

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY,
A COMPONENT UNIT OF COOK COUNTY, ILLINOIS**

FINANCIAL STATEMENTS

DECEMBER 31, 2012

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

DECEMBER 31, 2012 AND 2011

CONTENTS

	PAGE
Report of Independent Auditors	1
Management's Discussion and Analysis	4 - 4d
Combining Statements of Pension Plan and Postemployment Healthcare Plan Net Position	5
Combining Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Position	6
Notes to Financial Statements	8
Required Supplementary Information	
Schedule of Funding Progress	25
Schedule of Employer Contributions	26
Notes to Schedule of Funding Progress and Schedule of Employer Contributions	27
Supplementary Information	
Schedules of Net Administrative Expenses and Professional and Consulting Fees	28
Schedules of Investment Expenses	29
Additions By Source	31
Deductions By Type	31
Schedule of Taxes Receivable	32

REPORT OF INDEPENDENT AUDITORS

To the Board of Trustees of
County Employees' and Officers' Annuity
and Benefit Fund of Cook County

Report on the Financial Statements

We have audited the accompanying financial statements of County Employees' and Officers' Annuity and Benefit Fund of Cook County (the Plan), which comprise the combining statements of pension plan and postemployment healthcare plan net position as of December 31, 2012 and 2011, and the related combining statements of changes in pension plan and postemployment healthcare plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic 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 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 an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Auditor's Responsibility (continued)

An audit includes 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 Plan'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 Plan's internal control. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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 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 financial status of County Employees' and Officers' Annuity and Benefit Fund of Cook County as of December 31, 2012 and 2011, and the changes in its financial status for the years then ended, in conformity 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 Management's Discussion and Analysis on pages 4 through 4d and the required supplementary information consisting of the schedule of funding progress, the schedule of employer contributions and the notes to those schedules on pages 25 through 27 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 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 Matters (continued)

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the Plan's basic financial statements as a whole. The accompanying supplementary information on pages 28 through 32 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information consisting of the schedules of net administrative expenses and professional and consulting fees, schedules of investment expenses, additions by source, deductions by type, and schedule of taxes receivable is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the 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 consisting of the schedules of administrative expenses and professional and consulting fees, schedules of investment expenses, additions by source, deductions by type, and schedule of taxes receivable is fairly stated in all material respects in relation to the basic financial statements as a whole.

Previously Audited Information

We also have previously audited the basic financial statements for the years ended December 31, 2010, 2009, 2008, and 2007 (which are not presented herein), and we expressed unqualified opinions on those financial statements. In our opinion, the information on page 32 is fairly stated in all material respects in relation to the basic financial statements from which it has been derived. Our reports for 2010, 2009, 2008 and 2007 on the required supplementary information (pages 26 and 27) stated that we applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurements and presentation of the supplementary information, but did not audit the information and expressed no opinion on it.

Legacy Professionals LLP

Chicago, Illinois

May 2, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section presents Management's Discussion and Analysis of the financial position and performance of the County Employees' and Officers' Annuity and Benefit Fund of Cook County (Plan) for the year ended December 31, 2012. This discussion is presented as an overview of the financial activities of the Plan and should be read in conjunction with the Plan's financial statements.

Overview of the Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the Plan's basic financial statements. The financial statements are prepared on an economic sources focus and accrual basis of accounting in accordance with Governmental Accounting Standards Board (GASB) pronouncements. The basic components of the financial package are described below:

Combining Statements of Pension Plan and Postemployment Healthcare Plan Net Position provides a snapshot of account balances and net position held in trust for future benefit payments and any liabilities as of the Plan's year end. Over time increases and decreases in net position may serve as a useful indicator of whether the financial position of the Plan is improving or deteriorating.

Combining Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Position shows the revenues (additions) and expenses (deductions) during the year, where additions less deductions equal net increase (decrease) in net position. The net increase (decrease) in net position illustrates the change in net assets from the prior year to the current year.

Notes to the Financial Statements provides additional information that is essential to achieving a better understanding of the data provided in the basic financial statements.

Required Supplementary Information provides two schedules and related notes concerning actuarial information, funding progress and employer contributions.

Supplementary Information includes schedules of administrative expenses, professional and consulting fees, investment expenses, additions by source, deductions by type and taxes receivable.

Financial Highlights

Net position increased by \$618,692,378 or 8.31% from \$7,441,243,250 at December 31, 2011 to \$8,059,935,628 at December 31, 2012. Comparatively, net position decreased by \$133,410,362 or 1.76% from \$7,574,653,612 at December 31, 2010 to \$7,441,243,250 at December 31, 2011. The change in net position for both years was primarily due to the fluctuation in the fair market value of the investments.

The **rate of return** of the Plan's investment portfolio was 12.5% for 2012, 1.2% for 2011 and 12.4% for 2010.

The **actuarial funded ratio** of the combined pension and the postemployment healthcare plans for 2012 was 53.55% compared to 57.54% for 2011. The decrease in the funded ratio during 2012 was due primarily to the smoothing of investment losses incurred in 2008. The 2010 funded ratio was 60.74%.

Plan Net Position

The condensed combining Statements of Pension Plan and Postemployment Healthcare Plan Net Position reflects the resources available to pay benefits to members. A summary of the Pension Plan and Postemployment Plan Net Position is as follows:

	Plan Net Position As of December 31,			Current Year (Decrease) in	
	2012	2011	2010	Dollars	Percent
Total assets	\$ 8,660,955,128	\$ 8,070,471,176	\$ 8,595,019,039	\$ 590,483,952	7.3%
Total liabilities	<u>601,019,500</u>	<u>629,227,926</u>	<u>1,020,365,427</u>	<u>(28,208,426)</u>	-4.5%
Net position	<u>\$ 8,059,935,628</u>	<u>\$ 7,441,243,250</u>	<u>\$ 7,574,653,612</u>	<u>\$ 618,692,378</u>	8.3%

Changes in Plan Net Position

The condensed combining Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Position reflects the changes in the resources available to pay benefits to members. A summary of the Changes in Pension Plan and Postemployment Healthcare Plan Net Position is as follows:

Changes in Plan Net Position For the Years Ended December 31,

	<u>2012</u>	<u>2011</u>	<u>2010</u>	Current Year	
				<u>Increase/(Decrease) in Dollars</u>	<u>Percent</u>
Additions:					
Employer contributions	\$ 190,720,776	\$ 195,337,621	\$ 181,509,323	\$ (4,616,845)	-2.4%
Employee contributions	130,570,599	127,577,473	129,449,866	2,993,126	2.3%
Investment income (loss) (includes security lending activities)	887,687,519	82,701,033	833,052,844	804,986,486	973.4%
Other	10,190,689	17,614,316	12,795,846	(7,423,627)	-42.1%
Total additions	<u>1,219,169,583</u>	<u>423,230,443</u>	<u>1,156,807,879</u>	<u>795,939,140</u>	<u>188.1%</u>
Deductions:					
Benefits	563,092,126	523,396,627	482,523,408	39,695,499	7.6%
Refunds	33,081,726	29,165,335	25,041,818	3,916,391	13.4%
Administrative expenses	4,303,353	4,078,843	4,074,955	224,510	5.5%
Total deductions	<u>600,477,205</u>	<u>556,640,805</u>	<u>511,640,181</u>	<u>43,836,400</u>	<u>7.9%</u>
Net increase (decrease)	618,692,378	(133,410,362)	645,167,698	752,102,740	563.8%
Net position					
Beginning of year	<u>7,441,243,250</u>	<u>7,574,653,612</u>	<u>6,929,485,914</u>	<u>(133,410,362)</u>	<u>-1.8%</u>
End of year	<u>\$ 8,059,935,628</u>	<u>\$ 7,441,243,250</u>	<u>\$ 7,574,653,612</u>	<u>\$ 618,692,378</u>	<u>8.3%</u>

Additions to Plan Net Position

Total additions were \$1,219,169,583 in 2012, \$423,230,443 in 2011 and \$1,156,807,879 in 2010.

Employer contributions decreased to \$190,720,776 in 2012 from \$195,337,621 in 2011 and increased from \$181,509,323 in 2010. Employer contributions are statutorily set at 1.54 times employee contributions collected two years prior.

Employee contributions, including permissive service credit purchases, increased to \$130,570,599 in 2012 from \$127,577,473 in 2011 and from \$129,449,866 in 2010. The majority of members contribute 8.5% of covered wages.

Net investment income totaled \$887,687,519 for 2012 compared to \$82,701,033 for 2011 and \$833,052,844 for 2010. Investment earnings fluctuate primarily from the overall performance of the financial markets from year to year.

Deductions to Plan Net Position

Total deductions were \$600,477,205 in 2012, \$556,640,805 in 2011 and were \$511,640,181 in 2010.

Benefits increased to \$563,092,126 in 2012 from \$523,396,627 in 2011 and from \$482,523,408 in 2010 due primarily to the 3% annual cost of living increases for annuitants and an increase in the number of retirees.

Refunds increased to \$33,081,726 in 2012 from \$29,165,335 in 2011 and from \$25,041,818 in 2010 due to an increase in refund applications.

The cost to administer the Plan increased by 5.5% to \$4,303,353 in 2012 from \$4,078,843 in 2011. Comparatively, the cost to administer the Plan increased by 0.1% to \$4,078,843 in 2011 from \$4,074,955 in 2010.

Funding Status

The actuarial assets, liabilities and funding status for the Plan (including the pension and postemployment healthcare plans) are provided below:

	Actuarial Values December 31,			Current Year Increase/(Decrease) in	
	2012	2011	2010	Dollars	Percent
Actuarial assets	\$ 7,833,882,926	\$ 7,897,102,116	\$ 7,982,368,659	\$ (63,219,190)	-0.8%
Actuarial liabilities	<u>14,630,250,955</u>	<u>13,724,012,399</u>	<u>13,142,137,175</u>	<u>906,238,556</u>	6.6%
Unfunded actuarial liabilities	<u>\$ 6,796,368,029</u>	<u>\$ 5,826,910,283</u>	<u>\$ 5,159,768,516</u>	<u>\$ 969,457,746</u>	16.6%
Funded ratio	<u>53.55%</u>	<u>57.54%</u>	<u>60.74%</u>		

Actuarial assets decreased to \$7,833,882,926 in 2012 from \$7,897,102,116 in 2011. Comparatively, actuarial assets decreased to \$7,897,102,116 in 2011 from \$7,982,368,659 in 2010. The decrease in actuarial assets resulted from the five year smoothing of investment gains and losses.

Actuarial liabilities increased to \$14,630,250,955 in 2012 from \$13,724,012,399 in 2011 due to increased benefits accrued by Plan participants. Comparatively, actuarial liabilities increased to \$13,724,012,399 in 2011 from \$13,142,137,175 in 2010.

The **funded ratio** is one indicator of the financial strength of the Plan, measuring the ratio of net assets available to meet the actuarially determined future liabilities of the Plan. The decrease in the funded ratio to 53.55% in 2012 from 57.54% in 2011 was due to the changes in the actuarial assets and actuarial liabilities as explained in the previous paragraph. Comparatively, the funded ratio decreased to 57.54% in 2011 from 60.74% in 2010.

Contact Information

This financial report is designed to provide the employer, plan participants and others with a general overview of the Plan's finances and show accountability for money it receives. Questions concerning any data provided in the report or requests for additional information should be addressed to:

County Employees' and Officers' Annuity
And Benefit Fund of Cook County
Attention: Executive Director
33 North Dearborn Street
Suite 1000
Chicago, IL 60602

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

COMBINING STATEMENTS OF PENSION PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION

DECEMBER 31, 2012 AND 2011

	2012		2011	
	Total	Pension	Total	Pension
ASSETS				
RECEIVABLES				
Employer contributions less allowance of \$10,551,286 in 2012 and \$8,465,721 in 2011	\$ 215,861,641	\$ 211,622,872	\$ 208,125,986	\$ 201,712,943
Employee contributions	5,280,442	5,280,442	5,102,986	5,102,986
Accrued investment income	22,652,456	22,652,456	24,598,911	24,598,911
Receivable for securities sold	34,897,859	34,897,859	117,686,754	117,686,754
Due from Forest Preserve District Employees' Annuity and Benefit Fund of Cook County	635,820	635,820	554,852	554,852
Medicare Part D subsidy	887,842	887,842	8,062,023	8,062,023
Other	1,095,945	1,095,945	1,415,124	1,415,124
Total receivables	<u>281,312,005</u>	<u>277,073,236</u>	<u>365,546,636</u>	<u>359,133,593</u>
				<u>6,413,043</u>
INVESTMENTS				
U.S. and international equities	3,135,494,813	3,135,494,813	2,814,605,044	2,814,605,044
U.S. Government and government agency obligations	1,582,287,173	1,582,287,173	1,969,108,673	1,969,108,673
Corporate bonds	831,881,515	831,881,515	755,644,972	755,644,972
Collective international equity fund	54,676,384	54,676,384	44,816,703	44,816,703
Comingled fixed income fund	23,986,193	23,986,193	-	-
Exchange traded funds	555,481,344	555,481,344	483,793,099	483,793,099
Private equities	56,090,408	56,090,408	70,555,750	70,555,750
Hedge funds	688,873,338	688,873,338	-	-
Real estate	302,749,975	302,749,975	202,393,145	202,393,145
Short-term investments	635,490,514	635,490,514	912,458,238	912,458,238
Total investments	<u>7,867,011,657</u>	<u>7,867,011,657</u>	<u>7,253,375,624</u>	<u>7,253,375,624</u>
COLLATERAL HELD FOR SECURITIES ON LOAN				
Total assets	<u>512,631,466</u>	<u>512,631,466</u>	<u>451,548,916</u>	<u>451,548,916</u>
	<u>8,660,955,128</u>	<u>8,656,716,359</u>	<u>8,070,471,176</u>	<u>8,064,058,133</u>
				<u>6,413,043</u>
LIABILITIES				
ACCOUNTS PAYABLE				
HEALTHCARE INSURANCE PAYABLE	4,595,412	4,595,412	3,652,739	3,652,739
PAYABLE FOR SECURITIES PURCHASED	4,238,769	-	6,413,043	-
SECURITIES LENDING COLLATERAL	72,893,623	72,893,623	160,952,998	160,952,998
SECURITIES LENDING PAYABLE	512,631,466	512,631,466	451,548,916	451,548,916
Total liabilities	<u>6,660,230</u>	<u>6,660,230</u>	<u>6,660,230</u>	<u>6,660,230</u>
	<u>601,019,500</u>	<u>596,780,731</u>	<u>629,227,926</u>	<u>622,814,883</u>
				<u>6,413,043</u>
NET POSITION HELD IN TRUST				
Restricted for Pension benefits	8,059,935,628	8,059,935,628	7,441,243,250	7,441,243,250
Restricted for Postemployment healthcare benefits	-	-	-	-
Total	<u>\$ 8,059,935,628</u>	<u>\$ 8,059,935,628</u>	<u>\$ 7,441,243,250</u>	<u>\$ 7,441,243,250</u>

See accompanying notes to financial statements.

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

COMBINING STATEMENTS OF CHANGES IN PENSION PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012			2011		
	Total	Pension	Postemployment Healthcare	Total	Pension	Postemployment Healthcare
ADDITIONS						
Employer contributions	\$ 190,720,776	\$ 152,734,539	\$ 37,986,237	\$ 195,337,621	\$ 162,667,160	\$ 32,670,461
Employee contributions						
Salary deductions	123,070,923	123,070,923	-	120,782,433	120,782,433	-
Refund repayments	2,847,550	2,847,550	-	3,507,748	3,507,748	-
Former and miscellaneous service payments	797,513	797,513	-	770,466	770,466	-
Optional payments and deductions	46,681	46,681	-	177,460	177,460	-
Deductions in lieu of disability	3,807,932	3,807,932	-	2,339,366	2,339,366	-
Total employee contributions	130,570,599	130,570,599	-	127,577,473	127,577,473	-
Investment income						
Net appreciation (depreciation) in fair value of investments	710,479,251	710,479,251	-	(98,992,361)	(98,992,361)	-
Dividends	95,576,395	95,576,395	-	88,803,655	88,803,655	-
Interest	98,114,263	98,114,263	-	107,036,379	107,036,379	-
Less investment expenses	904,169,909	904,169,909	-	96,847,673	96,847,673	-
Net investment income	(19,625,586)	(19,625,586)	-	(16,653,790)	(16,653,790)	-
Total net investment income	884,544,323	884,544,323	-	80,193,883	80,193,883	-
Securities lending						
Income	3,817,723	3,817,723	-	3,064,099	3,064,099	-
Expenses	(674,527)	(674,527)	-	(556,949)	(556,949)	-
Net securities lending income	3,143,196	3,143,196	-	2,507,150	2,507,150	-
Other						
Employer federal subsidized programs	3,790,810	3,790,810	-	3,499,803	3,499,803	-
Medicare Part D subsidy	3,686,501	-	3,686,501	6,140,946	-	6,140,946
Prescription plan rebates	2,434,369	-	2,434,369	2,578,088	-	2,578,088
Early Retirement Reinsurance Program reimbursement (repayment)	(142,390)	-	(142,390)	5,514,845	-	5,514,845
Employee transfers (to) from Forest Preserve District						
Employees' Annuity and Benefit Fund of Cook County	205,877	205,877	-	(328,586)	(328,586)	-
Miscellaneous	215,522	215,522	-	209,220	209,220	-
Total other additions	10,190,689	4,212,209	5,978,480	17,614,316	3,380,437	14,233,879
Total additions	1,219,169,583	1,175,204,866	43,964,717	423,230,443	376,326,103	46,904,340

COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY

COMBINING STATEMENTS OF CHANGES IN PENSION PLAN AND POSTEMPLOYMENT HEALTHCARE PLAN NET POSITION

YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012		2011	
	<u>Total</u>	<u>Pension</u>	<u>Total</u>	<u>Pension</u>
				<u>Postemployment Healthcare</u>
DEDUCTIONS				
Benefits				
Annuity				
Employee	\$ 469,398,775	\$ 469,398,775	\$ 429,527,599	\$ -
Spouse and children	35,762,286	35,762,286	33,003,057	-
Disability				
Ordinary	11,576,076	11,576,076	13,290,425	-
Duty	2,390,272	2,390,272	671,206	671,206
Healthcare	43,964,717	-	46,904,340	46,904,340
Total benefits	563,092,126	519,127,409	523,396,627	476,492,287
Refunds	33,081,726	33,081,726	29,165,335	29,165,335
Net administrative expenses	4,303,353	4,303,353	4,078,843	4,078,843
Total deductions	600,477,205	556,512,488	556,640,805	509,736,465
NET INCREASE (DECREASE)	618,692,378	618,692,378	(133,410,362)	(133,410,362)
NET POSITION HELD IN TRUST				
Beginning of year	7,441,243,250	7,441,243,250	7,574,653,612	7,574,653,612
End of year	\$ 8,059,935,628	\$ 8,059,935,628	\$ 7,441,243,250	\$ 7,441,243,250

See accompanying notes to financial statements.

