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, 2018 AND 2017

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

BANSLEY AND KIENER, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS

O'Hare Plaza
8745 West Higgins Road
Suite 200
Chicago, Illinois 60631

Tel: (312) 263-2700
Fax: (312) 263-6935
www.bk-cpa.com

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 fiduciary 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, 2018 and 2017, and the related statements of changes in fiduciary net position for the years then ended, 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 fiduciary net position of Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago as of December 31, 2018 and 2017, and the changes in its fiduciary net position for the years then ended 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 other supplementary information on pages 3 through 7 and pages 28 through 29 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 3, 2019

Management's Discussion and Analysis

Management Discussion and Analysis for the Year Ended December 31, 2018

The Management Discussion and Analysis (MD&A) of the Park Employees' and Retirement Board Employees' Annuity and Benefit Fund of Chicago (Fund) financial performance provides an overview and analysis of the Fund's financial activities for the years ended December 31, 2018 and 2017. Please read the MD&A in conjunction with the basic financial statements and the accompanying note disclosures to have a better understanding of the financial condition and performance of the Fund. Information provided for the year ended December 31, 2016 is presented for comparative purposes only.

Using this Report

The Management Discussion and Analysis introduces the Fund's basic financial statements. The basic financial statements include the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position, which are prepared on an accrual basis of accounting in accordance with Government Accounting Standards Board (GASB) pronouncements and reflect the Fund's overall financial condition.

The Statements of Fiduciary Net Position reports the Fund's assets at fair value and liabilities as amounts owed as of the statement date, resulting in the net position restricted for pension benefits.

The Statements of Changes in Fiduciary Net Position illustrate the additions and deductions made to the Fund during the statement date. These additions include employee and employer contributions, as well as net investment income. The deductions consist of benefit payments, refunds of contributions and administrative and general expenses. The net result indicates an increase or decrease in Fund net position restricted for pension benefits.

The accompanying notes are an integral part of the financial statements. They provide information essential to achieve full understanding of the Fund's financial statements.

The required supplementary information, presented following the notes to the financial statements, is required by GASB. These schedules offer the reader additional details, which may be useful in evaluating the financial condition and performance of the Fund. The schedules include the Schedule of Changes in Employer's Net Pension Liability, the Schedule of Employer Contributions, the Schedule of Investment Returns, as well as related disclosures. Other supplementary information consists of schedules of Tax Levies Receivable, Administrative and General Expenses, Professional Expenses, and Investment Expenses.

Financial Highlights

a) The Fund's fiduciary net position decreased during the year by $55.4 million or -13.9% compared to an increase of $5.9 million or 1.5% for the year ended December 31, 2017.
b) The Fund's annual investment return of -5.1% underperformed the portfolio benchmark return of -3.0%.
c) The Fund's three-year rate of return of 5.6% underperformed the portfolio benchmark return of 5.8%.
d) The Fund's five-year rate of return of 5.2% outperformed the portfolio benchmark return of 5.1%.
e) The Fund's ten-year rate of return of 8.5% outperformed the portfolio benchmark return of 7.8%.
f) For the year ended December 31, 2018, the additions to the Fund's fiduciary net position of $22.6 million is $63.1 million less than the year ended December 31, 2017 additions.
g) For the year ended December 31, 2018, the deductions to the Fund's fiduciary net position of $78.0 million is $1.8 million less when compared to the deductions for the year ended December 31, 2017.
h) The Fund's actuarially computed funded ratio is 32.1% at December 31, 2018, which is 5.0% less than at December 31, 2017.

Management's Discussion and Analysis (Continued)

Net Position Restricted for Pension Benefits

The Fund's net position restricted for pension benefits at December 31, 2018 is $342,255,873. This is $55,392,885 less than the December 31, 2017 net position restricted for pension benefits of $397,648,758. This compares to an increase of $5,949,836 for the year ended December 31, 2017. On March 1, 2018, Public Act 098-0622 was ruled unconstitutional by the courts. Pursuant to the court order, the 2018 tax levy will revert to a tax multiplier of 1.1 times the amount of employee contributions, which resulted in a large decrease in receivables in 2018. The tax multiplier in 2017 and 2016 was 1.7 times the amount of employee contributions from two years prior. The Fund's investment portfolio increases and decreases from year to year. This fluctuation is directly related to the strength of the financial markets at the financial statement date. The Fund is also still experiencing a cash flow shortage and continues to liquidate portfolio assets to supplement benefit payments made. The following tables are comparative summaries of fiduciary net position restricted for pension benefits:

Statements of Fiduciary Net Position – Current Year

	December 31, 2018	December 31, 2017	Increase (Decrease)
ASSETS			
Receivables and other current assets	$ 21,407,605	$ 28,231,761	$ (6,824,156)
Investments, at fair value	323,404,925	376,303,293	(52,898,368)
Invested securities lending collateral	24,113,674	33,992,926	(9,879,252)
Total assets	$368,926,204	$438,527,980	$(69,601,776)
LIABILITIES			
Accrued expense and other liabilities	$ 2,556,657	$ 6,886,296	$ (4,329,639)
Securities lending collateral	24,113,674	33,992,926	(9,879,252)
Total liabilities	$ 26,670,331	$ 40,879,222	$(14,208,891)
Fiduciary net position restricted for pension benefits	$342,255,873	$397,648,758	$(55,392,885)

Statements of Fiduciary Net Position – Prior Period

	December 31, 2017	December 31, 2016	Increase (Decrease)
ASSETS			
Receivables and other current assets	$ 28,231,761	$ 34,955,976	$ (6,724,215)
Investments, at fair value	376,303,293	358,461,840	17,841,453
Invested securities lending collateral	33,992,926	36,306,598	(2,313,672)
Total assets	$438,527,980	$429,724,414	$ 8,803,566
LIABILITIES			
Accrued expense and other liabilities	$ 6,886,296	$ 1,718,894	$ 5,167,402
Securities lending collateral	33,992,926	36,306,598	(2,313,672)
Total liabilities	$ 40,879,222	$ 38,025,492	$ 2,853,730
Fiduciary net position restricted for pension benefits	$397,648,758	$391,698,922	$ 5,949,836

Changes in Fiduciary Net Position

The Fund's total additions during the year ended December 31, 2018 decreased by $63,135,025 as compared to an increase of $11,610,840 for the year ended December 31, 2017. The Fund recorded a net investment loss during the year of $17,128,885 as compared to net investment income of $51,174,093 in 2017 and $31,022,803 in 2016. The large decrease is due to poor investment returns primarily in the international and U.S. equity portfolios. Additions from employer contributions increased from $20,920,614 in 2017 to $27,638,402 in 2018. Pursuant to Public Act 098-0622 being ruled unconstitutional, the tax levy multiplier for 2018 was decreased from 1.7 times the employee contributions from two years prior to 1.1 times the employee contributions from two years prior. In 2018, the Fund received a portion of PPRT (personal property replacement taxes) revenues collected in addition to the tax levy from the employer of approximately $14.4 million.

