

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, 2013 AND 2012

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

C O N T E N T S

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
FINANCIAL STATEMENTS	
Statements of plan net position	6
Statements of changes in plan net position	7
Notes to financial statements	8-16
SUPPLEMENTARY INFORMATION	
Schedule of funding progress	17
Schedule of employer contributions	17
Tax levies receivable	18
Administrative and general expenses	19
Professional expenses	20
Investment expenses	21

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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, 2013 and 2012, and the related statements of changes in plan net position for the year ended December 31, 2013 and six months December 31, 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, 2013 and 2012, and the changes in its plan net position for the year ended December 31, 2013 and six months ended December 31, 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

May 20, 2014

Management's Discussion and Analysis

Management's Discussion and Analysis for the Year Ended December 31, 2013

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 year ended December 31, 2013. 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 presentation of six month financial statements as of December 31, 2012. 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 year by \$23.4 million or 5.7% compared to an increase of \$1.6 million or 0.4% for the six months ended December 31, 2012.
- b) The Fund's annual investment return of 16.9% outperformed the portfolio benchmark return of 13.8%.
- c) The Fund's three-year rate of return of 10.0% outperformed the portfolio benchmark return of 8.2%.
- d) The Fund's five-year rate of return of 11.8% outperformed the portfolio benchmark of 10.4%.
- e) The Fund's ten-year rate of return of 6.5% outperformed the portfolio benchmark of 6.1%.
- f) For the year ended December 31, 2013, the additions to the Fund's net position of \$93.1 million is \$57.5 million more than the six months ended December 31, 2012 additions.
- g) For the year ended December 31, 2013, the deductions to the Fund's net position of \$69.7 million is \$35.7 million more than the deductions for the six months ended December 31, 2012.
- h) The Fund's actuarially computed funding ratio is 45.5% at December 31, 2013, which is 2.1% more than at December 31, 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 year ended December 31, 2013.

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, 2013 is \$435,768,679. This is \$23,379,662 more than the December 31, 2012 net position restricted for pension benefits of \$412,389,017. This compares to an increase of \$1,591,429 for the six months ended December 31, 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

	<u>December 31, 2013</u>	<u>December 31, 2012</u>	Increase (Decrease)
Total Assets	\$478,892,017	\$454,393,150	\$24,498,867
Total Liabilities	<u>43,123,338</u>	<u>42,004,133</u>	<u>1,119,205</u>
Net Assets	<u>\$435,768,679</u>	<u>\$412,389,017</u>	<u>\$23,379,662</u>

Statements of Plan Net Position – Prior Period

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

Changes in Plan Net Position

For the year ended December 31, 2013 the investment income was \$66,642,528 as compared to the investment income of \$24,956,796 for the six months ended December 31, 2012. The increase in investment income for the year ended December 31, 2013 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

	Year ended <u>December 31, 2013</u>	Six months ended <u>December 31, 2012</u>	Increase (Decrease)
ADDITIONS			
Employer Contributions	\$ 15,804,452	\$ 5,268,363	\$10,536,089
Employee Contributions	10,732,730	5,371,084	5,361,646
Investment Income (includes security lending activities)	<u>66,642,528</u>	<u>24,956,796</u>	<u>41,685,732</u>
Total Additions	<u>\$ 93,179,710</u>	<u>\$ 35,596,243</u>	<u>\$57,583,467</u>
DEDUCTIONS			
Retirement Benefits	\$ 54,256,588	\$ 26,428,994	\$27,827,594
Spousal Benefits	11,319,614	5,529,729	5,789,885
Child Benefits	21,619	10,859	10,760
Disability Benefits	355,983	196,743	159,240
Death Benefits	<u>266,000</u>	<u>136,775</u>	<u>129,225</u>
Total benefits	66,219,804	32,303,100	33,916,704
Refund of Contributions	2,116,163	977,912	1,138,251
Administrative and General Expenses	<u>1,464,081</u>	<u>723,802</u>	<u>740,279</u>
Total Deductions	<u>\$ 69,800,048</u>	<u>\$ 34,004,814</u>	<u>\$35,795,234</u>
Increase in Plan Net Position	23,379,662	1,591,429	21,788,233
Beginning of Period	<u>412,389,017</u>	<u>410,797,588</u>	<u>1,591,429</u>
End of Period	<u>\$435,768,679</u>	<u>\$412,389,017</u>	<u>\$23,379,662</u>

