

PARK EMPLOYEES' AND  
RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
(A Component Unit/Fund of the Chicago Park District)

FINANCIAL REPORT

JUNE 30, 2011 AND 2010

PARK EMPLOYEES' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
(A Component Unit/Fund of the Chicago Park District)

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## INDEPENDENT AUDITOR'S REPORT

The Retirement Board  
Park Employees' and Retirement Board Employees'  
Annuity and Benefit Fund of Chicago  
Chicago, Illinois

We have audited the statements of plan net assets of the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the Plan), a Component Unit/Fund of the Chicago Park District, as of June 30, 2011 and 2010, 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 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 Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago as of June 30, 2011 and 2010, and the changes in its 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 and the schedules of funding progress and employer contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedules of tax levies receivable, administrative and general expenses, annual professional expenses, and annual investment expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Bansley and Kiener, L.L.P.*

Certified Public Accountants

December 22, 2011

PARK EMPLOYEES' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
(A COMPONENT UNIT/FUND OF THE CHICAGO PARK DISTRICT)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Year Ended June 30, 2011**

This discussion and analysis of the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (Plan) financial performance provides an overview of the Plan's financial activities for the year ended June 30, 2011. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

**FINANCIAL HIGHLIGHTS**

- a) The Plan's net assets increased during the year by \$40.4 million or 9.8% compared to a decrease of \$1.9 million or 0.5% for 2010.
- b) The Plan's annual investment return of 21.0% outperformed the portfolio benchmark return of 19.3%.
- c) The Plan's three-year rate of return of 3.1% lagged the portfolio benchmark return of 4.7%.
- d) The Plan's five-year rate of return of 4.3% lagged the portfolio benchmark return of 5.2%.
- e) The Plan's ten-year rate of return of 5.1% lagged the portfolio benchmark return 5.8%.
- f) Total 2011 additions to the Plan's net assets of \$105.6 million is \$43.6 million higher than the 2010 additions.
- g) Total 2011 deductions of \$65.2 million is 1.8% higher than the 2010 deductions.
- h) The Plan's actuarially computed funding ratio is 58.0%, which is 4.3% less than 2010.

**USING THIS ANNUAL REPORT**

Management's Discussion and Analysis introduces the Plan's basic financial statements. The basic financial statements include the notes to the financial statements, required supplementary information and other additional information which will supplement the basic financial statements.

The financial statements provide information about the Plan's overall financial condition. The first of these statements is the Statement of Plan Net Assets. This is a statement indicating financial position information that includes assets and liabilities with the difference reported as net assets. Over time increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

The second financial statement is the Statement of Changes in Plan Net Assets during the fiscal year. All additions such as member and employer contributions and investment income are included. All deductions such as benefit payments, refunds of contributions and administrative and general expenses are reflected. An important purpose of the design of this statement is to show the individual components of additions and deductions that occurred during the fiscal year.

The accompanying Notes to the Financial Statements will provide information essential to achieve full disclosure and understanding of the Plan's financial statements.

In addition to the basic financial statements and accompanying notes, the report also presents certain required supplementary information including the Schedules of Funding Progress and Employer Contributions along with the accompanying note to these schedules. Other supplementary information includes schedules of Tax Levies Receivable, Administrative and General Expenses, Annual Professional Expenses and Annual Investment Expenses.

## THE PLAN AS A WHOLE

### PLAN NET ASSETS

The Plan's net assets at fiscal year-end are \$452,810,488. This is \$40,437,133 higher than 2010 year-end net assets of \$412,373,355. This compares to a reduction of \$1,946,492 for the prior fiscal year. The following tables are comparative summaries of net assets:

#### STATEMENT OF PLAN NET ASSETS – CURRENT YEAR

	2011	2010	Increase (Decrease)
Total Assets	\$495,682,062	\$451,657,596	\$44,024,466
Total Liabilities	42,871,574	39,284,241	3,587,333
Net Assets	\$452,810,488	\$412,373,355	\$40,437,133

#### STATEMENT OF PLAN NET ASSETS – PRIOR YEAR

	2010	2009	Increase (Decrease)
Total Assets	\$451,657,596	\$424,368,430	\$27,289,166
Total Liabilities	39,284,241	10,048,583	29,235,658
Net Assets	\$412,373,355	\$414,319,847	\$(1,946,492)

#### CHANGES IN PLAN NET ASSETS

The 2011 investment income was \$84,867,859 as compared to the investment income of \$41,419,975 in 2010. The increase in 2011 investment income is primarily a direct result of the increase in market value of the Plan's investments producing unrealized income. The unrealized gains and losses are directly tied to the economic state of the broader financial markets.