Management's Discussion and Analysis (Continued)

Changes in Fiduciary Net Position (Continued)

In 2017, the Fund did not receive any supplemental contributions from the employer. However, in 2016, the employer made supplemental contributions to the Fund of $12.5 million in accordance with Public Act 098-0622. Effective March 7, 2018, the employee contributions decreased from 10% to 9% in accordance with the court order. Consequently, employee contributions decreased to $12,125,457 in 2018 from $13,675,292 in 2017. The Fund also experienced a decrease in active members during 2018 of about 350 members.

The number of retirees has not fluctuated much over the recent years. The Fund's total benefit payments in 2018 increased slightly in comparison to 2017 mainly due to annual increases. On March 1, 2018, the court issued an opinion finding Public Act 098-0622 unconstitutional. As a result, the additional 1% in employee contributions paid to the Fund since January 1, 2015, were refunded to employees with pre-judgment interest in July 2018. These amounts were accrued for in the prior year. The Fund refunded $3.9 million in employee contributions plus pre-judgment interest. The following tables are comparative summaries of changes in fiduciary net position restricted for pension benefits:

Statements of Changes in Fiduciary Net Position – Current Year

	December 31, 2018	December 31, 2017	Increase (Decrease)
ADDITIONS			
Employer contributions	$ 27,638,402	$ 20,920,614	$ 6,717,788
Employee contributions	12,125,457	13,675,292	(1,549,835)
Net investment (loss) income (includes security lending activities)	(17,128,885)	51,174,093	(68,302,978)
Total additions	$ 22,634,974	$ 85,769,999	$(63,135,025)
DEDUCTIONS			
Retirement benefits	$ 61,178,336	$ 59,488,303	$ 1,690,033
Spousal benefits	12,108,228	12,252,673	(144,445)
Child benefits	16,900	15,900	1,000
Disability benefits	268,389	190,464	77,925
Death benefits	229,000	305,000	(76,000)
Total benefits	73,800,853	72,252,340	1,548,513
Refund of contributions	2,725,967	2,025,805	700,162
Refund of excess contributions	-	3,859,882	(3,859,882)
Administrative and general expenses	1,501,039	1,682,136	(181,097)
Total deductions	$ 78,027,859	$ 79,820,163	$ (1,792,304)
Net increase (decrease)	(55,392,885)	5,949,836	(61,342,721)
Beginning of year net position	397,648,758	391,698,922	5,949,836
End of year net position	$342,255,873	$397,648,758	$(55,392,885)

Management's Discussion and Analysis (Continued)

Changes in Fiduciary Net Position (Continued)

Statements of Changes in Fiduciary Net Position – Prior Period

	December 31, 2017	December 31, 2016	Increase (Decrease)
ADDITIONS			
Employer contributions	$ 20,920,614	$ 30,890,241	$ (9,969,627)
Employee contributions	13,675,292	12,246,115	1,429,177
Net investment income (includes security lending activities)	51,174,093	31,022,803	20,151,290
Total additions	$ 85,769,999	$ 74,159,159	$ 11,610,840
DEDUCTIONS			
Retirement benefits	$ 59,488,303	$ 58,967,909	$ 520,394
Spousal benefits	12,252,673	12,043,511	209,162
Child benefits	15,900	18,000	(2,100)
Disability benefits	190,464	283,963	(93,499)
Death benefits	305,000	255,000	50,000
Total benefits	72,252,340	71,568,383	683,957
Refund of contributions	2,025,805	2,509,493	(483,688)
Refund of excess contributions	3,859,882	-	3,859,882
Administrative and general expenses	1,682,136	1,537,699	144,437
Total deductions	$ 79,820,163	$ 75,615,575	$ 4,204,588
Net increase (decrease)	5,949,836	(1,456,416)	7,406,252
Beginning of year net position	391,698,922	393,155,338	(1,456,416)
End of year net position	$397,648,758	$391,698,922	$ 5,949,836

Actuarial Update

The actuarial valuation for the year ended December 31, 2018 includes the impact on the Fund from the March 1, 2018 court decision made on Public Act 098-0622 and the changes in actuarial assumptions adopted by the Board in 2018. The decision to find Public Act 098-0622 unconstitutional has now projected the Fund to run out of money by the year 2026. The valuations for 2018 and 2017 also reflect GASB 67 requirements that improve financial reporting for local governmental pension plans. The notes to the financial statements include information about the individual components of the Fund's net pension liability. The net pension liability is equal to the difference between the total pension liability and the Fund's fiduciary net position. The Fund's required supplementary information provides the reader with a more enhanced look on how the total pension liability, the fiduciary net position and net pension liability is measured.

The Fund's actuarially computed funded ratio is 32.1% at December 31, 2018, which is 5.0% less than at December 31, 2017. The funded ratio is based on the actuarial value of assets over the actuarial accrued liability.

Investment Performance

The Fund's annual investment return for the year ended December 31, 2018 was -5.1%, which is lower than the 14.2% return reported for the year ended December 31, 2017 and lower than the 8.4% return for the year ended December 31, 2016. Performance in 2018 was primarily driven by a selloff in the Fund's International Equity portfolio, which returned -16.5% for the year and U.S. Equity portfolio, which returned -11.5% for the year. Strong returns in the Fund's infrastructure portfolio, which returned 15.3% for the year, real estate portfolio, which returned 7.5% for the year, and private equity portfolio, which returned 7.0% for the year helped offset the losses in the U.S. and international equity portfolios. The Fund's -5.1% return for 2018 underperformed its performance benchmark by approximately 210 basis points and underperformed the peer median by approximately 70 basis points. The Fund's underperformance vs. its' benchmark in 2018 was driven by active management underperformance within the U.S. equity and international equity portfolios. The Fund's portfolio performance for the past five years ranked in the upper seventeenth percentile as measured against its peers. Over the trailing three-year period, the Fund underperformed its' performance benchmark by approximately 20 basis points. Over the trailing five-year period, the Fund outperformed the performance benchmark by roughly 10 basis points. Over the trailing ten-year period, the Fund returned 8.5%, outperforming the performance benchmark by 70 basis points and ranked in the upper 27th percentile as measured against its peers, and outperforming the 7.5% actuarial rate of return.