Management's Discussion and Analysis (Continued)

Statements of Changes in Plan Net Position – Prior Period

	Six months ended <u>December 31, 2012</u>	Year ended <u>June 30, 2012</u>	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)	<u>24,956,796</u>	<u>3,861,173</u>	<u>21,095,623</u>
Total Additions	<u>\$ 35,596,243</u>	<u>\$ 25,134,361</u>	<u>\$ 10,461,882</u>
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	<u>136,775</u>	<u>371,225</u>	<u>(234,450)</u>
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	<u>723,802</u>	<u>1,644,603</u>	<u>(920,801)</u>
Total Deductions	<u>\$ 34,004,814</u>	<u>\$ 67,147,261</u>	<u>\$(33,142,447)</u>
Increase (Decrease) in Plan Net Position	1,591,429	(42,012,900)	43,604,329
Beginning of Period	<u>410,797,588</u>	<u>452,810,488</u>	<u>42,012,900</u>
End of Period	<u>\$412,389,017</u>	<u>\$410,797,588</u>	<u>\$ 1,591,429</u>

The actuarial valuations for the year ended December 31, 2013 and the six months ended December 31, 2012 were based upon the actuarial liabilities being computed using the Entry Age Normal Actuarial Cost Method. Actuarial valuations for fiscal years 2005 through 2012 were based upon 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 45.5% at December 31, 2013, which is 2.1% more than at December 31, 2012. This increase is the direct result of the benefit changes in Public Act 098-0622 which reduced the actuarially computed accrued liabilities. The annual investment return for the year ended December 31, 2013 was 16.9%, which is higher than the 6.2% for the six months ended December 31, 2012 and 1.4% for the year ended June 30, 2012.

The Fund's 16.9% return for the year ended December 31, 2013 outperformed its performance benchmark by approximately 310 basis points and outperformed the peer median by approximately 200 basis points. Over the trailing three-year and five-year periods, the Fund outperformed the performance benchmark by approximately 180 and 140 basis points, respectively. Over the trailing ten-year period the Fund returned 6.5%, outperforming the performance benchmark by 40 basis points and 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, 2013 AND 2012

	2013	2012
ASSETS		
Receivables		
Contributions from employer	\$ 10,488,466	\$ 5,217,650
Employee contributions	330,668	284,381
Workers' compensation offset of duty disability benefits, net of allowance for loss of \$16,076 at December 31, 2013 and 2012	128,833	148,458
Due from broker for securities sold	349,060	5,300,000
Accrued investment income	577,288	520,799
Miscellaneous receivables	83,471	63,112
	11,957,786	11,534,400
Investments, at fair value		
Short-term investments	7,119,889	6,500,064
Bonds	60,699,443	64,359,583
Common and preferred stocks	62,603,187	52,517,172
Collective investment funds	109,217,323	99,751,488
Mutual funds	13,697,643	12,453,129
Pooled separate real estate accounts	11,448,270	11,048,645
Private equity partnerships	155,689,466	151,065,516
	420,475,221	397,695,597
Invested securities lending collateral	42,261,762	41,180,970
Furniture and fixtures - net	39,253	46,881
Prepaid annuity benefits	4,084,760	3,903,461
Other prepaid expenses	73,235	31,841
	4,157,995	3,935,302
Total assets	478,892,017	454,393,150
LIABILITIES		
Accounts payable	327,019	335,542
Accrued benefits payable	255,906	311,776
Accrued payroll liabilities	47,821	48,330
Unamortized rent abatement	94,993	102,965
Securities lending collateral	42,261,762	41,180,970
Due to broker for securities purchased	135,837	24,550
	43,123,338	42,004,133
Net position restricted for pension benefits	\$ 435,768,679	\$ 412,389,017

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
YEAR ENDED DECEMBER 31, 2013 AND SIX MONTHS ENDED DECEMBER 31, 2012