For the fiscal year, expenditures were \$65,203,795 which is \$1,177,991 higher than 2010. The slight increase in retirement and spouse's benefit expenditures is primarily the result of the 3% annual increase. The increase in refunds is due to a 21% raise in withdrawals. All other benefit increases and decreases were minor in nature.

## THE PLAN AS A WHOLE (Continued)

## STATEMENT OF CHANGES IN PLAN NET ASSETS – CURRENT YEAR

	2011	2010	Increase (Decrease)
<b>ADDITIONS</b>			
Employer Contributions	\$ 10,981,419	\$10,829,339	\$ 152,080
Employee Contributions	9,791,650	9,829,998	(38,348)
Investment Income (includes security lending activities)	84,867,859	41,419,975	43,447,884
<b>Total Additions</b>	<b>\$105,640,928</b>	<b>\$62,079,312</b>	<b>\$43,561,616</b>
<b>DEDUCTIONS</b>			
Retirement Benefits	\$ 50,950,848	\$ 50,528,497	\$ 422,351
Spouse Benefits	10,374,674	10,083,124	291,550
Childrens Benefits	18,519	17,400	1,119
Disability Benefits	391,491	312,818	78,673
Death Benefits	307,000	249,500	57,500
<b>Total Benefits</b>	<b>62,042,532</b>	<b>61,191,339</b>	<b>851,193</b>
Refund of Contributions	1,662,358	1,368,903	293,455
Administrative & General Expenses	1,498,905	1,465,562	33,343
<b>Total Deductions</b>	<b>\$ 65,203,795</b>	<b>\$ 64,025,804</b>	<b>\$ 1,177,991</b>
Increase (Decrease) in Plan Net Assets	40,437,133	(1,946,492)	42,383,625
Beginning of Year	412,373,355	414,319,847	(1,946,492)
End of Year	\$452,810,488	\$412,373,355	\$ 40,437,133

## STATEMENT OF CHANGES IN PLAN NET ASSETS – PRIOR YEAR

	2010	2009	Increase (Decrease)
<b>ADDITIONS</b>			
Employer Contributions	\$10,829,339	\$ 9,677,765	\$ 1,151,574
Employee Contributions	9,829,998	10,141,146	(311,148)
Investment Income (Loss) (includes security lending activities)	41,419,975	(103,488,378)	144,908,350
<b>Total Additions</b>	<b>\$62,079,312</b>	<b>\$(83,669,464)</b>	<b>\$145,748,776</b>
<b>DEDUCTIONS</b>			
Retirement Benefits	\$ 50,528,497	\$ 49,910,083	\$ 618,414
Spouse Benefits	10,083,124	9,819,764	263,360
Childrens Benefits	17,400	24,250	(6,850)
Disability Benefits	312,818	258,117	54,701
Death Benefits	249,500	252,500	(3,000)
<b>Total Benefits</b>	<b>61,191,339</b>	<b>60,264,714</b>	<b>926,625</b>
Refund of Contributions	1,368,903	2,680,359	(1,311,456)
Administrative & General Expenses	1,465,562	1,335,180	130,382
<b>Total Deductions</b>	<b>\$ 64,025,804</b>	<b>\$ 64,280,253</b>	<b>\$ (254,449)</b>
Increase (Decrease) in Plan Net Assets	(1,946,492)	(147,949,717)	146,003,225
Beginning of Year	414,319,847	562,269,564	(147,949,717)
End of Year	\$ 412,373,355	\$ 414,319,847	\$ (1,946,492)

**THE PLAN AS A WHOLE (Continued)**

The actuarial valuation was based upon the actuarial liabilities being computed using the Projected Unit Credit Actuarial Cost Method. Actuarial valuations for fiscal years 2004 and prior were based upon the Entry Age Normal Actuarial Cost Method. The Trustees approved the change in valuation methods because of the resulting positive impact on funding due to the marked decline in the average age of active members.

The Plan's actuarially computed funding ratio is 58.0%, which is 4.3% less than 2010. This drop is the direct result of the continual recognition of deferred unrealized losses for 2008 and 2009 due to the five-year smoothing of market values used to determine the actuarial value of assets. The annual investment return for the fiscal year was 21.0%, which is higher than the 11.3% for 2010 and the -18.6% for 2009.

