PARK EMPLOYEES' AND RETIREMENT BOARD EMPLOYEES' ANNUITY AND BENEFIT FUND OF CHICAGO

(A Component Unit/Fund of the Chicago Park District)

FINANCIAL REPORT

DECEMBER 31, 2012 AND JUNE 30, 2012

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

CONTENTS

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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 position of the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (the Fund), a Component Unit/Fund of the Chicago Park District, as of December 31, 2012 and June 30, 2012, and the related statements of changes in plan net position for the six months ended December 31, 2012 and year ended June 30, 2012, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net position of Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago as of December 31, 2012 and June 30, 2012, and the changes in its plan net position for the six months ended December 31, 2012 and year ended June 30, 2012 in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress and employer contributions on pages 3 through 5 and page 17 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The schedules of tax levies receivable, administrative and general expenses, professional expenses, and investment expenses are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of tax levies receivable, administrative and general expenses, professional expenses, and investment expenses are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Bansley and Kiener, L.L.P.
Certified Public Accountants

June 19, 2013

Management's Discussion and Analysis

Management's Discussion and Analysis Six Months Ended December 31, 2012

This discussion and analysis of the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (Fund) financial performance provides an overview of the Fund's financial activities for the six months ended December 31, 2012. On August 16, 2012, Public Act 97-0973 was signed, changing the Fund's year end from June 30th to December 31st, resulting in the current presentation of six month financial statements. Please read it in conjunction with the basic financial statements and the accompanying notes to those financial statements.

Financial Highlights

a) The Fund's net position increased during the six months ended December 31, 2012 by $1.6 million or 0.4% compared to a decrease of $42.0 million or 9.3% for the fiscal year ended June 30, 2012.
b) The Fund's annual investment return of 11.1% outperformed the portfolio benchmark return of 10.6%.
c) The Fund's three-year rate of return of 8.9% outperformed the portfolio benchmark return of 7.6%.
d) The Fund's five-year rate of return of 2.4% outperformed the portfolio benchmark of 1.9%.
e) The Fund's ten-year rate of return of 6.6% outperformed the portfolio benchmark of 6.5%.
f) For the six months ended December 31, 2012, the additions to the Fund's net position of $35.6 million is $10.4 million more than the fiscal year ended June 30, 2012 additions.
g) For the six months ended December 31, 2012, the deductions to the Fund's net position of $34.0 million is 49.4% less than the deductions at fiscal year ended June 30, 2012.
h) The Fund's actuarially computed funding ratio is 43.4% at December 31, 2012, which is 7.5% less than at June 30, 2012.

Using this Report

Management's Discussion and Analysis introduces the Fund'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 Fund's overall financial condition. The first of these statements is the Statements of Plan Net Position. This is a statement indicating financial position information that includes assets and liabilities with the difference reported as net position restricted for pension benefits. Over time increases and decreases in the net position restricted for pension benefits may serve as a useful indicator of whether the financial position of the Fund is improving or deteriorating.

The second financial statement is the Statements of Changes in Plan Net Position. 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 six months ended December 31, 2012.

The accompanying Notes to Financial Statements will provide information essential to achieve full disclosure and understanding of the Fund'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, Professional Expenses, and Investment Expenses.

The Fund as a Whole

Fund Net Position Restricted for Pension Benefits

The Fund's net position restricted for pension benefits at December 31, 2012 is $412,389,017. This is $1,591,429 more than the June 30, 2012 net position restricted for pension benefits of $410,797,588. This compares to a decrease of $42,012,900 for the fiscal year ended June 30, 2012. The following tables are comparative summaries of net position restricted for pension benefits:

Management's Discussion and Analysis (Continued)

Statements of Plan Net Position – Current Period

	December 31, 2012	June 30, 2012	Increase (Decrease)
Total Assets	$454,393,150	$452,750,121	$1,643,029
Total Liabilities	42,004,133	41,952,533	51,600
Net Assets	$412,389,017	$410,797,588	$1,591,429

Statements of Plan Net Position – Prior Period

	June 30, 2012	June 30, 2011	Increase (Decrease)
Total Assets	$452,750,121	$495,682,062	$(42,931,941)
Total Liabilities	41,952,533	42,871,574	(919,041)
Net Assets	$410,797,588	$452,810,488	$(42,012,900)

Changes in Plan Net Position

For the six months ended December 31, 2012 the investment income was $24,956,796 as compared to the investment income of $3,861,173 for the fiscal year ended June 30, 2012. The increase in investment income for the six months ended December 31, 2012 is primarily a direct result of the appreciation in market value of the Fund's investments producing unrealized gains. The unrealized gains and losses are directly tied to the economic state of the broader financial markets.