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Six months ended</u> <u>December 31, 2012</u>
Additions		
Contributions		
Employer contributions	\$ 15,804,452	\$ 5,268,363
Employee contributions	10,732,730	5,371,084
Total contributions	<u>26,537,182</u>	<u>10,639,447</u>
Investment income		
Net appreciation in fair value of investments	64,005,779	23,049,331
Interest	2,489,262	1,349,801
Dividends	1,244,106	979,980
Partnership income	1,167,646	795,770
	<u>68,906,793</u>	<u>26,174,882</u>
Less investment expenses	2,349,131	1,266,108
	<u>66,557,662</u>	<u>24,908,774</u>
Security lending activities		
Securities lending income	135,212	72,585
Borrower rebates	22,266	19,531
Bank fees	(72,612)	(44,094)
	<u>84,866</u>	<u>48,022</u>
Total additions	<u>93,179,710</u>	<u>35,596,243</u>
Deductions		
Benefits		
Annuity payments	65,597,821	31,969,582
Disability and death benefits	621,983	333,518
Total benefits	<u>66,219,804</u>	<u>32,303,100</u>
Refund of contributions	2,116,163	977,912
Administrative and general expenses	1,464,081	723,802
Total deductions	<u>69,800,048</u>	<u>34,004,814</u>
Net increase	23,379,662	1,591,429
Net position restricted for pension benefits		
Beginning of period	<u>412,389,017</u>	<u>410,797,588</u>
End of period	<u>\$ 435,768,679</u>	<u>\$ 412,389,017</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 – 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, 2013 and 2012, Fund membership consists of:

	<u>2013</u>	<u>2012</u>
Retirees and beneficiaries currently receiving benefits	2,904	2,906
Current employees	3,076	3,053
Vested terminated members entitled to benefits	148	152

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 \$109,971 in 2013 and \$108,882 in 2012.

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.

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. Actual results may differ from those estimates.

Risks and Uncertainties

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of the investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of plan net position.

Note 2 – Summary of Significant Accounting Policies (Continued)

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, stocks and mutual funds 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.

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 May 20, 2014, 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 Statement 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.

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB No. 68*, addresses an issue regarding application of the transition provisions of GASB No. 68. The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014.

GASB Statements No. 68 and No. 71 will affect the financial statements of the Chicago Park District.

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.

	<u>2013</u>	<u>2012</u>
Investments At Fair Value As		
Determined by Quoted Price		
Short-term investments	\$ 7,119,889	\$ 6,500,064
Bonds	60,699,443	64,359,583
Common and preferred stocks	62,603,187	52,517,172
Mutual funds	<u>13,697,643</u>	<u>12,453,129</u>
	144,120,162	135,829,948
Investments At Fair Value As		
Determined by Bank Administrator		
Collective investment funds		
NTGI QM Collective Daily US Marketcap Equity	32,269,458	28,463,501
NTGI QM Collective Daily All Country World Index	57,174,631	52,186,126
Other	19,773,234	19,101,861
Pooled separate real estate accounts	11,448,270	11,048,645
Private equity partnerships		
Entrust Diversified Select Equity Fund	23,519,902	22,138,875
K2 Long Short Fund	22,581,810	21,509,708
Other	<u>109,587,754</u>	<u>107,416,933</u>
	<u>\$420,475,221</u>	<u>\$397,695,597</u>

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, 2013, the following table shows the investments in debt securities by investment type and maturity (expressed in thousands).

<u>December 31, 2013</u>					
<u>Security Type</u>	<u>Total Market Value</u>	<u>Less Than 1 Year</u>	<u>1 – 6 Years</u>	<u>6 -10 Years</u>	<u>10+ Years</u>
Asset backed	\$ 200	\$ -	\$ -	\$ 200	\$ -
Commercial mortgage backed	3,295	-	-	-	3,295
Corporate bonds	19,878	206	6,976	8,552	4,144
Government agencies	5,015	789	3,607	619	-
Government bonds	13,262	-	6,743	4,619	1,900
Government mortgage backed	18,891	-	787	1,535	16,569
Non-government backed CMO's	<u>158</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>158</u>
Total	<u>\$60,699</u>	<u>\$ 995</u>	<u>\$18,113</u>	<u>\$15,525</u>	<u>\$26,066</u>

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, 2013 (expressed in thousands).