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012 AND 2011

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The County Employees' and Officers' Annuity and Benefit Fund of Cook County (the Plan) is administered in accordance with Chapter 40, Article 5/9 of the Illinois Compiled Statutes (formerly Chapter 108-1/2, Article 9 of the Illinois Revised Statutes).

New Accounting Pronouncements

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for financial statements with periods beginning after December 15, 2011.

Method of Accounting - The financial statements are presented using the accrual basis of accounting. Employer contributions are recognized in the levy year. Employee contributions are recognized in the period in which contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Investments - Investments are reported at fair value, which generally represents reported market value as of the last business day of the year. Private equities, hedge funds, and real estate investments are carried at fair value as estimated by each partnership's general partner. Short-term investments are carried at cost which approximates fair value. Where less than an entire investment holding is sold, average value is used to determine realized gain or loss.

Allocated Expenses - Administrative expenses are initially paid by the Plan. These expenses are allocated between the Plan and the Forest Preserve District Employees' Annuity and Benefit Fund of Cook County (Forest Fund) on a pro rata basis, as applicable.

Capital Assets - The Plan has set a capitalization threshold of \$100,000 for all capital asset types. As of December 31, 2012, the Plan does not have any capital assets.

Estimates - The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reclassifications - Certain prior year amounts have been reclassified to conform to current year presentation.

Subsequent Events - Subsequent events have been evaluated through May 2, 2013, which is the date the financial statements were available to be issued.

NOTE 2. PLAN DESCRIPTION

The County Employees' and Officers' Annuity and Benefit Fund of Cook County was established on January 1, 1926, and is governed by legislation contained in Illinois Compiled Statutes, particularly Chapter 40, Article 5/9. Effective with the signing of Public Act 96-0889 into law on April 14, 2010, participants that first became contributors on or after January 1, 2011 are Tier 2 participants. All other participants that were contributing prior to January 1, 2011 are Tier 1 participants. The Plan can be amended only by the Illinois Legislature. The County Employees' and Officers' Annuity and Benefit Fund of Cook County is a single employer defined benefit pension plan with a defined contribution minimum. The Plan was created for the purpose of providing retirement, death and disability benefits for full-time employees of Cook County (County) and the dependents of such employees. The Plan is considered to be a component unit of Cook County, Illinois and is included in the County's financial statements as a pension trust fund.

The Statutes authorize a Board of Trustees (Board) of nine members to carry out the provisions of the Article. According to the Article, two members of the Board are ex officio, four are elected by the employee members of the Plan and three are elected by the annuitants of the Plan. The two ex officio members are the Comptroller of Cook County, or someone chosen by the Comptroller, and the Treasurer of Cook County, or someone chosen by the Treasurer. All members of the Board are fiduciaries with respect to the Plan and are statutorily mandated to discharge their duties, as such, solely in the interest of the Plan's participants and beneficiaries.

The Board has the powers and duties required in the Article to collect all contributions due to the Plan, to invest the Plan's reserves, to have an annual audit, to appoint employees, to authorize or suspend payment of any benefit and to have exclusive original jurisdiction in all matters relating to or affecting the Plan. The Board approves its own budget which is prepared by the administrative staff of the Plan. The Board is required annually to submit to the County Board of Cook County a detailed report of the financial affairs and status of the Plan. Provisions in other articles of Chapter 40 require the Board to submit its annual audit and actuarial valuation reports to the State of Illinois Department of Insurance, as well as another detailed annual report, the form and content of which is specified by the Department of Insurance.

NOTE 2. PLAN DESCRIPTION (CONTINUED)

Covered employees are required to contribute 8.5% (9% for sheriffs) of their salary to the Plan, subject to the salary limitations for Tier 2 participants in Article 5/1-160. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with interest (3% or 4% depending on when the employee became a participant). The County's total contribution is the amount of contributions made by the employees to the Plan in the calendar year two years prior to the year for which annual applicable tax is levied, multiplied by 1.54. The source of funds for the County's contributions has been designated by State Statute as the County's annual property tax levy. The County's payroll for employees covered by the Plan for 2012 and 2011 was \$1,478,253,368 and \$1,456,444,123 respectively.

The County Employees' and Officers' Annuity and Benefit Fund of Cook County provide retirement as well as death and disability benefits. Tier 1 employees age 50 or older and Tier 2 employees age 62 or older are entitled to receive a minimum formula annuity of 2.4% for each year of credited service if they have at least 10 years of service. The maximum benefit is 80% of the final average monthly salary. For Tier 1 employees under age 60 and Tier 2 employees under age 67, the monthly retirement benefit is reduced by ½% for each month the participant is below that age. The reduction is waived for Tier 1 participants having 30 or more years of credited service.

Participants should refer to the applicable State Statutes for more complete information.

At December 31, 2012 and 2011, participants consisted of the following:

	<u>2012</u>	<u>2011</u>
Active members	21,447	22,037
Retired members	13,609	13,023
Beneficiaries	2,565	2,532
Inactive members	<u>11,856</u>	<u>12,584</u>
Total	<u>49,477</u>	<u>50,176</u>

NOTE 3. FUNDED STATUS AND FUNDING PROGRESS

As of December 31, 2012, the most recent actuarial valuation date, the Plan was 53.55% funded on an actuarial basis. The actuarial accrued liability for benefits was \$14,630,250,955 and the actuarial value of assets was \$7,833,882,926 resulting in an unfunded actuarial accrued liability (UAAL) of \$6,796,368,029. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,478,253,368 and the ratio of the UAAL to the covered payroll was 459.76%.