Statements of Changes in Plan Net Position – Current Period

	Six months ended December 31, 2012	Year ended June 30, 2012	Increase (Decrease)
ADDITIONS			
Employer Contributions	$ 5,268,363	$10,868,361	$ (5,599,998)
Employee Contributions	5,371,084	10,404,827	(5,033,743)
Investment Income (includes security lending activities)	24,956,796	3,861,173	21,095,623
Total Additions	$35,596,243	$25,134,361	$10,461,882
DEDUCTIONS			
Retirement Benefits	$ 26,428,994	$ 52,051,852	$(25,622,858)
Spousal Benefits	5,529,729	10,801,985	(5,272,256)
Child Benefits	10,859	14,719	(3,860)
Disability Benefits	196,743	274,724	(77,981)
Death Benefits	136,775	371,225	(234,450)
Total benefits	32,303,100	63,514,505	(31,211,405)
Refund of Contributions	977,912	1,988,153	(1,010,241)
Administrative and General Expenses	723,802	1,644,603	(920,801)
Total Deductions	$ 34,004,814	$ 67,147,261	$(33,142,447)
Increase (Decrease) in Plan Net Position	1,591,429	(42,012,900)	43,604,329
Beginning of Year	410,797,588	452,810,488	42,012,900
End of Year	$412,389,017	$410,797,588	$ 1,591,429

Management's Discussion and Analysis (Continued)

Statements of Changes in Plan Net Position – Prior Period

	Year ended June 30, 2012	Year ended June 30, 2011	Increase (Decrease)
ADDITIONS			
Employer Contributions	$ 10,868,361	$ 10,981,419	$ (113,058)
Employee Contributions	10,404,827	9,791,650	613,177
Investment Income (includes security lending activities)	3,861,173	84,890,838	(81,029,665)
Total Additions	$ 25,134,361	$105,663,907	$(80,529,546)
DEDUCTIONS			
Retirement Benefits	$ 52,051,852	$ 50,950,848	$ 1,101,004
Spousal Benefits	10,801,985	10,374,674	427,311
Child Benefits	14,719	18,519	(3,800)
Disability Benefits	274,724	391,491	(116,767)
Death Benefits	371,225	307,000	64,225
Total benefits	63,514,505	62,042,532	1,471,973
Refund of Contributions	1,988,153	1,662,358	325,795
Administrative and General Expenses	1,644,603	1,521,884	122,719
Total Deductions	$ 67,147,261	$ 65,226,774	$ 1,920,487
Increase (Decrease) in Plan Net Position	(42,012,900)	40,437,133	(82,450,033)
Beginning of Year	452,810,488	412,373,355	40,437,133
End of Year	$410,797,588	$452,810,488	$(42,012,900)

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 Fund's actuarially computed funding ratio is 43.4% at December 31, 2012, which is 7.5% less than at June 30, 2012. 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 Board of Trustees also approved assumption and method changes as recommended by the Segal Company, which will be required under Government Accounting Standards in 2014. The annual investment return for the six months ended December 31, 2012 was 6.2%, which is higher than the 1.4% for the year ended June 30, 2012 and lower than the 21.0% for the year ended June 30, 2011.

The Fund's 6.2% return for the six months ended December 31, 2012 outperformed its performance benchmark by approximately 80 basis points and underperformed the peer median by approximately 10 basis points. Over the trailing three-year and five-year periods, the Fund outperformed the performance benchmark by approximately 130 and 50 basis points, respectively. Over the trailing ten-year period the Fund returned 6.6%, underperforming the 7.5% actuarial rate of return.