The Plan's 21.0% return outperformed its performance benchmark by roughly 170 basis points and lagged the peer median by roughly 10 basis points. The Plan over the trailing three-year and five-year periods lagged the performance benchmark by roughly 160 and 90 basis points, respectively. Over the trailing ten-year period that Plan returned 5.1%, underperforming the 8.0% actuarial rate of return.

The Plan is postured to generate strong investment returns as the financial markets improve. The Plan's strong financial condition positions the Plan to continue providing benefits well into the future.

**CONTACTING THE PLAN'S FINANCIAL MANAGEMENT**

This report is intended to provide a general overview of the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago for its employees and other interested parties. If you have questions, requests, or need additional information, please contact the Plan at 55 East Monroe Street, Suite 2720, Chicago, Illinois 60603.

PARK EMPLOYEES' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
(A Component Unit/Fund of the Chicago Park District)

STATEMENTS OF PLAN NET ASSETS  
JUNE 30, 2011 AND 2010

ASSETS	<u>2011</u>	<u>2010</u>
Cash	<u>\$ 64,527</u>	<u>\$ 64,527</u>
Receivables		
Contributions from employer, net of allowance for loss of \$140,355 in 2011 and \$208,667 in 2010	15,484	16,299
Employee contributions	573,234	535,297
Due from broker for securities sold	176,760	-
Accrued investment income	885,225	849,835
Miscellaneous receivables	<u>2,269</u>	<u>1,105</u>
	<u>1,652,972</u>	<u>1,402,536</u>
Investments, at fair value		
Short-term investments	12,474,656	15,669,242
Bonds	81,736,788	80,464,068
Common and preferred stocks	64,193,591	57,832,724
Collective investment funds	133,104,264	112,919,062
Pooled separate real estate accounts	10,485,505	15,663,010
Private equity partnerships	<u>150,622,560</u>	<u>128,986,093</u>
	<u>452,617,364</u>	<u>411,534,199</u>
Invested securities lending collateral	<u>41,247,636</u>	<u>38,527,702</u>
Furniture and fixtures - net	<u>62,949</u>	<u>85,632</u>
Prepaid expenses	<u>36,614</u>	<u>43,000</u>
Total assets	<u>495,682,062</u>	<u>451,657,596</u>
 LIABILITIES		
Accounts payable	436,983	475,968
Accrued benefits payable	201,750	280,571
Securities lending collateral	41,247,636	38,527,702
Due to broker for securities purchased	<u>985,205</u>	<u>-</u>
	<u>42,871,574</u>	<u>39,284,241</u>
Net assets held in trust for pension benefits	<u>\$ 452,810,488</u>	<u>\$ 412,373,355</u>

The accompanying notes are an integral part of the financial statements.



PARK EMPLOYEES' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
(A Component Unit/Fund of the Chicago Park District)

STATEMENTS OF CHANGES IN PLAN NET ASSETS  
YEARS ENDED JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Additions		
Contributions		
Employer contributions	\$ 10,981,419	\$ 10,829,339
Employee contributions	9,791,650	9,829,998
Total contributions	<u>20,773,069</u>	<u>20,659,337</u>
Investment income		
Net appreciation in fair value of investments	79,741,346	36,262,140
Interest	4,015,261	4,050,974
Dividends	2,103,662	1,938,396
Investment return on pooled separate real estate accounts	-	83,734
Partnership income	1,736,119	1,862,214
	<u>87,596,388</u>	<u>44,197,458</u>
Less investment expenses	2,790,550	2,947,487
	<u>84,805,838</u>	<u>41,249,971</u>
Security lending activities		
Securities lending income	149,358	81,823
Securities lending gain (loss)	-	118,100
Borrower rebates	(37,111)	15,555
Bank fees	(50,226)	(45,474)
	<u>62,021</u>	<u>170,004</u>
Total additions	<u>105,640,928</u>	<u>62,079,312</u>
Deductions		
Benefits		
Annuity payments	61,344,041	60,629,021
Disability and death benefits	698,491	562,318
Total benefits	<u>62,042,532</u>	<u>61,191,339</u>
Refund of contributions	1,662,358	1,368,903
Administrative and general expenses	1,498,905	1,465,562
Total deductions	<u>65,203,795</u>	<u>64,025,804</u>
Net increase (decrease)	40,437,133	(1,946,492)
Net assets held in trust for pension benefits		
Beginning of year	<u>412,373,355</u>	<u>414,319,847</u>
End of year	<u>\$ 452,810,488</u>	<u>\$ 412,373,355</u>

The accompanying notes are an integral part of the financial statements.

