northern Trust Global Investments - Index Funds	154,493	181,064
Piedmont Investment Advisors	137,081	119,381
Piedra Capital Ltd.	144,606	146,721
Taplin, Canida, & Habacht	118,154	71,798
UBS Asset Management	2,846,904	2,848,810
Wellington Management	418,221	403,243
Wells Capital Management	336,988	334,906
William Blair & Co.	2,421,524	1,727,765
Zenna Financial Services	13,226	16,681
Total investment managers fees	13,657,186	12,477,272
Investment Consultants:		
Ennis Knupp & Associates	250,419	320,913
Courtland Partners	110,230	58,164
Total investment consultants fees	360,649	379,077
Master Custodian:		
The Northern Trust Company	661,616	521,115
Total investment fees	$ 14,679,451	$ 13,377,464

See accompanying independent auditors' report.