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

Contacting the Fund'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 visit the Fund's website at www.chicagoparkpension.org or contact the Fund 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 POSITION
DECEMBER 31, 2012 AND JUNE 30, 2012

ASSETS	December 31, 2012	June 30, 2012
Receivables		
Contributions from employer	$ 5,217,650	$ 15,974
Employee contributions	284,381	283,492
Workers' compensation offset of duty disability benefits, net of allowance for loss of $16,076 at December 31, 2012 and June 30, 2012	148,458	156,050
Due from broker for securities sold	5,300,000	141,975
Accrued investment income	520,799	574,624
Miscellaneous receivables	63,112	60,911
	11,534,400	1,233,026
Investments, at fair value		
Short-term investments	6,500,064	9,311,424
Bonds	64,359,583	65,824,474
Common and preferred stocks	52,517,172	55,138,935
Collective investment funds	99,751,488	95,983,701
Mutual funds	12,453,129	14,575,794
Pooled separate real estate accounts	11,048,645	10,868,246
Private equity partnerships	151,065,516	155,691,096
	397,695,597	407,393,670
Invested securities lending collateral	41,180,970	40,244,278
Furniture and fixtures - net	46,881	50,520
Prepaid annuity benefits	3,903,461	3,785,303
Other prepaid expenses	31,841	43,324
	3,935,302	3,828,627
Total assets	454,393,150	452,750,121
LIABILITIES		
Accounts payable	383,872	398,409
Deferred rent	102,965	106,951
Accrued benefits payable	311,776	267,407
Securities lending collateral	41,180,970	40,244,278
Due to broker for securities purchased	24,550	935,488
	42,004,133	41,952,533
Net position restricted for pension benefits	$ 412,389,017	$ 410,797,588

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 POSITION
SIX MONTHS ENDED DECEMBER 31, 2012 AND YEAR ENDED JUNE 30, 2012

	Six months ended December 31, 2012	Year ended June 30, 2012
Additions		
Contributions		
Employer contributions	$ 5,268,363	$ 10,868,361
Employee contributions	5,371,084	10,404,827
Total contributions	10,639,447	21,273,188
Investment income		
Net appreciation in fair value of investments	23,049,331	78,361
Interest	1,349,801	3,379,116
Dividends	979,980	1,525,051
Partnership income	795,770	1,439,936
	26,174,882	6,422,464
Less investment expenses	1,266,108	2,626,522
	24,908,774	3,795,942
Security lending activities		
Securities lending income	72,585	118,045
Borrower rebates	19,531	2,226
Bank fees	(44,094)	(55,040)
	48,022	65,231
Total additions	35,596,243	25,134,361
Deductions		
Benefits		
Annuity payments	31,969,582	62,868,556
Disability and death benefits	333,518	645,949
Total benefits	32,303,100	63,514,505
Refund of contributions	977,912	1,988,153
Administrative and general expenses	723,802	1,644,603
Total deductions	34,004,814	67,147,261
Net increase (decrease)	1,591,429	(42,012,900)
Net position restricted for pension benefits		
Beginning of period	410,797,588	452,810,488
End of period	$ 412,389,017	$ 410,797,588

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 – Fund Description and Contribution Information

The Fund 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 Fund is considered a component unit of the Chicago Park District's financial statements as a pension trust fund. The Fund is administered in accordance with the Illinois Compiled Statutes. The defined benefits as well as the employer and employee contribution levels of the Fund are mandated by Illinois State Statutes and may be amended only by the Illinois legislature. The Fund provides retirement, disability and death benefits to fund members and beneficiaries. At December 31, 2012 and June 30, 2012, Fund membership consists of:

	December 31	June 30
Retirees and beneficiaries currently receiving benefits	2,906	2,921
Current employees	3,053	2,977
Vested terminated members entitled to benefits	152	153

On August 16, 2012, Public Act 97-0973 was approved, changing the Fund's year end from June 30th to December 31st.

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 Fund 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 $108,882 in 2012 and $106,800 in 2011.