<u>December 31, 2013</u>								
<u>S & P Credit Rating</u>	<u>Market Value</u>	<u>Asset Backed Securities</u>	<u>Comm'l Mortgage Backed</u>	<u>Corporate Bonds</u>	<u>Gov't Agencies</u>	<u>Gov't Bonds</u>	<u>Gov't Mortgage Backed</u>	<u>Non Gov't Backed CMO</u>
AAA	\$ 1,776	\$200	\$1,323	\$ 253	\$ -	\$ -	\$ -	\$ -
AA	7,581	-	537	1,871	5,015	-	-	158
A	8,543	-	446	8,097	-	-	-	-
BBB	8,094	-	689	7,405	-	-	-	-
BB	1,853	-	-	1,853	-	-	-	-
B	163	-	-	163	-	-	-	-
NR	1,158	-	300	236	-	-	622	-
US Gov't Agency	<u>31,531</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>13,262</u>	<u>18,269</u>	<u>-</u>
Total	<u>\$60,699</u>	<u>\$200</u>	<u>\$3,295</u>	<u>\$19,878</u>	<u>\$5,015</u>	<u>\$13,262</u>	<u>\$18,891</u>	<u>\$158</u>

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, 2013 and 2012, the Fund's book balances of cash were \$-0- and \$-0-, respectively. The actual bank balances were \$168 and \$-0- at December 31, 2013 and 2012, respectively. 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 103 days. As of December 31, 2013 and 2012, the Fund had loaned to borrowers securities with a market value of \$41,352,255 and \$40,563,334, respectively. As of December 31, 2013, the fair value of the collateral received by the Fund was \$42,261,762 and the collateral invested by the Fund was \$42,261,762. 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.

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 amounted to \$94,993 at December 31, 2013. The total rental expense was \$140,034 for the year ended December 31, 2013 and \$66,112 for the six months ended December 31, 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, 2013:

Year Ending December 31	Amount
2014	\$ 85,378
2015	87,707
2016	90,035
2017	92,364
2018	94,692
2019-2023	508,389
2024-2026	<u>256,912</u>
	<u>\$1,215,477</u>

The Fund leases office equipment under non-cancelable operating leases that expire at various dates through March, 2019. Total rent expense incurred under these operating leases was \$24,692 for the year ended December 31, 2013 and \$9,226 for the six months ended December 31, 2012.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2013 for each of the next six years and in the aggregate are:

Year Ending December 31	Amount
2014	\$ 22,920
2015	22,920
2016	19,602
2017	17,232
2018	17,232
2019	<u>2,430</u>
	<u>\$102,336</u>

Note 7 – Commitments

The Fund has committed to purchase \$75,000,000 interest in private equity partnerships. At December 31, 2013 and 2012, the Fund had a remaining contractual obligation of \$8,571,776 and \$12,881,772, 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 \$61,095 for the year ended December 31, 2013 and \$32,813 for the six months ended December 31, 2012. Employer contributions are not allowed.

Note 9 – Funded Status and Funding Progress

The funded status of the Fund as of December 31, 2013, 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)
\$404,292	\$888,023	\$483,731	45.5%	\$117,782	410.7%

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	12/31/13
Actuarial cost method	Entry age normal cost method
Amortization method	Level dollar
Amortization period	29 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%

Note 10– Subsequent Events

Subsequent to year end, Public Act 98-0622 was enacted, which changed certain benefit and eligibility provisions beginning January 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

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)
12/31/13	\$404,292	\$888,023	\$483,731	45.5%	\$117,782	410.7%
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	73.7%	111,698	186.9%
6/30/07	583,296	767,961	184,635	76.0%	106,602	173.2%
6/30/06	572,659	745,244	172,585	76.8%	101,058	170.8%
6/30/05	587,774	734,361	146,587	80.0%	95,707	153.2%

* Adjusted for annualized covered payroll

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollar amounts in thousands)