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of the Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation is as follows:

Valuation date	December 31, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar - Open
Remaining amortization period	30 years
Asset valuation method	Five Year Smoothed Average Market

Actuarial assumptions:

Investment return rate	7.5% compounded annually
Projected salary increases	
Inflation	3.0% per year
Merit	<u>2.0%</u> per year
Total	<u>5.0%</u> per year
Postretirement annuity increase	3.0% compounded per year for Tier 1 participants 1.5% simple per year for Tier 2 participants
Mortality rates	UP-1994 Mortality Table for Males, rated down 2 years; UP-1994 Mortality Table for Females, rated down 1 year
Termination rates	Based on recent experience of the Plan

NOTE 3. FUNDED STATUS AND FUNDING PROGRESS (CONTINUED)

Retirement rates	Rates of retirement for each age from 50 to 75 based on recent experience of the Plan. All employees are assumed to retire by age 75
Medical trend rate	8.0% in the first year, decreasing by .5% per year until an ultimate rate of 5.0% is reached

NOTE 4. SUMMARY OF EMPLOYER FUNDING POLICIES

Employer contributions are funded primarily through a County tax levy which is currently limited when extended to an amount not to exceed an amount equal to the total contributions by the employees of the Plan made in the calendar year two years prior to the year for which the annual applicable tax is levied, multiplied by 1.54.

The combined actuarial valuations of the pension and retiree health insurance benefits of the Plan as of December 31, 2012 and 2011 indicate the annual required contribution to be \$655,800,100 and \$613,952,848 for 2012 and 2011, respectively. The annual required contribution is based on an annual payroll of \$1,478,253,368 for 21,447 active members as of December 31, 2012 and \$1,456,444,123 for 22,037 active members as of December 31, 2011 and is computed as follows:

	<u>2012</u>	<u>2011</u>
Normal cost	\$ 181,484,588	\$ 193,943,250
30-year level dollar amortization of the unfunded liability	<u>474,315,512</u>	<u>420,009,598</u>
Actuarially determined contribution requirement	655,800,100	613,952,848
Expected net employer contribution from tax levy after 3.0% loss	<u>(193,372,210)</u>	<u>(190,901,487)</u>
Expected employer contribution short-fall of actuarially determined contribution requirement	<u>\$ 462,427,890</u>	<u>\$ 423,051,361</u>
Required tax levy multiple	<u>5.22</u>	<u>4.95</u>
Present authorized multiple	<u>1.54</u>	<u>1.54</u>

A Schedule of Funding Progress is located in the Required Supplementary Information on page 25. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

NOTE 5. INVESTMENT SUMMARY

The Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the “prudent person” provisions of the State Statutes. All of the Plan’s financial instruments are consistent with the permissible investments outlined in the State Statutes and any index-linked financial instruments are limited to those indices that replicate the permissible investments outlined in the State Statutes. The following table presents a summarization of the fair value (carrying amount) of the Plan’s investments as of December 31, 2012 and 2011. Investments that represent 5% or more of the Plan’s net position held in trust are separately identified.

	<u>2012</u>	<u>2011</u>
<u>Investments</u>		
Equities	\$ 3,135,494,813	\$ 2,814,605,044
U.S. Government and government agency obligations	1,582,287,173	1,969,108,673
Corporate bonds	831,881,515	755,644,972
Collective international equity	54,676,384	44,816,703
Comingled fixed income	23,986,193	-
Exchange traded funds	555,481,344	483,793,099
Private equities	56,090,408	70,555,750
Hedge funds	688,873,338	-
Real estate		
Limited partnerships	302,749,975	202,393,145
Short-term investments		
EB Temporary Investment Fund	599,311,162	851,600,448
Other	36,179,352	60,857,790
Total investments	<u>\$ 7,867,011,657</u>	<u>\$ 7,253,375,624</u>

Investment Risk

Government Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, specifies various disclosure requirements.

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities in the possession of an outside party.

The Plan had no investments that were uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not held in the Plan’s name, as of December 31, 2012 and 2011.

NOTE 5. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Plan's investment policy is an average credit quality for each manager's total fixed income portfolio (corporate and U.S. Government holdings) of not less than A- by two out of three credit agencies (Moody's Investor Service, Standard & Poor's and/or Fitch). On August 5, 2011, Standard and Poor's downgraded its credit rating of the U.S. Government and government agency obligations from AAA to AA. As of December 31, 2011, U.S. Government and government agency obligations which the Plan owned has historically had a credit rating of AAA or nonrated U.S. Government obligations noted as "U.S. Government" had a AA rating. The following table presents a summarization of the Plan's credit quality ratings of investments at December 31, 2012 and 2011 valued by Moody's Investors Service and/or Standard & Poor's and/or Fitch:

<u>Type of Investment</u>	<u>Rating</u>	<u>2012</u>	<u>2011</u>
U.S. Government and government agency obligations	Aa/AA	\$ 1,546,677,942	\$ 1,969,108,673
	A/A	438,030	-
	Not Rated	35,171,201	-
		<u>\$ 1,582,287,173</u>	<u>\$ 1,969,108,673</u>
Corporate bonds	Aaa/AAA	\$ 69,366,232	\$ 100,938,979
	Aa/AA	38,426,822	68,601,566
	A/A	225,706,036	278,391,329
	Baa/BBB	332,102,420	258,275,034
	Ba/BB	71,443,307	16,650,299
	B/B	64,964,919	7,535,606
	Caa/CCC	11,283,188	11,510,444
	Ca/CC	2,478,442	30
	C/C	-	201,344
	D/D	128,197	2,719,263
	Not Rated	15,981,952	10,821,078
	<u>\$ 831,881,515</u>	<u>\$ 755,644,972</u>	
Comingled fixed income	Ba/BB	<u>\$ 23,986,193</u>	<u>\$ -</u>
Short-term investments	Aa/AA	\$ -	\$ 495,000
	Not Rated	635,490,514	911,963,238
	<u>\$ 635,490,514</u>	<u>\$ 912,458,238</u>	