Note 1 – Fund 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 – Fund Description and Contribution Information (Continued)

Contributions

Covered employees are required by state statutes to contribute 9.0 percent of their salary to the Fund. 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 Fund 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 Fund 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 Fund has no component units. The Fund is considered a component unit fund of the Chicago Park District and, as such, is included in the Chicago Park District's financial statements as a pension trust fund. 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 Fund.

Method Used to Value Investments

The Fund 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 Fund'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 June 19, 2013, the date the financial statements were available to be issued.

Recently Issued Accounting Pronouncements

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was established to provide guidance on the reporting of deferred outflows of resources, and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of GASB 63 are effective for financial statement periods beginning after December 15, 2011.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was established to improve financial reporting by clarifying the appropriate use of the financial statement elements deferred outflows and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for financial statement periods beginning after December 15, 2012.
GASB Statement No. 67, *Financial Reporting for Pension Plans,* was established to improve financial reporting by state and local governmental pension plans through enhanced note disclosures and schedules of required supplementary information. The provisions of GASB 67 are effective for fiscal years beginning after June 15, 2013. GASB No. 68, *Accounting and Financial Reporting for Pensions*, was established to improve the standards for measurement, recognition and display of pension expense, liabilities and assets of employers of the plan. The provisions of GASB 68 are effective for fiscal years beginning after June 15, 2014.

The Fund's management is currently evaluating the effect of all GASB statements referenced above on the Fund's financial statements.

Note 3 – Investments

The Fund'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 Fund's net assets (except those issued or guaranteed by the U.S. Government) are separately identified.

	December 31	June 30
Investments At Fair Value As		
Determined by Quoted Price		
Short-term investments	$ 6,500,064	$ 9,311,424
Bonds	64,359,583	65,824,474
Common and preferred stock	52,517,172	55,138,935
Mutual funds	12,453,129	14,575,794
	135,829,948	144,850,627
Investments At Fair Value As		
Determined by Bank Administrator		
Collective investment funds		
NTGI QM Collective Daily S&P 500	19,101,861*	21,683,494
NTGI QM Collective Daily US Marketcap Equity	28,463,501	26,691,831
NTGI QM Collective Daily All Country World Index	52,186,126	47,608,376
Pooled separate real estate accounts	11,048,645	10,868,246
Private equity partnerships		
Entrust Diversified Select Equity Fund	22,138,875	23,794,552
K2 Long Short Fund	21,509,708	22,691,831
Other	107,416,933	109,204,713
	$397,695,597	$407,393,670

* Does not represent 5 percent or more of the Fund's Net Assets.

The Fund 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 Fund must be invested exclusively for the benefit of their members and in accordance with the respective Fund's investment goals and objectives.

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 Fund 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.

Note 3 – Investments (Continued)

At December 31, 2012 the following table shows the investments in debt securities by investment type and maturity (expressed in thousands).

December 31, 2012

Security Type	Total Market Value	Less Than 1 Year	1 – 6 Years	6 -10 Years	10+ Years
Asset backed	$ 213	$ -	$ -	$ -	$ 213
Commercial mortgage backed	3,578	-	-	-	3,578
Corporate bonds	18,997	629	7,914	7,047	3,407
Government agencies	3,809	204	3,338	267	-
Government bonds	13,164	706	4,205	4,186	4,067
Government mortgage backed	22,366	-	932	2,011	19,423
Index linked government bonds	164	-	-	164	-
Non-government backed CMO's	169	-	-	-	169
Short term bills and notes	1,900	1,900	-	-	-
Total	$64,360	$3,439	$16,389	$13,675	$30,857

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 Fund 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.

The following table presents the Fund's ratings as of December 31, 2012 (expressed in thousands).

December 31, 2012

S & P Credit Rating	Market Value	Asset Backed Securities	Comm'l Mortgage Backed	Corporate Bonds	Gov't Agencies	Gov't Bonds	Gov't Mortgage Backed	Index Linked Gov't Bonds	Non Gov't Backed CMO	Short Term Bills & Notes
AAA	$ 1,697	$213	$1,484	$ -	$ -	$ -	$ -	$ -	$ -	$ -
AA	6,207	-	573	1,657	3,809	-	-	-	168	-
A	7,872	-	472	7,400	-	-	-	-	-	-
BBB	7,014	-	733	6,281	-	-	-	-	-	-
BB	2,875	-	-	2,875	-	-	-	-	-	-
B	596	-	-	538	-	58	-	-	-	-
NR	563	-	316	246	-	-	-	-	1	-
US Gov't Agency	37,536	-	-	-	-	13,106	22,366	164	-	1,900
Total	$64,360	$213	$3,578	$18,997	$3,809	$13,164	$22,366	$164	$169	$1,900

Note 3 – Investments (Continued)

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 Fund's exposure to custodial credit risks reflects that there is none.