Management's Discussion and Analysis (Continued)

Litigation Matters

Effective June 1, 2014, Public Act 098-0622 amended Article 12 of the Pension Code by increasing the normal retirement age, increasing employee and employer contributions to the Fund, suspending and reducing the automatic annual increases for retirees, and reducing the duty disability benefit. On October 14, 2015, the Fund was served with a lawsuit challenging Public Act 098-0622 as unconstitutionally diminishing and impairing pension benefits. After the Illinois Supreme Court issued its decision in *Jones v. Municipal Employees' Annuity and Benefit Fund of Chicago* declaring unconstitutional similar changes to Articles 8 and 11 of the Pension Code, the Fund entered into an agreed court order and made retroactive payments for the suspended automatic annual increases, effective November 1, 2016, and restored the automatic annual increases, effective December 1, 2016.

On March 1, 2018, the court issued an opinion declaring Public Act 098-0622 unconstitutional. Therefore, the additional 1% in employee contributions paid to the Fund since January 1, 2015, were refunded to employees with pre-judgment interest in July 2018. In addition, in June 2018, the Fund restored any reduced duty disability benefits retroactively, with pre-judgment interest to any employees who received a reduced duty disability benefit. The total of these payments amounted to $3.9 million.

Pursuant to an agreed court order, the Fund retained the $12.5 million supplemental contribution the employer made in both 2016 and 2015 and the increased contributions made by the employer in 2016 and 2015 pursuant to the increase in the tax multiplier to 1.7 times the amount of employer contributions. The Fund also retained the employer contributions from the 2017 tax levy of $20.8 million, received in 2018, which were made pursuant to a tax multiplier of 1.7 times the amount of employee contributions. Although the 2018 tax levy reverted to a tax multiplier of 1.1 times the amount of employee contributions, the employer has budgeted for an additional voluntary contribution of $14.4 million to be paid to the Fund for a total of $27.6 million. The employer plans to make a similar voluntary contribution to the Fund in 2019.

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 FIDUCIARY NET POSITION
DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Receivables		
Contributions from employer	$ 14,464,069	$ 20,799,934
Employee contributions	595,560	564,787
Workers' compensation offset of duty disability benefits, net of allowance for loss of $16,615 in 2018 and 2017	75,844	131,115
Due from broker	321,604	1,309,824
Accrued investment income	411,061	448,401
Miscellaneous receivables	258,954	14,021
	16,127,092	23,268,082
Investments, at fair value		
Common stocks	45,332,504	56,254,103
Fixed income	61,043,992	65,382,838
Collective investment funds	72,315,985	108,036,902
Mutual funds	15,420,085	20,340,559
Hedged equity	24,437,510	25,160,062
International equity	18,093,650	-
Risk parity	1,348,182	10,388,615
Private equity	19,232,200	22,366,679
Real estate	37,225,201	36,104,891
Infrastructure	22,774,008	23,328,660
Short-term investments	6,181,608	8,939,984
	323,404,925	376,303,293
Invested securities lending collateral	24,113,674	33,992,926
Property and equipment - net	138,555	110,539
Prepaid annuity benefits	5,061,599	4,777,637
Other prepaid expenses	80,359	75,503
	5,141,958	4,853,140
Total assets	368,926,204	438,527,980
LIABILITIES		
Accounts payable	396,639	471,562
Accrued benefits payable	588,867	498,195
Accrued payroll liabilities	21,726	17,881
Member contribution refunds and reduced disability benefits payable	-	4,069,355
Unamortized rent abatement	55,136	63,108
Securities lending collateral	24,113,674	33,992,926
Due to broker	1,494,289	1,766,195
	26,670,331	40,879,222
Net position restricted for pension benefits	$ 342,255,873	$ 397,648,758

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 FIDUCIARY NET POSITION
YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Additions		
Contributions		
Employer contributions	$ 27,638,402	$ 20,920,614
Employee contributions	12,125,457	13,675,292
Total contributions	39,763,859	34,595,906
Investment income		
Net appreciation (depreciation) in fair value of investments	(27,559,554)	39,842,188
Interest	2,203,951	2,476,983
Dividends	925,828	1,076,628
Partnership and real estate income	9,064,682	9,542,177
	(15,365,093)	52,937,976
Less investment expenses	1,831,719	1,855,662
Net income (loss) from investing activities	(17,196,812)	51,082,314
Security lending activities		
Securities lending income	721,122	476,428
Securities lending gain (loss)		
Borrower rebates	(596,824)	(316,668)
Bank fees	(56,538)	(71,749)
Net income from securities lending activities	67,760	88,011
Other income	167	3,768
Total additions	22,634,974	85,769,999
Deductions		
Benefits		
Annuity payments	73,303,464	71,756,876
Disability and death benefits	497,389	495,464
Total benefits	73,800,853	72,252,340
Refund of contributions	2,725,967	2,025,805
Refund of increased contributions and reduced disability benefits (see Note 10)	-	3,859,882
Administrative and general expenses	1,501,039	1,682,136
Total deductions	78,027,859	79,820,163
Net increase (decrease)	(55,392,885)	5,949,836
Net position restricted for pension benefits		
Beginning of year	397,648,758	391,698,922
End of year	$ 342,255,873	$ 397,648,758

The accompanying notes are an integral part of the 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, 2018 and 2017, Fund membership consists of:

	2018	2017
Retirees and beneficiaries currently receiving benefits	2,854	2,876
Current employees	3,187	3,543
Vested terminated members entitled to benefits	145	150

Pension legislation (Public Act 096-0889) 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 contributed before January 1, 2011.
Tier 2 – Participants that contributed 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 $113,645 in 2018 and $112,408 in 2017.

Post-Retirement Increase

Tier 1: An employee annuitant under Tier 1 who retires at age 50 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.

Note 1 – Fund Description and Contribution Information (Continued)

Post-Retirement Increase (Continued)

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 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, on the January following one full year after the date of death of the employee or annuitant.

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. The District's contributions to the Fund were $27,638,402 and $20,920,614 for the years ended December 31, 2018 and 2017, respectively.