NOTE 5. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Plan's investment policy for duration for each manager's total fixed income portfolio is within plus or minus 30% of the duration for the fixed income performance benchmark (*Barclays Capital Aggregate Fixed Income*, which was 5.06 years at December 31, 2012 and 4.95 years at December 31, 2011). The following table presents a summarization of the Plan's debt investments at December 31, 2012 and 2011, using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2012</u>	<u>2011</u>
U.S. Government and government agency obligations	Less than 1 year	\$ 48,442,275	\$ 53,164,696
	1 - 5 years	462,356,799	631,533,147
	6 - 10 years	337,326,616	470,741,201
	Over 10 years	734,161,483	813,669,629
		<u>\$ 1,582,287,173</u>	<u>\$ 1,969,108,673</u>
Corporate bonds	Less than 1 year	\$ 47,474,439	\$ 85,474,924
	1 - 5 years	207,323,422	211,764,260
	6 - 10 years	342,037,738	283,534,069
	Over 10 years	235,045,916	174,871,719
	<u>\$ 831,881,515</u>	<u>\$ 755,644,972</u>	
Comingled fixed income	1 - 5 years	<u>\$ 23,986,193</u>	<u>\$ -</u>
Short-term investments	Less than 1 year	<u>\$ 635,490,514</u>	<u>\$ 912,458,238</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan's investment policy limits the amount of investments in foreign equities to 20% of total Plan assets and foreign fixed income obligations to 2.5% of the total Plan assets. The Plan's exposure to foreign currency risk at December 31, 2012 and 2011 is as follows:

NOTE 5. INVESTMENT SUMMARY (CONTINUED)

Investment Risk (continued)

Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2012</u>	Fair Value (USD) <u>2011</u>
Equities:		
Australian dollar	\$ 57,756,044	\$ 44,010,562
Brazil real	20,047,433	20,303,228
British pound	286,555,201	255,593,865
Canadian dollar	60,495,096	52,995,298
Chilean peso	187,375	-
Czech koruna	279,182	291,312
Danish krone	13,724,122	14,896,400
Egyptian pound	158,767	133,550
European euro	295,288,043	234,792,492
Hong Kong dollar	99,137,374	69,390,082
Hungarian forint	293,397	297,794
Indian rupee	2,841,886	2,004,561
Indonesian rupiah	3,382,800	4,001,426
Israeli shekel	1,703,794	1,627,003
Japanese yen	173,988,007	165,586,705
Malaysian ringgit	4,444,531	3,239,835
Mexican peso	8,756,371	7,999,967
Moroccan dirham	116,002	-
New Taiwan dollar	16,751,848	16,573,111
New Zealand dollar	3,404,939	3,792,465
Norwegian krone	9,232,759	10,457,873
Phillipenes peso	5,045,785	3,074,574
Polish zloty	2,175,151	1,764,497
Peruvian sol	-	6,895
Russian rubel	-	83,966
Singapore dollar	18,810,581	14,483,243
South African rand	8,833,254	7,840,531
South Korean won	36,073,084	23,849,269
Swedish krona	42,872,732	22,193,417
Swiss franc	80,581,702	64,844,057
Thailand baht	9,690,902	6,291,947
Turkish lira	1,699,638	1,352,386
U.S. dollar	1,871,167,013	1,760,832,733
Total equities	<u>\$ 3,135,494,813</u>	<u>\$ 2,814,605,044</u>

NOTE 5. INVESTMENT SUMMARY (CONTINUED)**Investment Risk (continued)***Foreign Currency Risk (continued)*

<u>Type of Investment</u>	Fair Value (USD) <u>2012</u>	Fair Value (USD) <u>2011</u>
Corporate bonds:		
European euro	\$ 9,269,886	\$ 326,560
Mexican peso	9,397,946	-
Norwegian krone	-	428,192
Philippines peso	1,260,274	-
U.S. dollar	<u>811,953,409</u>	<u>754,890,220</u>
Total corporate bonds	<u>\$ 831,881,515</u>	<u>\$ 755,644,972</u>
Private equities:		
European euro	\$ 856,776	\$ 526,618
U.S. dollar	<u>55,233,632</u>	<u>70,029,132</u>
Total private equities	<u>\$ 56,090,408</u>	<u>\$ 70,555,750</u>

For the years ended December 31, 2012 and 2011, net realized gain on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was \$215,404,559 and \$359,307,386 respectively. These amounts are included in the net appreciation (depreciation) in fair value of investments as reported on the Combining Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Position. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments. Investments purchased in a previous year and sold in the current year result in their realized gains and losses being reported in the current year and their net appreciation (depreciation) in Plan assets being reported in both the current year and the previous years.

NOTE 6. WHEN-ISSUED TRANSACTIONS

The Plan may purchase securities on a when-issued basis, that is, obligate itself to purchase securities with delivery and payment to occur at a later date. At the time the Plan enters into a commitment to purchase the security, the transaction is recorded at purchase price which equals value. The value at delivery may be more or less than the purchase price. No interest accrues to the Plan until delivery and payment takes place. As of December 31, 2012 and 2011, the Plan contracted to acquire securities on a when-issued basis with a total principal amount of \$33,015,000 and \$38,670,000 respectively.

NOTE 7. DERIVATIVES

The Plan's investment policy permits the use of financial futures for hedging purposes only. Speculation and leveraging of financial futures within the portfolio is prohibited. The Plan uses derivative financial instruments to gain exposure to an asset class, manage portfolio risk or to facilitate international portfolio trading.

A derivative security is a financial contract whose value is based on, or "derived" from, a traditional security, an asset, or a market index. Derivative instruments include forward currency contracts and futures contracts as part of the Plan's investment portfolio.

Derivative transactions involve, to varying degrees, credit risk, interest rate risk and market risk. Credit risk is the possibility that a loss may occur because a party to a transaction fails to perform according to the previously agreed upon terms. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Market risk is the possibility that a change in interest or currency rates will cause the value of a financial instrument to decrease or become more costly to settle.

Forward currency contracts are used to hedge against fluctuations in foreign currency-denominated assets used primarily in portfolio trade settlements. These contracts are a cash contract in which a seller agrees to deliver a specific cash commodity to a buyer sometime in the future. Forward agreements are subject to the creditworthiness of the counterparties, which are principally large financial institutions. Forward currency contracts are reported at fair value in the receivable for securities sold and payable for securities purchased on the Combining Statement of Pension Plan and Postemployment Healthcare Plan Net Position included in investments. The gain or loss on forward currency contracts is reported as part of investment income on the Combining Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Position. The foreign currency contracts are short-term in nature, typically ranging from a week to three months.