Note 4 – Deposits

At December 31, 2012 and June 30, 2012, the Fund's book balances of cash were $-0- and $-0-, respectively. The actual bank balances were $-0- and $1,320, respectively, at December 31, 2012 and June 30, 2012. The Fund 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 Fund lends securities (both equity and fixed income) to qualified and Fund approved brokerage firms for collateral that will be returned for the same securities in the future. The Fund's custodian, the Northern Trust Co., manages the securities lending program, which includes the securities of the Fund 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 Fund unless the borrower defaults. However, the Fund 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 104 days. As of December 31, 2012 and June 30, 2012, the Fund had loaned to borrowers securities with a market value of $40,563,334 and $39,795,477, respectively. As of December 31, 2012, the fair value of the collateral received by the Fund was $41,180,970 and the collateral invested by the Fund was $41,180,970. As of June 30, 2012, the fair value of the collateral received by the Fund was $40,244,278 and the collateral invested by the Fund was $40,244,278.

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

Note 6 – Operating Leases

The Fund has entered into an operating lease for office space through April 30, 2013, which was amended and 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. Upon executing the amendment, the Fund received rent abatements in the amount of $115,587 which are being amortized over the life of the lease. The unamortized portion, deferred rent, amounted to $102,965 at December 31, 2012. The total rental expense was $66,112 for the six months ended December 31, 2012 and $117,317 for the year ended June 30, 2012.

Note 6 – Operating Leases (Continued)

Following is a schedule of minimum future rental payments for each of the next five years and in the aggregate under the non-cancelable operating lease at December 31, 2012:

Year Ending December 31	Amount
2013	$ 77,349
2014	85,378
2015	87,707
2016	90,035
2017	92,364
2018-2022	496,747
2023-2026	363,246
	$1,292,826

The Fund leases office equipment under non-cancelable operating leases that expire at various dates through May, 2016. Total rent expense incurred under these operating leases was $9,226 for the six months ended December 31, 2012 and $20,470 for the year ended June 30, 2012.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2012 for each of the next four years and in the aggregate are:

Year Ending December 31	Amount
2013	$13,492
2014	7,179
2015	5,688
2016	2,370
	$28,729

Note 7 – Commitments

During the six months ended December 31, 2012 and year ended June 30, 2012, the Fund committed to purchase $75,000,000 interest in private equity partnerships. At December 31, 2012 and June 30, 2012, the Fund had a remaining contractual obligation of $12,881,772 and $13,913,772, respectively, to purchase additional interest in the private equity partnerships.

Note 8 – Deferred Compensation Plan

The Fund is a governmental eligible employer within the meaning of Code Section 457(e)(1)(A) and has established a deferred compensation plan (457(b)) for eligible employees. Individual contributions to the plan are equal to the amount of salary reductions elected by each participant for the year up to a maximum allowable by IRS regulations. Total employee contributions were $32,183 for the six months ended December 31, 2012 and $74,700 for the year ended June 30, 2012. Employer contributions are not allowed.

Note 9 – Funded Status and Funding Progress

The funded status of the Fund as of December 31, 2012, the most recent actuarial valuation date, is as follows (dollar amounts in thousands):

Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
$421,448	$971,807	$550,359	43.4%	$58,232	472.6% **

** Adjusted for annualized covered payroll

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	12/31/12
Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	30 years (closed period)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	15% to 2.75% based on service
Inflation rate	2.75%

SCHEDULE OF FUNDING PROGRESS

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/12	$421,448	$971,807	$550,359	43.4%	$58,232	472.6%
6/30/12	440,692	866,371	425,679	50.9%	114,234	372.6%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

	Employer Contributions	
Period Ended	Annual Required Contribution	Percentage Contributed
December 31, 2012	$16,787*	31%
June 30, 2012	28,052	39
June 30, 2011	25,319	43
June 30, 2010	22,400	48
June 30, 2009	18,285	53
June 30, 2008	16,073	56

* For the six months ended December 31, 2012.

NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Valuation date	12/31/12
Actuarial cost method	Entry age (Project Unit 2005-June 30, 2012)
Amortization method	Level dollar
Amortization period	30 years (closed period)
	(open period until June 30, 2012)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	15% to 2.75% based on service
Inflation rate	2.75%

TAX LEVIES RECEIVABLE

Levy Year (Calendar)	Tax Levy	Collections	Tax Levies Receivable	Allowance for Uncollectible Taxes	Allowance for Uncollectible Write-offs as a Percentage of Tax Levy	Net Tax Levies Receivable	
At December 31, 2012: (six months)							
2012	$ 5,217,650	$ -	$ 5,217,650	$ -	0.00%	$5,217,650	*
At June 30, 2012:							
2011	$ 10,761,575	$10,745,601	$ 15,974	$ -	0.00%	$ 15,974	

* fully collected in March 2013

ADMINISTRATIVE AND GENERAL EXPENSES

	Six months ended December 31, 2012	Year ended June 30, 2012
Actuary expense	$ 27,770	$ 46,000
Auditing	26,000	26,000
IT consultant	26,564	17,450
Conference and convention expense	8,722	12,210
Contributions for annuities of Retirement Board employees	50,842	122,270
Depreciation	13,030	23,433
Equipment rental	9,226	20,470
Equipment maintenance	-	439
Filing fee - State of Illinois	4,000	8,000
File storage expense	2,228	4,547
Hospitalization	77,222	178,179
Legal	8,110	35,030
Legislative consultant	14,400	21,600
Medical fees	180	1,260
Office supplies and expenses	8,674	26,655
Postage	-	14,864
Insurance - surety bond and other	1,471	2,491
Rent expense	66,112	117,317
Salaries	341,636	908,606
Social security - Medicare	3,555	9,504
Unemployment taxes	9,333	-
Bank fees	9,700	22,255
Telephone	2,651	9,240
Transportation	1,071	1,973
Trustees' election expense	11,305	14,810
Total administrative and general expenses	$ 723,802	$ 1,644,603

PROFESSIONAL EXPENSES

	Six months ended December 31, 2012	Year ended June 30, 2012
Legal	$ 8,110	$ 35,030
Medical	180	1,260
Actuary	27,770	46,000
Auditing	26,000	26,000
IT consultant	26,564	17,450
Legislative consultant	14,400	21,600
Total	$ 103,024	$ 147,340

INVESTMENT EXPENSES

		Six months ended December 31, 2012		Year ended June 30, 2012
U.S. EQUITY				
Great Lakes Advisors	$	41,421	$	82,003
Ariel Capital Management		56,149		104,437
Northern Trust Quantitative Advisors		9,730		19,578
RBC Global Asset Management		57,916		133,078
		165,216		339,096
NON - U.S. EQUITY				
Wellington Trust Company		-		109,354
Northern Trust Quantitative Advisors		14,814		21,486
		14,814		130,840
U.S. BONDS				
LM Capital Group		17,691		27,780
MacKay Shields		54,896		127,661
Chicago Equity Partners		24,824		67,576
		97,411		223,017
REAL ESTATE				
Principal Global Investors		106,004		199,431
ULLICO		30,094		40,259
		136,098		239,690
PARTNERSHIPS				
HarbourVest Partners		158,360		334,686
Entrust Capital		145,131		270,266
UBS Realty Investors		169,062		316,805
Mesirow Financial		114,000		228,000
K2 Advisors		129,865		276,513
New York Life Capital Partners		56,651		112,942
		773,069		1,539,212
OTHER				
Custody- Northern Trust Co.		29,500		56,750
Investment consultant- Marquette Associates		50,000		97,917
		79,500		154,667
Total	$	1,266,108	$	2,626,522