Benefit and Contribution Changes - Public Act 098-0622

Public Act 098-0622, which took effect January 1, 2015, was signed by the governor in January 2014 and included benefit changes for both Tier 1 and Tier 2 members as well as increases in the employer and employee contributions. On March 1, 2018, the court issued an opinion finding Public Act 098-0622 unconstitutional.

Increase in employer contributions provided by the provisions of Public Act 098-0622 for 2015, 2016 and 2017 were generally not affected by the ruling, and these increases were not required to be returned by the Fund. However, employee contribution increases collected and reductions in duty disability benefits payments during 2015, 2016 and 2017 were returned to the employees in July 2018. See note 10.

Net Pension Liability of Participating Employer

The components of the net pension liability as of December 31, 2018 and 2017 were as follows:

	2018	2017
Total pension liability	$1,646,968,021	$1,624,571,524
Plan fiduciary net position	342,255,873	397,648,758
Employer's net pension liability	1,304,712,148	1,226,922,766
Plan fiduciary net position as a percentage of net pension liability	20.78%	24.48%

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Note 1 – Fund Description and Contribution Information (Continued)

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2018 and 2017, using actuarial assumptions applied to all periods included in the measurement.

	2018	2017
Inflation	2.50%	2.75%
Salary increase	20% to 2.75%	15% to 2.75%
Investment rate of return	4.21%, net of investment expense	3.65%, net of investment expense
Cost of living adjustments	Retirees - 3% of the original benefit for employees who first became a participant before January 1, 2011. Retirees - lesser of 3% and ½ CPI of the original benefit for employees who first became a participant on or after January 1, 2011. Beneficiary – 3% compounded for beneficiaries of employees who first became a participant by January 1, 2011.	Retirees - 3% of the original benefit for employees who first became a participant before January 1, 2011. Retirees - lesser of 3% and ½ CPI of the original benefit for employees who first became a participant on or after January 1, 2011. Beneficiary – 3% compounded for beneficiaries of employees who first became a participant by January 1, 2011.

Post-retirement mortality rates adjusted from RP–2000 with mortality improvements projected generationally from 2003 using Scale AA to 110% of PubG-2010 with mortality improvements projected generationally using MP-2017.

The actuarial assumptions used in the December 31, 2018 were based on the results of an actuarial experience study for a five-year period ending December 31, 2017. The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for a five-year period ending June 30, 2012.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2018 and 2017 are summarized in the following table:

	2018		2017	
	Target allocation	Long-term expected real rate of return	Target allocation	Long-term expected real rate of return
Fixed income	20.5%	1.65%	20.5%	1.75%
Domestic equity	28.5%	6.45%	28.5%	6.40%
International equity	18.0%	6.95%	18.0%	7.40%
Emerging market	2.0%	9.25%	2.0%	9.80%
Risk parity	3.0%	4.55%	3.0%	4.10%
Hedge equity	7.0%	4.55%	7.0%	4.10%
Private equity	7.0%	11.55%	7.0%	10.70%
Real assets	14.0%	4.25%	14.0%	5.10%

Note 1 – Fund Description and Contribution Information (Continued)

Discount rate

The discount rate used to measure the total pension liability was 4.21% for December 31, 2018. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the 9% contribution rate for 2019 and thereafter. Employer contributions will be made at the 1.1 multiple of member contributions from two years prior to 2019 and thereafter. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions and contributions from future plan members that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. The projected benefit payments through 2024 were discounted at the expected long-term rate of returns (7.25%). Starting in 2025, the projected benefit payments were discounted at the municipal bond index (4.10%). Therefore, a single equivalent blended discount rate of 4.21% was calculated using the long-term expected rate of return and the municipal bond index.

The discount rate used to measure the total pension liability was 3.65% for December 31, 2017. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the 9% contribution rate for 2018 and thereafter. Employer contributions will be made at the 1.1 multiple of member contributions from two years prior to 2018 and thereafter. For this purpose, only employer contributions that are intended to fund benefits or current plan members and their beneficiaries are included. Projected employer contributions and contributions from future plan members that are intended to fund the service costs of future plan members and their beneficiaries are not included. Based on those assumptions, the pension plan's fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. The projected benefit payments through 2025 were discounted at the expected long-term rate of returns (7.5%). Starting in 2026, the projected benefit payments were discounted at the municipal bond index (3.44%). Therefore, a single equivalent blended discount rate of 3.658% was calculated using the long-term expected rate of return and the municipal bond index.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability as of December 31, 2018, calculated using the discount rate of 4.21%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (3.21%) or 1 percentage point higher (5.21%) than the current rate:

Net pension liability	1% Decrease (3.21%)	Current Discount Rate (4.21%)	1% Increase (5.21%)
December 31, 2018	$1,551,957,537	$1,304,712,148	$1,104,251,891

For comparison purposes, the net pension liability as of December 31, 2017, calculated using the discount rate of 3.65%, as well as what the net pension liability would be if it was calculated using a discount rate that is 1 percentage point lower (2.65%) or 1 percentage point higher (4.65%) than the current rate:

Net pension liability	1% Decrease (2.65%)	Current Discount Rate (3.65%)	1% Increase (4.65%)
December 31, 2017	$1,466,351,862	$1,226,922,766	$1,031,461,240

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NOTES TO FINANCIAL STATEMENTS

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 fiduciary net position.

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.

Note 2 – Summary of Significant Accounting Policies (Continued)

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.

Recently Issued Accounting Pronouncements

GASB Statement No. 84, *Fiduciary Activities*, was established to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. This Statement also is intended to improve the usefulness of fiduciary activity information primarily for assessing the accountability of governments in their roles as fiduciaries. The Fund is currently evaluating the financial statement impact of GASB Statement No. 84. If applicable, this statement will be implemented for the year ended December 31, 2019.

GASB Statement No. 87, *Leases* was established to improve accounting and financial reporting for leases by governments. This Statement increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for leases that were previously classified as operating leases. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Statement No. 87 is effective for the Fund's fiscal year ending December 31, 2020.

The Fund is currently evaluating the impact of adopting the aforementioned GASB Statements.

NOTES TO FINANCIAL STATEMENTS

Note 3 – Investment Policies, Asset Allocation and Money-Weighted Rate of Return

Investment Policy

The Fund's policy in regard to the allocation of invested assets is established and may be amended by the Board. It is the policy of the Board to pursue an investment strategy that reduces risk through prudent diversification of the portfolio across a broad selection of distinct asset classes. The Fund's investment policy discourages the use of cash equivalents, except to meet liquidity needs, and aims to refrain from dramatically shifting asset class allocations over the short term.