PARK EMPLOYEES' AND RETIREMENT BOARD EMPLOYEES'  
ANNUITY AND BENEFIT FUND OF CHICAGO  
 (A Component Unit/Fund of the Chicago Park District)

NOTES TO FINANCIAL STATEMENTS

Note 1 – Plan Description and Contribution Information

The Plan is the administrator of a single employer defined benefit plan (PERS) established by the State of Illinois to provide annuities and benefits for substantially all employees of the Chicago Park District. The Plan is considered a component unit of the Chicago Park District's financial statements as a pension trust fund. The Plan is administered in accordance with the Illinois Compiled Statutes. The defined benefits as well as the employer and employee contribution levels of the Plan are mandated by Illinois State Statutes and may be amended only by the Illinois legislature. The Plan provides retirement, disability and death benefits to plan members and beneficiaries. At June 30, 2011 and 2010, Plan membership consists of:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits	2,913	2,956
Current employees	2,795	2,816
Vested terminated members entitled to benefits	141	160

Pension legislation (Public Act 96-0889) was approved during 2010 and establishes two distinct classes of membership with different retirement eligibility conditions and benefit provisions. For convenience, the Plan uses a tier concept to distinguish these groups, generally:

Tier 1 – Participants that became members before January 1, 2011.

Tier 2 – Participants that first became members on or after January 1, 2011.

Tier 1 employees attaining the age of 50 with at least ten years of creditable service are entitled to receive a service retirement pension. The retirement pension is based upon the average of the four highest consecutive years of salary within the last ten years of service. If the employee retires prior to the attainment of age 60, the rate associated with the service is reduced by one-quarter percent for each full month the employee is under age 60. There is no reduction if the participant has 30 years of service. Employees with four years of service at age 60 may receive a retirement benefit.

Tier 2 employees attaining the age 62 with at least ten years or more of creditable service are entitled to receive a discounted service retirement pension. Employees attaining the age 67 or more, with at least 10 years of service are entitled to receive a non-discounted annuity benefit. The annuity is discounted one-half percent for each full month the employee is under age 67. The retirement pension is based upon the average of the eight highest consecutive years of salary within the last 10 years of service prior to retirement. Pensionable salary is limited to \$106,800 in 2011.

## Note 1 – Plan Description and Contribution Information (Continued)

### *Post-Retirement Increase*

Tier 1: An employee annuitant under Tier 1 who retires at age 60 or older with at least 30 years of service is eligible to receive an increase of three percent, based on the annuity granted at retirement, payable following the first 12 months of benefits on either the next January or July. If the employee annuitant retires before age 60 with less than 30 years of service, then the increases begin on the January or July following the later of the attainment of age 60 or 12 months of benefits received.

Tier 2: An employee annuitant under Tier 2 that is eligible to receive an increase in the annuity benefit, shall receive an annual increase equal to the lesser of three percent or one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero) as measured in the preceding 12 month period ending with the September preceding the increase. The increase is based on the amount of the originally granted benefit (simple). This increase begins after age 67 on the first January following one full year of benefits received.

### *Surviving Spouse Pension*

Tier 1: Upon the death of an employee annuitant under Tier 1, the surviving spouse, meeting certain eligibility requirements, is entitled to a spousal annuity. The surviving spouse is entitled to the lesser of a money purchase calculation, 50% of the highest salary or 75% of the granted annuity. With 20 years of service the entitlement becomes the higher of the eligible money purchase calculation or 50% of retiree's annuity at time of death. The surviving spouse is also eligible to receive an increase of three percent compounded, on the January following one full year after the date of death of the employee or annuitant.

Tier 2: The annuity payable to the surviving spouse of an employee annuitant under Tier 2 is equal to 66 2/3% of the participant's earned retirement annuity at the time of death without reduction due to age. The surviving spouse is also eligible to receive an increase of the lesser of three percent or one-half of the annual unadjusted percentage increase in the Consumer Price Index-U (but not less than zero).

### *Child Annuity*

Under Tier 1 and Tier 2, unmarried children under the age of 18 of a deceased employee or annuitant having at least two years of service are entitled to a benefit. The child's annuity is an amount equal to \$100 a month when there is a surviving spouse or \$150 when there is no surviving spouse, subject to maximum limitations.

### *Ordinary Disability Benefit*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of any cause other than an accidental injury incurred while in the performance of an act of duty is entitled to an ordinary disability benefit at the amount equal to 45% of the employee's annual salary at the time of disablement. An employee can receive ordinary disability for a period equal to one fourth of his/her service credits up to a maximum of five years, exclusive of the disability period. Tier 2 participants have salary limitations similar to employee contributions.