The Plan uses futures contracts as an investment vehicle to gain exposure to an asset class with minimal market entry costs to the Plan. At December 31, 2012, the Plan had futures contracts with a fair value of \$9,843,966 and a notional value of \$384,140,094 with maturity dates ranging from January 18, 2013 through March 21, 2013. Comparatively, at December 31, 2011 the Plan had futures contracts with a fair value of \$4,987,116 and a notional value of \$695,441,831 with maturity dates ranging from January 20, 2012 through March 30, 2012.

NOTE 7. DERIVATIVES (CONTINUED)

Futures contracts are reported at fair value in the equity investments on the Combining Statement of Pension Plan and Postemployment Healthcare Plan Net Position. The gain or loss on futures contracts is reported as part of investment income on the Combining Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Position. See Note 5 for investment risk for the Plan's equity investments.

The Plan's portfolio includes the following derivative instruments at December 31, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Hedging derivative instruments:		
Forward currency contract receivables	\$ 210,837,236	\$ 239,316,866
Forward currency contract payable	<u>(211,339,312)</u>	<u>(240,056,545)</u>
Total hedging derivative instruments	<u>(502,076)</u>	<u>(739,679)</u>
Investment derivative instruments:		
U.S. Treasury Futures Contracts	-	1,093,422
U.S. Equity Index Futures Contracts	7,454,825	3,667,741
International Equity Index Futures Contracts	<u>2,389,141</u>	<u>225,953</u>
Total investment derivative instruments	<u>9,843,966</u>	<u>4,987,116</u>
Total	<u>\$ 9,341,890</u>	<u>\$ 4,247,437</u>

For the years ended December 31, 2012 and December 31, 2011, the change in fair value of the deferred inflows and outflows of the foreign currency contracts was not material to these financial statements.

NOTE 8. SECURITIES LENDING

State Statutes and the investment policy permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Plan's custodian, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest.

The Plan has a limit as to the amount of securities on loan of \$750 million. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults. The average term of securities loaned was 80 days for 2012 and 61 days for 2011; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral was invested in a separately managed portfolio, which had an average weighted maturity at December 31, 2012 and 2011 of 73 and 55 days, respectively.

NOTE 8. SECURITIES LENDING (CONTINUED)

As of December 31, 2012 and 2011, the fair value (carrying amount) of loaned securities was \$729,714,627 and \$732,005,817 respectively. As of December 31, 2012 and 2011, the fair value (carrying amount) of cash collateral received by the Plan was \$512,631,466 and \$451,548,916 respectively. The cash collateral is included as an asset and a corresponding liability on the combining statements of pension plan and postemployment healthcare plan net position. As of December 31, 2012 and 2011, the fair value (carrying amount) of non-cash collateral received by the Plan was \$235,494,187 and \$298,249,813 respectively.

Although the Plan's securities lending activities are collateralized as described above, they involve both market and credit risk. In this context, market risk refers to the possibility that the borrower of securities will be unable to collateralize the loan upon a sudden material change in the fair value of the loaned securities. Credit risk refers to the possibility that counterparties involved in the securities lending program may fail to perform in accordance with the terms of their contracts.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower. The contract with the lending agent requires indemnification to the Plan if borrowers fail to return the securities or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

During 2008, a security within the collateral pool became insolvent resulting in an insufficiency in the collateral pool. To prevent any one investor from incurring an additional loss should another investor exit the securities lending program, the Plan's custodian allocated a portion of the insolvent security to each investor in the collateral pool. As a result of the allocation, the Plan incurred an unrealized investment loss and corresponding securities lending payable in the amount of \$7,015,497 during the year ended December 31, 2008. That same securities lending payable was \$6,660,230 as of December 31, 2012 and 2011.

During 2012 and 2011, there were no losses due to default of a borrower or the lending agent.

A summary of securities loaned at fair value as of December 31:

	<u>2012</u>	<u>2011</u>
Securities loaned - cash collateral:		
Equities	\$ 251,417,427	\$ 256,417,367
U.S. Government and government agency obligations	68,436,815	92,000,554
Exchange traded funds	143,576,006	67,177,205
Corporate bonds	<u>35,569,401</u>	<u>24,386,003</u>
Total securities loaned - cash collateral	498,999,649	439,981,129
Securities loaned - non-cash collateral:		
U.S. Government and government agency obligations	<u>230,714,978</u>	<u>292,024,688</u>
Total	<u>\$ 729,714,627</u>	<u>\$ 732,005,817</u>

NOTE 9. COMMITMENTS

As of December 31, 2012, the Plan had capital commitments of approximately \$29,200,000 for various limited partnerships.

NOTE 10. POSTEMPLOYMENT GROUP HEALTHCARE BENEFIT PLAN

The Plan has adopted GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes uniform financial reporting standards for Other Postemployment Benefits (OPEB) plans.

Plan Description

The County Employees' and Officers' Annuity and Benefit Fund of Cook County administers a Postemployment Group Healthcare Benefit Plan (PGHBP), which is a single-employer defined benefit postemployment health plan. PGHBP provides a healthcare premium subsidy to annuitants who elect to participate in PGHBP. The Plan is currently allowed, in accordance with State Statutes, to pay all or a portion of medical insurance premiums for the annuitants. Presently, the Plan subsidizes approximately 55% and 70% of the monthly premiums for employee and spouse annuitants, respectively. The remaining premium cost is borne by the annuitant.

PGHBP is administered in accordance with Chapter 40, Article 5/9 of the Illinois Compiled Statutes, which assigns the authority to establish and amend benefit provisions to the Plan's Board of Trustees.

At December 31, 2012 and 2011, the number of annuitants and surviving spouses whose cost to participate in the program was subsidized, totaled 8,179 and 7,925 respectively.

The Plan's employees are also participants in the PGHBP. The Plan had 27 and 29 employees at December 31, 2012 and 2011, respectively. During years ended December 31, 2012 and 2011, the Plan paid healthcare premiums for 8 retired Plan employees each year. For active and retired Plan employees, the actuarially determined liability under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is included in the total actuarial liability and related GASB Statement No. 43 disclosure.

Summary of Significant Accounting Policies

Method of Accounting - PGHBP's financial statements have been combined with the Plan's financial statements and are presented using the accrual basis of accounting. The Plan considers the premium subsidy an additional retirement benefit, with no contribution rate or asset allocation associated with it. The cost for postemployment group healthcare benefits is approximately equal to the premium subsidy. Actual costs may differ based on claims experience. Healthcare premium subsidies are recognized when due and payable.