The following table represents the Board's adopted asset allocation policy as of December 31, 2018 and 2017.

Asset Class	2018 Target	2017 Target
Fixed income	20.5%	20.5%
Domestic equity	28.5%	28.5%
International equity	18.0%	18.0%
Emerging market	2.0%	2.0%
Risk parity	3.0%	3.0%
Hedge equity	7.0%	7.0%
Private equity	7.0%	7.0%
Real assets	14.0%	14.0%
	100%	100%

Money-Weighted Rate of Return

For the years ended December 31, 2018 and 2017, the annual money-weighted rate of return on plan investments, net of investment expense, was 5.49% and 5.58%, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Note 4 – Deposits and Investments

At December 31, 2018 and 2017 the Fund's book balances of cash were $-0- and $-0-, respectively. The actual bank balances were $-0- and $-0- at December 31, 2018 and 2017, 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.

The Fund's investments are held by a bank-administered trust fund, except for the collective investment funds, private equity partnerships, real estate, mutual funds, infrastructure, hedged equity and certain fixed income investments. Investments that represent 5 percent or more of the Fund's net position (except those issued or guaranteed by the U.S. Government) are separately identified as follows:

	2018	2017
Collective investment funds – common stock		
NTGI QM Collective Daily US Market cap Equity	$35,491,812	$41,353,963
NTGI QM Collective Daily All Country World Index	$22,881,641	$50,673,507
Hedged Equity - Parametric Defensive Equity Fund	$24,437,510	$25,160,062
Mutual Funds – William Blair	$15,420,085*	$20,340,559

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

Note 4 – Deposits and Investments (Continued)

The Fund's investments are reported at fair value in the accompanying statements of fiduciary net position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Fund believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Generally accepted accounting principles provide the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Fund has the ability to access.

Level 2: Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair market value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2018 and 2017.

Investments that are measured at fair value using the net asset value (NAV) per share (or its equivalent), as a practical expedient are not classified in the fair value hierarchy.

Equity securities and short-term investment securities classified in Level 1 are valued using prices quoted in active markets for those securities.

Debt securities classified in Level 2 or Level 3 are valued using matrix pricing techniques maintained by the various pricing vendors. Matrix pricing is used to value securities based on the securities relationship to a benchmark's quoted price. Equity securities classified in Level 2 are securities with a theoretical price calculated by applying a standardized formula to derive a price from a related security.

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Note 4 – Deposits and Investments (continued)

Equity securities classified in Level 2 are valued with last trade data having limited trading volume.

The valuation method for certain fixed income and alternative investments is based on the investments' NAV per share (or its equivalent), provided by the investment managers. The NAV is based on the fair value of the underlying investments held by the Fund less its liabilities. This practical expedient is not used when it is determined to be probable that the Fund will sell the investment for an amount different than the reported NAV.

The following table summarizes the valuation of the Fund's investments by the fair value hierarchy levels as of December 31, 2018.

		Fair Value Measurements Using		
Investment Measured at Fair Value	December 31, 2018	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity securities				
Common Stock	$ 87,673,188	$ 45,332,504	$ 42,340,684	$ -
Common Stock – foreign	45,395,386	15,420,085	29,975,301	-
Total equity securities	133,068,574	60,752,589	72,315,985	-
Debt securities				
Government Bonds	15,953,011	-	15,953,011	-
Government Agencies	1,370,216	-	1,370,216	-
Corporate Bonds	16,822,554	-	16,820,247	2,307
Government Mortgage-Backed Securities	15,876,479	-	15,780,728	95,751
Commercial Mortgage-Backed	9,943,558	-	9,943,558	-
Asset Backed Securities	289,313`	-	234,346	54,967
Non-Government Backed CMO's	108,325	-	108,325	-
Index Linked Government Bonds	680,536	-	680,536	-
Total debt securities	61,043,992	-	60,890,967	153,025
Short-term investment securities				
Short-term Bills & Notes	224,887	-	224,887	-
Funds-short-term investment	5,956,721	5,956,721	-	-
Total short-term investments securities	6,181,608	5,956,721	224,887	-
Total investments measured by fair value level	200,294,174	$66,709,310	$133,431,839	$153,025
Investments measured at Net Asset Value (NAV)				
Hedged equity	24,437,510			
International equity	18,093,650			
Risk parity	1,348,182			
Private equity	19,232,200			
Real estate	37,225,201			
Infrastructure	22,774,008			
Total investments measured at NAV	123,110,751			
Total investments measured at fair value	$323,404,925			
Collateral from securities lending	$ 24,113,674		$ 24,113,674	

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NOTES TO FINANCIAL STATEMENTS

Note 4 – Deposits and Investments (continued)

The following table summarizes the valuation of the Fund’s investments by the fair value hierarchy levels as of December 31, 2017.

		Fair Value Measurements Using		
Investment Measured at Fair Value	December 31, 2017	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity securities				
Common Stock	$105,305,220	$56,254,103	$ 49,051,117	$ -
Common Stock – foreign	79,326,344	20,340,559	58,985,785	-
Total equity securities	184,631,564	76,594,662	108,036,902	-
Debt securities				
Government Bonds	17,374,364	-	17,374,364	-
Government Agencies	1,673,582	-	1,673,582	-
Corporate Bonds	20,233,703	-	20,231,514	2,189
Government Mortgage-Backed Securities	16,328,816	-	16,328,816	-
Commercial Mortgage-Backed	9,463,179	-	9,463,179	-
Non-Government Backed CMO’s	108,101	-	-	108,101
Index Linked Government Bonds	201,093	-	201,093	-
Total debt securities	65,382,838	-	65,272,548	110,290
Short-term investment securities				
Short-term Bills & Notes	829,756	829,756	-	-
Funds-short-term investment	8,110,228	8,110,228	-	-
Total short-term investments securities	8,939,984	8,939,984	-	-
Total investments measured by fair value level	258,954,386	$85,534,646	$173,309,450	$110,290
Investments measured at Net Asset Value (NAV)				
Hedged equity	25,160,062			
Risk parity	10,388,615			
Private equity	22,366,679			
Real estate	36,104,891			
Infrastructure	23,328,660			
Total investments measured at NAV	117,348,907			
Total investments measured at fair value	$376,303,293			
Collateral from securities lending	$ 33,992,926		$ 33,992,926	

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NOTES TO FINANCIAL STATEMENTS

Note 4 – Deposits and Investments (continued)

Investments measured at NAV for fair value are not subject to level classification. The valuation methods for investments measured at the NAV per share (or its equivalent) is presented on the following table.