### *Duty Disability Benefit*

Under Tier 1 and Tier 2, an employee who becomes disabled as the result of a work related injury incurred while in the performance of an act of duty is entitled to a duty disability benefit in the amount equal to 75% of the employee's annual salary at the time of injury, reduced by any benefits received by the employee under the provisions of the Workers' Compensation Act. Tier 2 participants have salary limitations similar to employee contributions.

## Note 1 – Plan Description and Contribution Information (Continued)

### *Contributions*

Covered employees are required by state statutes to contribute 9.0 percent of their salary to the Plan. If a covered employee leaves employment before the age of 55, accumulated employee contributions are refundable without interest. The District is required by state statute to contribute the remaining amounts necessary to finance the requirements of the Plan on an actuarially funded basis. 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 Plan made in the fiscal year two years prior to the year for which the annual applicable tax is levied, multiplied by a factor of 1.1 annually. The District has no legal obligation to fund pension costs above that allowed by statute.

## Note 2 – Summary of Significant Accounting Policies

### *Reporting Entity*

As defined by generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the appointed officials of the primary government are financially accountable. Financial accountability is defined as:

- (1) Appointment of a voting majority of the component unit's board and either a) the ability to impose will by the primary government, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- (2) Fiscal dependency on the primary government.

Based upon the required criteria, the Plan has no component units. The Plan is considered a component unit fund of the Chicago Park District and, as such, is included in the Chicago Park District's financial statements. Accordingly, these financial statements present only the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund and are not intended to present fairly the financial position of the Chicago Park District and the result of its operations in conformity with generally accepted accounting principles.

### *Basis of Accounting*

The financial statements are prepared using the accrual basis of accounting. Employee and employer contributions are recognized when due, pursuant to formal commitments, as well as statutory or contractual requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

### *Method Used to Value Investments*

The Plan is authorized to invest in bonds, notes, and other obligations of the U.S. Government; corporate debentures and obligations; insured mortgage notes and loans; common and preferred stocks; stock options; real estate; collective investment funds; and private equity partnerships as set forth in the Illinois Compiled Statutes. Income on all investments is recognized on the accrual basis. Gains and losses on sales and exchanges of investments are recognized on the transaction date of such sale or exchange. Dividend income is recognized based on dividends declared.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Fair values for bonds and stocks are determined by quoted market prices. Investments for which market quotations are not readily available are valued at their fair values as determined by the bank administrator under the direction of the Board of Trustees, with the assistance of a valuation service.

Note 2 – Summary of Significant Accounting Policies (Continued)

*Administrative Expenses*

Administrative expenses are budgeted and approved by the Plan's Board of Trustees. Funding for these expenses is included in the employer contributions as determined by the annual actuarial valuation.

*Date of Management's Review*

Management has evaluated subsequent events through December 22, 2011, the date the financial statements were available to be issued.

Note 3 – Investments

The Plan's investments are held by a bank administered trust fund, except for the collective investment funds, pooled separate real estate accounts and private equity partnerships. Investments that represent 5 percent or more of the Plan's net assets (except those issued or guaranteed by the U.S. Government) are separately identified.

	<u>2011</u>	<u>2010</u>
Investments At Fair Value As		
Determined by Quoted Price		
Short-term investments	\$ 12,474,656	\$ 15,669,242
Bonds	81,736,788	80,464,068
Common and preferred stock	<u>64,193,591</u>	<u>57,832,724</u>
	158,405,035	153,966,034
Investments At Fair Value As		
Determined by Bank Administrator		
Collective investment funds		
International Research Equity	40,037,922	29,550,403
NTGI QM Collective Daily S&P 500	25,995,995	25,283,983
NTGI QM Collective Daily US Marketcap Equity	25,501,633	20,767,422
NTGI QM Collective Daily All Country World Index	41,568,714	37,317,254
Pooled separate real estate accounts	10,485,505	15,663,010
Private equity partnerships		
Entrust Diversified Select Equity Fund	24,781,532	23,564,427
K2 Long Short Fund	23,037,930	21,108,614
Other	<u>102,803,098</u>	<u>84,313,052</u>
	<u>\$452,617,364</u>	<u>\$411,534,199</u>

The Plan shall apply the prudent investor rule in investing for funds under its supervision. The "prudent investor rule" means that in making investments, the fiduciaries shall exercise the judgment and care, under the circumstances then prevailing, that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it, with regards to preservation of capital and income and not speculation. The funds belonging to the Plan must be invested exclusively for the benefit of their members and in accordance with the respective Plan's investment goals and objectives.