Period Ended	Employer Contributions	
	Annual Required Contribution	Percentage Contributed
December 31, 2013	\$41,835	38%
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
June 30, 2007	14,572	66
June 30, 2006	16,437	32
June 30, 2005	15,812	30

** For the six months ended December 31, 2012.

NOTE TO SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Valuation date	12/31/13
Actuarial cost method	Entry age (Project 2005-June 30, 2012)
Amortization method	Level dollar
Amortization period	29 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

<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 December 31, 2013:						
2013	\$ 10,488,466	\$ -	<u>\$10,488,466</u>	<u>\$ -</u>	0.00%	<u>\$10,488,466</u> *
At December 31, 2012: (six months)						
2012	\$ 5,217,650	\$ -	<u>\$ 5,217,650</u>	<u>\$ -</u>	0.00%	<u>\$ 5,217,650</u>

* collected in April 2014

ADMINISTRATIVE AND GENERAL EXPENSES

	<u>Year ended December 31, 2013</u>	<u>Six months ended December 31, 2012</u>
Actuary expense	\$ 83,130	\$ 27,770
Auditing	13,000	26,000
IT consultant	46,552	26,564
Conference and convention expense	13,736	8,722
Contributions for annuities of Retirement Board employees	96,638	50,842
Depreciation	11,899	13,030
Equipment rental	24,692	9,226
Filing fee - State of Illinois	8,000	4,000
File storage expense	5,074	2,228
Hospitalization	156,474	77,222
Legal	36,488	8,110
Legislative consultant	28,800	14,400
Medical fees	450	180
Office supplies and expenses	24,497	8,674
Postage	10,349	-
Insurance - surety bond and other	3,091	1,471
Rent expense	140,034	66,112
Salaries	712,037	341,636
Social security - Medicare	6,984	3,555
Unemployment taxes	4,472	9,333
Bank fees	19,630	9,700
Telephone	5,377	2,651
Transportation	2,215	1,071
Trustees' election expense	10,462	11,305
	<hr/>	<hr/>
Total administrative and general expenses	<u>\$ 1,464,081</u>	<u>\$ 723,802</u>

PROFESSIONAL EXPENSES

	<u>Year ended December 31, 2013</u>	<u>Six months ended December 31, 2012</u>
Legal	\$ 36,488	\$ 8,110
Medical	450	180
Actuary	83,130	27,770
Auditing	13,000	26,000
IT consultant	46,552	26,564
Legislative consultant	<u>28,800</u>	<u>14,400</u>
Total	<u>\$ 208,420</u>	<u>\$ 103,024</u>

INVESTMENT EXPENSES

	<u>Year ended</u> <u>December 31, 2013</u>	<u>Six months ended</u> <u>June 30, 2013</u>
<u>U.S. EQUITY</u>		
Great Lakes Advisors	\$ 85,454	\$ 41,421
Ariel Capital Management	132,878	56,149
Northern Trust Quantitative Advisors	20,025	9,730
RBC Global Asset Management	79,598	57,916
	<u>317,955</u>	<u>165,216</u>
<u>NON - U.S. EQUITY</u>		
Northern Trust Quantitative Advisors	31,700	14,814
	<u>31,700</u>	<u>14,814</u>
<u>U.S. BONDS</u>		
LM Capital Group	37,164	17,691
MacKay Shields	106,157	54,896
Chicago Equity Partners	40,993	24,824
	<u>184,314</u>	<u>97,411</u>
<u>REAL ESTATE</u>		
Principal Global Investors	215,712	106,004
ULLICO	61,865	30,094
	<u>277,577</u>	<u>136,098</u>
<u>PARTNERSHIPS</u>		
HarbourVest Partners	286,103	158,360
Entrust Capital	274,412	145,131
UBS Realty Investors	333,633	169,062
Mesirow Financial	171,000	114,000
K2 Advisors	254,031	129,865
New York Life Capital Partners	63,906	56,651
	<u>1,383,085</u>	<u>773,069</u>
<u>OTHER</u>		
Custody- Northern Trust Co.	54,500	29,500
Investment consultant- Marquette Associates	100,000	50,000
	<u>154,500</u>	<u>79,500</u>
Total	<u>\$ 2,349,131</u>	<u>\$ 1,266,108</u>