Investments Measured at Net Asset Value (NAV)

	Fair Value December 31, 2018	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedged equity	$24,437,510	$ -	Monthly	5 days
International equity	$18,093,650	$ -	Daily/Quarterly	5 - 30 days
Risk parity	$ 1,348,182	$ -	Daily	1 day
Private equity	$19,232,200	$13,395,000	n/a	n/a
Real estate	$37,225,201	$ -	Quarterly	60-90 days
Infrastructure	$22,774,008	$ -	Quarterly	90 days

Investments Measured at Net Asset Value (NAV)

	Fair Value December 31, 2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Hedged equity	$25,160,062	$ -	Monthly	5 days
Risk parity	$10,388,615	$ -	Daily	1 day
Private equity	$22,366,679	$9,245,000	n/a	n/a
Real estate	$36,104,891	$ -	Quarterly	60-90 days
Infrastructure	$23,328,660	$ -	Quarterly	90 days

Hedged Equity

The hedged equity investment consists of one open-end long/short equity hedge fund of funds portfolio that primarily invests both long and short in publicly traded US equities.

International Equity

The international equity investment consists of two funds portfolio that primarily invests both long and short in publicly traded international equities.

Risk Parity

The risk parity investment consists of one open-end fund that primarily invests in global equities, global government bonds and commodities.

Note 4 – Deposits and Investments (continued)

Private Equity Partnerships

The private equity investments consist of ten closed-end limited partnership private equity fund of funds. Generally, the types of partnership strategies included in these portfolios are venture capital, buyouts, special situations, mezzanine, and distressed debt. Private equity partnerships have an approximate life of 10-15 years and are considered illiquid. Redemptions are restricted over the life of the partnership. During the life of the partnerships, distributions are received as underlying investments are realized. The Fund has no plans to liquidate the total portfolio.

Real Estate

The real estate investments consists of two core open-end real estate funds and one value-added open-end real estate fund that primarily invest in U.S. commercial real estate.

Infrastructure

The infrastructure investments consist of two core open-end infrastructure funds that primarily invest in global infrastructure 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.

Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment or a deposit. Forward currency contracts may be used to manage exposure to foreign currencies. The Fund has not adopted a formal policy related to foreign currency risk. At December 31, 2018 and 2017, the Fund had $43.4 and $79.3 million, respectively, in foreign investments, all of which was in mutual funds that were held in U.S. dollars. At December 31, 2018, the Fund had $18.1 million in foreign investments in two international equity hedge funds all of which were held in U.S. dollars.

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Note 4 – Deposits and Investments (continued)

The following tables show the investments in debt securities by investment type and maturity as of December 31, 2018 and 2017 (expressed in thousands).

December 31, 2018

Security Type	Total Fair Value	Less Than 1 Year	1 – 6 Years	6 -10 Years	10+ Years
Commercial mortgage backed	$ 9,944	$ -	$ -	$ 307	$ 9,637
Corporate bonds	16,823	1,316	7,891	4,929	2,687
Government agencies	1,370	195	832	343	-
Government bonds	15,953	198	8,823	3,193	3,739
Asset backed securities	289	-	-	99	190
Index Linked Government Bonds	681	-	-	681	-
Government mortgage backed	15,876	-	33	352	15,491
Non-government backed CMO's	108	-	-	-	108
Total	$61,044	$1,709	$17,579	$9,904	$31,852

December 31, 2017

Security Type	Total Fair Value	Less Than 1 Year	1 – 6 Years	6 -10 Years	10+ Years
Commercial mortgage backed	$ 9,463	$ -	$ -	$ -	$ 9,463
Corporate bonds	20,234	504	9,639	5,762	4,329
Government agencies	1,674	-	1,420	254	-
Government bonds	17,374	-	7,937	5,543	3,894
Asset backed securities	-	-	-	-	-
Index Linked Government Bonds	201	-	-	201	-
Government mortgage backed	16,329	14	152	552	15,611
Non-government backed CMO's	108	-	-	-	108
Total	$65,383	$518	$19,148	$12,312	$33,405

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.

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NOTES TO FINANCIAL STATEMENTS

Note 4 – Deposits and Investments (continued)

The following tables present the Fund’s ratings as of December 31, 2018 and 2017 (expressed in thousands).

December 31, 2018

S & P Credit Rating	Fair Value	Comm’l Mortgage Backed	Corporate Bonds	Gov’t Agencies	Gov’t Bonds	Asset Backed	Gov’t Mortgage Backed	Index Linked Gov’t Bonds	Non Gov’t Backed CMO
AAA	$ 803	$ 207	$ 247	$ 195	$ -	$154	$ -	$ -	$ -
AA	2,219	-	1,333	778	-	-	-	-	108
A	4,594	-	4,508	-	-	86	-	-	-
BBB	9,324	-	9,125	199	-	-	-	-	-
BB	1,016	-	1,016	-	-	-	-	-	-
B	592	-	592	-	-	-	-	-	-
NR	9,886	9,637	2	198	-	49	-	-	-
US Gov’t Agency	32,610	100	-	-	15,953	-	15,876	681	-
Total	$61,044	$9,944	$16,823	$1,370	$15,953	$289	$15,876	$681	$108

December 31, 2017

S & P Credit Rating	Fair Value	Comm’l Mortgage Backed	Corporate Bonds	Gov’t Agencies	Gov’t Bonds	Asset Backed	Gov’t Mortgage Backed	Index Linked Gov’t Bonds	Non Gov’t Backed CMO
AAA	$ 795	$ 220	$ 380	$ 195	$ -	$ -	$ -	$ -	$ -
AA	2,629	-	1,453	1,068	-	-	-	-	108
A	6,904	-	6,904	-	-	-	-	-	-
BBB	9,215	-	9,003	212	-	-	-	-	-
BB	1,926	-	1,926	-	-	-	-	-	-
B	270	-	270	-	-	-	-	-	-
NR	10,425	9,243	298	199	222	-	463	-	-
US Gov’t Agency	33,219	-	-	-	17,152	-	15,866	201	-
Total	$65,383	$9,463	$20,234	$1,674	$17,374	$ -	$16,329	$201	$108

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.