## Note 3 – Investments (Continued)

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates of debt securities that will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates.

The Plan does not maintain a policy relative to interest rate risk. The Board of Trustees recognized that its investments are subject to short-term volatility. However, their goal is to maximize total return within prudent risk parameters.

At June 30, 2011 the following tables show the investments in debt securities by investment type and maturity (expressed in thousands).

<u>2011</u>		Total Market	Less Than				Maturity
	<u>Security Type</u>	<u>Value</u>	<u>1 Year</u>	<u>1 – 6 Years</u>	<u>6 -10 Years</u>	<u>10+ Years</u>	<u>N/D*</u>
	Asset backed	\$ 789	\$ -	\$ 345	\$ -	\$ 444	\$ -
	Commercial mortgage backed	4,420	-	-	-	4,420	-
	Corporate bonds	23,344	117	9,655	9,194	4,376	2
	Government agencies	7,480	-	2,639	4,757	84	-
	Government bonds	15,051	-	2,022	7,417	5,612	-
	Government mortgage backed	30,214	-	319	4,603	25,292	-
	Municipal/provincial bonds	125	-	-	-	125	-
	Index linked government bonds	109	-	-	109	-	-
	Non-government backed CMO's	205	-	-	-	205	-
	Short term investment funds	<u>12,475</u>	<u>12,475</u>	-	-	-	-
	Total	<u>\$94,212</u>	<u>\$12,592</u>	<u>\$14,980</u>	<u>\$26,080</u>	<u>\$40,558</u>	<u>\$ 2</u>

\* Information not determinable

Some investments are more sensitive to interest rate changes than others. Variable and floating rate collateralized mortgage obligations (CMOs), asset-backed securities (ABS), interest-only and principal-only securities are examples of investments whose fair values may be highly sensitive to interest rate changes.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan maintains a highly diversified portfolio of debt securities encompassing a wide range of credit ratings. Each fixed income manager is given a specific set of guidelines to invest within, based on the mandate for which it was hired. The guidelines specify in which range of credit the manager may invest. These ranges include investment grade and high yield categories.

## Note 3 – Investments (Continued)

The following tables present the Plan's ratings as of June 30, 2011 (expressed in thousands).

<u>2011</u>										
S & P	Market	Asset	Comm'l	Corporate	Gov't	Gov't	Gov't	Index	Non-	
Credit	Value	Backed	Mortgage	Bonds	Agencies	Bonds	Mortgage	Linked	Gov't	Municipal
Rating		Securities	Backed				Backed	Gov't	Backed	Bonds
								Bonds	CMO	
AAA	\$10,190	\$201	\$2,389	\$ -	\$7,396	\$ -	\$ -	\$ -	\$204	\$ -
AA	2,872	-	98	2,774	-	-	-	-	-	-
A	7,786	-	960	6,826	-	-	-	-	-	-
BBB	10,488	588	682	9,134	84	-	-	-	-	-
BB	3,585	-	-	3,416	-	44	-	-	-	125
B	659	-	-	659	-	-	-	-	-	-
CCC	10	-	-	10	-	-	-	-	-	-
NR	15,064	-	291	525	-	14,138	-	109	1	-
US Gov't Agency	<u>31,083</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>869</u>	<u>30,214</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$81,737</u>	<u>\$789</u>	<u>\$4,420</u>	<u>\$23,344</u>	<u>\$7,480</u>	<u>\$15,051</u>	<u>\$30,214</u>	<u>\$ 109</u>	<u>\$205</u>	<u>\$125</u>

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the pension fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. A review of the Plan's exposure to custodial credit risks reflects that there is none.

## Note 4 – Deposits

At June 30, 2011 and 2010, the Plan's book balances of cash were \$64,527 and \$64,527, respectively, at the Northern Trust Company Bank. The actual bank balances were \$70,028 and \$64,496, respectively, at June 30, 2011 and 2010. The Plan maintains cash balances at the Northern Trust Company Bank. Accounts at this institution may from time to time exceed amounts insured by the Federal Deposit Insurance Company.

#### Note 5 – Securities Lending

Under the provisions of state statutes, the Plan lends securities (both equity and fixed income) to qualified and Plan approved brokerage firms for collateral that will be returned for the same securities in the future. The Plan's custodian, the Northern Trust Co., manages the securities lending program, which includes the securities of the Plan as well as other lenders, and receives cash, U.S. Treasury securities or letters of credit as collateral. The collateral received cannot be pledged or sold by the Plan unless the borrower defaults. However, the Plan does have the right to close the loan at any time. All security loan agreements are initially collateralized at 102% of the loaned securities. Whenever adjustments are needed to reflect changes in the market value of the securities loaned, the collateral is adjusted accordingly. Cash collateral is invested in the lending agent's short-term investment pool, which at year end has a weighted average maturity of 102 days. As of June 30, 2011 and 2010, the Plan had loaned to borrowers securities with a market value of \$40,440,675 and \$37,461,938, respectively. As of June 30, 2011, the fair value of the collateral received by the Plan was \$41,247,636, and the collateral invested by the Plan was \$41,247,636. As of June 30, 2010, the fair value of the collateral received by the Plan was \$38,527,702 and the collateral invested by the Plan was \$38,527,702.

At year end, the Plan has no credit risk exposure to the borrowers because the amounts the Plan owes the borrowers exceed the amounts the borrowers owe the Plan.

#### Note 6 – Operating Leases

The Plan has entered into an operating lease for office space through April 30, 2013, which was extended through April 30, 2026. The lease provides that the lessee pay monthly base rent subject to annual increases, plus an escalation rent computed on costs incurred by the lessor.

Following is a schedule of minimum future rental payments for each of the next five years in the aggregate under the noncancelable operating lease at June 30, 2011:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$ 61,891
2013	67,276
2014	84,214
2015	86,543
2016	88,871
2017-2021	479,283
2022-2026	<u>518,480</u>
	<u>\$1,386,558</u>

The total rental expense for the years ended June 30, 2011 and 2010 was \$131,275 and \$133,365, respectively.



#### Note 6 – Operating Leases

During the years ended June 30, 2011 and 2010, the Plan leased mail machine equipment under an operating lease which expires March 31, 2014. Effective September 1, 2009, the quarterly charge increased to \$1,491 from \$1,455. During the years ended June 30, 2011 and 2010, the Plan leased photocopy equipment under an operating lease which expires June 30, 2012. Effective November 1, 2009, the monthly charge increased to \$482 from \$421. Minimum future rental commitments at June 30, 2011, under these operating lease agreements, are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2012	\$11,748
2013	5,964
2014	<u>4,473</u>
	<u>\$22,185</u>

Equipment rent expense was \$18,058 and \$11,053 for the years ended June 30, 2011 and 2010, respectively.

#### Note 7 – Commitments

During the years ended June 30, 2011 and 2010, the Plan committed to purchase \$75,000,000 interest in private equity partnerships. At June 30, 2011 and 2010, the Plan had a remaining contractual obligation of \$21,701,340 and \$27,089,866, respectively, to purchase additional interest in the private equity partnerships.

#### Note 8 – Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2011, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

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)
\$489,371	\$843,944	\$354,573	58.0%	\$107,687	329.3%

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Additional information as of the latest actuarial valuation follows:

Valuation date	6/30/11
Actuarial cost method	Projected unit
Amortization method	Level dollar
Amortization period	30 years (open period)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.5%
Inflation rate	4.0%

REQUIRED SUPPLEMENTARY INFORMATIONSCHEDULE OF FUNDING PROGRESS  
(UNAUDITED)

(Dollar amounts in thousands)

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)
6/30/11	\$489,371	\$843,944	\$354,573	58.0%	\$107,687	329.3%
6/30/10	518,583	833,026	314,443	62.3%	107,361	292.9
6/30/09	553,755	823,897	270,142	67.2	108,883	248.1
6/30/08	586,676	795,379	208,703	73.8	111,698	186.9
6/30/07	583,296	767,931	184,635	76.0	106,602	173.2
6/30/06	572,659	745,244	172,585	76.8	101,058	170.8

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

Year Beginning July 1,	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
2010	\$25,319	43%
2009	22,400	48
2008	18,285	53
2007	16,073	56
2006	14,572	66
2005	16,437	62

NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Valuation date	6/30/11
Actuarial cost method	Projected unit Entry age (2004 and prior)
Amortization method	Level dollar
Amortization period	30 years (open period)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	8.0%
Projected salary increases	4.5%
Inflation rate	4.0%