NOTES TO FINANCIAL STATEMENTS

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 fair 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 67 days. As December 31, 2018 and 2017, the Fund had loaned to borrowers securities with a fair value of $23,681,541 and $33,152,044, respectively. As of December 31, 2018, the fair value of the collateral received by the Fund was $24,113,674 and the collateral invested by the Fund was $24,113,674. As of December 31, 2017, the fair value of the collateral received by the Fund was $$33,992,926 and the collateral invested by the Fund was $$33,992,926.

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 – Property and Equipment

Property and equipment are stated at cost. Depreciation has been provided using the straight-line method over periods ranging from 3-7 years. Leasehold improvements are amortized using the straight-line method over the remaining term of the lease. Major outlays for additions and improvements are capitalized. Maintenance and repairs are charged to expense. A summary of property and equipment at December 31, 2018 and 2017 is as follows:

	2018	2017
Furniture and equipment	$ 73,865	$ 72,426
Computer software	199,050	171,419
Leasehold improvements	2,271	2,271
	275,186	246,116
Less accumulated depreciation and amortization	136,631	135,577
Net property and equipment	$138,555	$110,539

Depreciation and amortization expense was $1,054 and $1,459 for 2018 and 2017, respectively.

Note 7 – Operating Leases

The Fund has entered into an operating lease for office space 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 was $55,136 and $63,108 at December 31, 2018 and 2017, respectively. The total rental expense was $192,269 and $182,774 for 2018 and 2017, respectively.

Note 7 – 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, 2018:

Year ended December 31	Amount
2019	$ 97,021
2020	99,349
2021	101,678
2022	104,006
2023	106,335
2024-2026	256,911
	$765,300

The Fund leases office equipment under non-cancelable operating leases that expire at various dates through January, 2024. Total rent expense incurred under these operating leases was $27,059 and $24,518 for 2018 and 2017, respectively.

Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of December 31, 2018 for each of the next six years and in the aggregate are:

Year ended December 31	Amount
2019	$19,912
2020	19,912
2021	19,912
2022	19,912
2023	7,941
2024	519
	$88,108

Note 8 – Commitments

The Fund has committed to purchase $90,000,000 interests in private equity partnerships. At December 31, 2018 and 2017, the Fund had a remaining contractual obligation of $13,395,000 and $9,245,000, respectively, to purchase additional interests in the private equity partnerships.

Note 9 – 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 Internal Revenue Service regulations. Total employee contributions were $36,200 and $36,125 for 2018 and 2017, respectively. Employer contributions are not allowed.

Note 10 – Litigation

Public Act 098-0622, which took effect January 1, 2015, affected all stakeholders: the employer, employees and retirees and was to be phased in over a five-year period. The main objective of the amendment was to provide sustainable funding to secure the long-term health of the Fund.

Beginning in 2015, the multiplier for employer contributions increased to 1.70 times the total contribution by employees two years earlier. In addition to the increased multiplier, the Employer made supplemental contributions in 2015 and 2016 of $12.5 million.

Under Public Act 098-0622, employee contributions increased from 9% to 10%. Duty disability benefits decreased from 75% of salary to 74%.

On October 14, 2015, the Fund was served a summons and complaint, which challenges Public Act 098-0622, on the grounds that this amendment to the Illinois Pension Code diminishes and impairs the benefits of participants in the Fund. On March 1, 2018, the Court issued an opinion finding Public Act 098-0622 unconstitutional. Consequently, the court ordered the Fund to refund the additional 1% in employee contributions that were paid to the Fund since January 1, 2015 with prejudgment interest at 3%. In addition, the Fund will restore any reduced duty disability benefits retroactively, with prejudgment interest to any employees who received a reduced duty disability benefit.

At December 31, 2017 the Fund has recorded a liability of $4,069,355 consisting of the refunds of the additional 1% of employee contributions and the amounts due employees who received reduced duty disability benefits including prejudgment interest of approximately $209,000.

Increases in employer contributions due to changes in the multiplier and additional supplemental contributions in 2015 and 2016 were not affected by the ruling. The Court ruled the Fund is under no obligation to return those contributions to the District. The multiplier for 2018 was amended to revert back to 1.10 from 1.70.

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION LIABILITY

Total pension liability	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Service cost	$ 38,102,341	$ 20,115,813	$ 13,763,768	$ 13,417,795	$ 12,975,774
Interest	59,290,982	68,982,467	66,523,889	65,921,805	64,929,834
Change of benefit term	-	36,183,940	93,579,710	-	-
Differences between expected and actual experience	5,001,084	2,785,815	(4,556,757)	682,159	5,447,687
Change of assumptions	(3,471,090)	370,422,560	198,725,863	-	-
Benefit payments, including refunds of employee contributions	(76,526,820)	(78,138,027)	(74,077,877)	(70,602,016)	(70,536,042)
Net change in total pension liability	22,396,497	420,352,568	293,958,596	9,419,743	12,817,253
Total pension liability – beginning	**1,624,571,524**	**1,204,218,956**	**910,260,360**	**900,840,617**	**888,023,364**
Total pension liability – ending (a)	**1,646,968,021**	**1,624,571,524**	**1,204,218,956**	**910,260,360**	**900,840,617**
Plan fiduciary net position					
Contributions - employer	27,638,402	20,920,614	30,890,241	30,588,976	11,225,438
Contributions - employee	12,125,457	13,675,292	12,246,115	12,368,636	10,831,434
Net investment income (loss)	(17,196,812)	51,082,314	30,920,231	8,823,613	27,490,520
Benefit payments, including refunds of employee contributions	(76,526,820)	(78,138,027)	(74,077,877)	(70,602,016)	(70,536,042)
Administrative expenses	(1,501,039)	(1,682,136)	(1,537,698)	(1,533,700)	(1,458,831)
Other	67,927	91,779	102,572	88,113	100,518
Net change in plan fiduciary net position	**(55,392,885)**	**5,949,836**	**(1,456,416)**	**(20,266,378)**	**(22,346,963)**
Plan fiduciary net position - beginning	**397,648,758**	**391,698,922**	**393,155,338**	**413,421,716**	**435,768,679**
Plan fiduciary net position – ending (b)	**342,255,873**	**397,648,758**	**391,698,922**	**393,155,338**	**413,421,716**
Employer's net pension liability ending (a)-(b)	**$1,304,712,148**	**$1,226,922,766**	**$ 812,520,034**	**$517,105,022**	**$487,418,901**

This is a 10 – year schedule – however, the information is not required to be presented retroactively. Information will be added to this schedule until 10 years of information is available.

SCHEDULE OF EMPLOYER'S NET PENSION LIABILITY

	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Total pension liability	$1,646,968,021	$1,624,571,524	$1,204,218,956	$910,260,360	$900,840,617
Plan fiduciary net position	342,255,873	397,648,758	391,698,922	393,155,338	413,421,716
Employer's net pension liability	1,304,712,148	1,226,922,766	812,520,034	517,105,022	487,418,901
Plan fiduciary net position as a percentage of total pension liability	20.78%	24.48%	32.53%	43.19%	45.89%
Covered-employee payroll	$ 133,112,100	$ 135,315,008	$ 121,126,918	$122,382,584	$118,987,507
Employer's net pension liability as a percentage of covered-employee payroll	980.16%	906.72%	670.80%	422.53%	409.64%

This is a 10 – year schedule – however, the information is not required to be presented retroactively. Information will be added to this schedule until 10 years of information is available.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Period Ended	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contributions	Contribution Deficiency	Covered Payroll	Contributions as a percentage of Covered Payroll
December 31, 2018	$50,929,734	$27,638,402	$23,291,332	$133,112,100	20.76%
December 31, 2017	45,253,238	20,920,614	24,332,624	135,315,008	15.46
December 31, 2016	37,130,268	30,890,241	6,240,027	121,126,918	25.50
December 31, 2015	36,273,994	30,588,976	5,685,018	122,382,584	24.99
December 31, 2014	35,307,186	11,225,438	24,081,748	118,987,507	9.43
December 31, 2013	41,834,857	15,707,814	26,127,043	117,781,596	13.34
December 31, 2012**	16,786,671	5,268,363	11,518,308	58,231,511	9.05
June 30, 2012	28,051,528	10,868,361	17,183,167	114,223,909	9.51
June 30, 2011	25,319,145	10,981,419	14,337,726	107,686,693	10.20
June 30, 2010	22,399,740	10,829,339	11,570,401	107,361,021	10.09
June 30, 2009	18,285,474	9,667,765	8,617,709	108,882,742	8.88

** For the six months ended December 31, 2012, as a result of Public Act 97-0973, the Fund's year end was changed from June 30th to December 31st.

SCHEDULE OF INVESTMENT RETURNS

Year ended December 31	Annual Money-Weighted Rate of Return, net of investment expense
2018	5.49%
2017	5.58%
2016	5.77%
2015	5.61%
2014	5.60%

This is a 10 – year schedule – however, the information is not required to be presented retroactively. Information will be added to this schedule until 10 years of information is available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Valuation date	12/31/18
Actuarial cost method	Entry age
Amortization method	Level dollar
Amortization period	25 years (closed period)
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	7.5%, net of investment expense
Projected salary increases	20% to 2.75% based on service
Inflation rate	2.50%

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, 2018:						
2018	$ 13,194,114	$ -	$ 13,194,114	$ -	0.00%	$ 13,194,114 *
At December 31, 2017:						
2017	$ 20,799,934	$ -	$ 20,799,934	$ -	0.00%	$ 20,799,934

* collected in March 2019

ADMINISTRATIVE AND GENERAL EXPENSES

	2018	2017
Actuary expense	$ 70,750	$ 48,500
Auditing	28,000	28,000
IT consultant	27,360	28,077
Conference and convention expense	16,503	21,669
Contributions for annuities of Retirement Board employees	65,588	104,863
Depreciation	1,054	1,459
Equipment rental	27,059	24,518
Filing fee - State of Illinois	8,000	8,000
File storage expense	6,977	6,275
Hospitalization	100,505	115,091
Legal	80,156	66,086
Legislative consultant	36,000	33,000
Office supplies and expenses	22,240	31,660
Postage	10,094	6,715
Insurance - surety bond and other	13,603	5,289
Rent expense	192,269	182,774
Salaries	737,688	705,972
Payroll tax	10,463	9,738
Unemployment taxes	-	158
Bank fees	21,018	21,025
Telephone	8,394	7,974
Transportation	3,699	3,770
Prejudgment interest expense	1,035	209,473
Trustees' election expense	12,584	12,050
Total administrative and general expenses	$ 1,501,039	$ 1,682,136

PROFESSIONAL EXPENSES

	2018	2017
Legal	$ 80,156	$ 66,086
Actuary	70,750	48,500
Auditing	28,000	28,000
IT consultant	27,360	28,077
Legislative consultant	36,000	33,000
Total	$ 242,266	$ 203,663

INVESTMENT EXPENSES

	2018	2017
U.S. EQUITY		
Great Lakes Advisors, LLC	$ 64,387	$ 68,535
Ariel Investments	154,234	161,088
RBC Global Asset Management	99,453	109,727
Nothern Trust Quantitative Advisors	9,436	8,286
	327,510	347,636
NON - U.S. EQUITY		
Ativo Capital	35,076	-
Lombardia Capital Partners	-	31,876
Nothern Trust Quantitative Advisors	22,391	22,121
	57,467	53,997
FIXED INCOME		
LM Capital Group, LLC	28,734	30,142
MacKay Shields, LLC	74,053	75,329
Chicago Equity Partners	39,510	39,687
ULLICO Investment Company	63,327	61,439
	205,624	206,597
HEDGED EQUITY		
Entrust Capital, Inc.	-	35,880
Parametric	85,972	63,695
	85,972	99,575
RISK PARITY		
Invesco	43,786	53,896
	43,786	53,896
REAL ESTATE		
Principal Global Investors	151,337	149,907
UBS Realty Investors, LLC	213,153	230,378
	364,490	380,285
PRIVATE EQUITY		
HarbourVest Partners, LLC	101,480	133,125
Mesirow Financial Capital Partners	157,837	91,597
GoldPoint Partners, LLC	27,677	35,322
	286,994	260,044
INFRASTRUCTURE		
ULLICO Infrastrucutre	209,505	195,182
IFM Global Infra (US) L.P	85,371	88,450
	294,876	283,632
OTHER		
Custody- Northern Trust Co.	70,000	70,000
Investment consultant- Marquette Associates	95,000	100,000
	165,000	170,000
Total	$ 1,831,719	$ 1,855,662