TAX LEVIES RECEIVABLE

<u>Levy Year (Calendar)</u>	<u>Tax Levy</u>	<u>Collections</u>	<u>Tax Levies Receivable</u>	<u>Allowance for Uncollectible Taxes</u>	<u>Allowance for Uncollectible Write-offs as a Percentage of Tax Levy</u>	<u>Net Tax Levies Receivable</u>
At June 30, 2011:						
2007	\$ 9,149,814	\$9,149,191	\$ 623	\$ 623	0.01%	\$ -
2008	9,857,126	9,737,546	119,580	119,580	1.21%	-
2009	10,331,182	10,311,030	20,152	20,152	0.20%	-
2010	10,868,619	10,853,135	15,484	-	0.00%	15,484
			<u>\$ 155,839</u>	<u>\$ 140,355</u>		<u>\$ 15,484</u>
At June 30, 2010:						
2006	\$ 9,715,923	\$9,647,611	\$ 68,312	\$ 68,312	0.70%	\$ -
2007	9,149,814	9,149,191	623	623	0.01%	-
2008	9,857,126	9,737,546	119,580	119,580	1.21%	-
2009	10,331,182	10,294,731	36,451	20,152	0.20%	16,299
			<u>\$ 224,966</u>	<u>\$ 208,667</u>		<u>\$ 16,299</u>

ADMINISTRATIVE AND GENERAL EXPENSES

	Year Ended June 30,	
	2011	2010
Actuary expense	\$ 42,000	\$ 48,000
Auditing	25,000	25,000
Conference and convention expense	21,321	21,924
Contributions for annuities of Retirement Board employees	112,800	91,025
Depreciation	22,682	18,958
Equipment rental	18,058	11,053
Equipment maintenance	1,668	1,156
Filing fee - State of Illinois	8,000	8,000
File storage expense	3,959	4,130
Hospitalization	161,512	141,980
Legal	41,883	18,146
Legislative consultant	9,000	35,250
Medical fees	1,080	866
Office supplies and expenses	17,205	32,974
Postage	6,389	20,792
Insurance - surety bond and other	1,764	2,352
Printing	-	1,904
Rent expense	131,275	133,365
Salaries	847,533	822,409
Social security - Medicare	8,568	8,262
Telephone	8,471	8,329
Transportation	1,386	714
Trustees' election expense	7,351	8,973
	<u>7,351</u>	<u>8,973</u>
Total administrative and general expenses	<u>\$ 1,498,905</u>	<u>\$ 1,465,562</u>

ANNUAL PROFESSIONAL EXPENSES

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
Legal	\$ 41,883	\$ 18,146
Medical	1,080	866
Actuary	42,000	48,000
Auditing	25,000	25,000
Legislative Consultant	<u>9,000</u>	<u>35,250</u>
Total	<u>\$ 118,963</u>	<u>\$ 127,262</u>

ANNUAL INVESTMENT EXPENSES

	<u>Year Ended June 30,</u>	
	<u>2011</u>	<u>2010</u>
<u>U.S. EQUITY</u>		
Great Lakes Advisors	\$ 89,194	\$ 97,014
Ariel Capital Management	140,966	135,616
Northern Trust Quantitative Advisors	20,071	20,890
RBC Global Asset Management (formerly Voyageur Asset Management)	136,979	144,977
	<u>387,210</u>	<u>398,497</u>
<u>NON - U.S. EQUITY</u>		
Wellington Trust Company	279,868	243,480
Northern Trust Quantitative Advisors	24,775	23,762
	<u>304,643</u>	<u>267,242</u>
<u>U.S. BONDS</u>		
LM Capital Group	25,039	9,666
MacKay Shields	147,887	159,901
Chicago Equity Partners	72,266	67,168
Reams Asset Management	-	42,768
	<u>245,192</u>	<u>279,503</u>
<u>REAL ESTATE</u>		
Principal Financial Group	163,351	95,972
ULLICO	-	221,552
	<u>163,351</u>	<u>317,524</u>
<u>PARTNERSHIPS</u>		
HarbourVest Partners	350,000	350,000
PineBridge Investments (formerly AIG Investments)	-	49,752
Entrust Capital	277,331	277,339
Trumbull Property (formerly UBS Realty Investors)	270,934	259,640
Mesirow Financial	228,000	226,790
K2 Advisors	278,960	298,456
New York Life Capital Partners	119,033	59,766
	<u>1,524,258</u>	<u>1,521,743</u>
<u>BANKING</u>		
Custody	50,000	50,000
Other	22,979	22,978
	<u>72,979</u>	<u>72,978</u>
<u>CONSULTING</u>		
Marquette Associates	92,917	90,000
	<u>92,917</u>	<u>90,000</u>
Total	<u>\$ 2,790,550</u>	<u>\$ 2,947,487</u>