NOTE 10. POSTEMPLOYMENT GROUP HEALTHCARE BENEFIT PLAN (CONTINUED)

Contributions - The Plan funds PGHBP on a “pay-as-you-go” basis.

Administrative Costs - Administrative costs associated with PGHBP are paid by the Plan.

Health Care Cost Trend Rates - 7.5% in the first year, decreasing by .5% per year until an ultimate rate of 5.0% is reached.

Actuarial Valuations - Actuarial valuations of the Plan involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations of the Plan reflect a long-term perspective and are based on the benefits provided under the terms of the Plan in effect at the time of each valuation and on the historical pattern of sharing of costs between the employer and Plan members to that point.

Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the PGHBP was 0% funded on an actuarial basis. The actuarial accrued liability for benefits was \$1,845,609,132 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,845,609,132. The covered payroll (annual payroll of active employees covered by the Plan) was \$1,478,253,368 and the ratio of the UAAL to the covered payroll was 124.85%.

The Schedule of Funding Progress, presented as required supplemental information (RSI) following the notes to the financial statements, presents multi-year trend information about whether the actuarial values of the Plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

NOTE 11. RELATED PARTY TRANSACTIONS

The Plan has common Trustees and shares office space with the Forest Preserve District Employees’ Annuity and Benefit Fund of Cook County (Forest Fund) who reimburses the Plan for shared administrative services provided by the Plan. During the years ended December 31, 2012 and 2011, the Plan allocated administrative expenditures of \$69,653 and \$62,149 respectively to the Forest Fund.

As of December 31, 2012 and 2011, the Forest Fund owes the Plan \$635,820 and \$554,852 respectively. These amounts include plan transfers of Plan members transferring from one plan to another.

NOTE 12. LEASE AGREEMENTS

The Plan leases its office facility under a fifteen year lease arrangement in effect through June 1, 2022. The lease calls for annual adjustments on the anniversary date of the commencement of the lease. Rent expense under this lease, net of rent abatements for the years ended December 31, 2012 and 2011, was \$372,581 and \$353,144 respectively.

The following is a schedule by year of the future minimum rental payments required under the noncancelable lease terms of this operating lease:

Year ending December 31,	
2013	\$ 384,888
2014	394,510
2015	404,372
2016	414,482
2017	424,844
2018	435,465
2019	446,352
2020	457,510
2021	468,948
2022	197,401
	<u>\$ 4,028,772</u>

NOTE 13. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE

In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34*. This Statement improves financial reporting for a governmental financial reporting entity by modifying certain requirements for inclusion of component units in the financial reporting entity. This Statement also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The Statement also clarifies the reporting of equity interests in legally separate organizations. Statement No. 61 is effective for the Plan's fiscal year ending December 31, 2013.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Statement No. 65 is effective for the Plan's fiscal year ending December 31, 2013.

NOTE 13. PRONOUNCEMENTS ISSUED NOT YET EFFECTIVE (CONTINUED)

In March 2012, GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and Statement No. 62*. The objective of this Statement is to improve accounting and financial reporting guidance by reporting conflicting guidance that resulted from the issuance of Statement No. 54, *Fund Balance Reporting and Government Fund Type Definition*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Statement No. 66 is effective for the Plan's fiscal year ending December 31, 2013.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. For defined benefit plans, the Statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employer and nonemployer contributing entities for benefits provided through the pension plan. Statement No. 67 also enhances footnote disclosures and required supplementary information for pension plans. Statement No. 67 is effective for the Plan's fiscal year ending December 31, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement No. 68 details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employer whose employees are provided with defined contribution pensions. Statement No. 68 is effective for the Plan's fiscal year ending December 31, 2015.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. Statement No. 69 is effective for the Plan's fiscal year ending December 31, 2014.

The Plan is currently evaluating the impact of adopting the above Statements.

REQUIRED SUPPLEMENTARY INFORMATION

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

<u>Year Ended December 31,</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (b-a)/c</u>
<i>Pension Benefits</i>						
2007	\$ 8,059,879,804	\$ 9,386,287,797	\$ 1,326,407,993	85.87%	\$ 1,370,844,734	96.76%
2008	\$ 8,036,074,797	\$ 10,097,027,865	\$ 2,060,953,068	79.59%	\$ 1,463,372,408	140.84%
2009 (1)	\$ 7,945,567,096	\$ 11,489,081,298	\$ 3,543,514,202	69.16%	\$ 1,498,161,713	236.52%
2010	\$ 7,982,368,659	\$ 12,023,222,885	\$ 4,040,854,226	66.39%	\$ 1,494,093,569	270.46%
2011	\$ 7,897,102,116	\$ 12,628,274,561	\$ 4,731,172,445	62.54%	\$ 1,456,444,123	324.84%
2012	\$ 7,833,882,926	\$ 13,418,486,943	\$ 5,584,604,017	58.38%	\$ 1,478,253,368	377.78%
<i>Postemployment Group Health Benefit Plan (PGHBP)</i>						
2007	\$ -	\$ 1,554,123,496	\$ 1,554,123,496	0.00%	\$ 1,370,844,734	113.37%
2008	\$ -	\$ 1,448,828,756	\$ 1,448,828,756	0.00%	\$ 1,463,372,408	99.01%
2009 (1)	\$ -	\$ 1,686,872,018	\$ 1,686,872,018	0.00%	\$ 1,498,161,713	112.60%
2010	\$ -	\$ 1,724,622,462	\$ 1,724,622,462	0.00%	\$ 1,494,093,569	115.43%
2011	\$ -	\$ 1,678,571,388	\$ 1,678,571,388	0.00%	\$ 1,456,444,123	115.25%
2012	\$ -	\$ 1,845,609,132	\$ 1,845,609,132	0.00%	\$ 1,478,253,368	124.85%
<i>Changes in Actuarial Assumptions</i>						
2007 (2)	\$ -	\$ (516,681,393)	\$ (516,681,393)	0.00%		
2008 (2)	\$ -	\$ (472,675,272)	\$ (472,675,272)	0.00%		
2009 (2)	\$ -	\$ (600,437,567)	\$ (600,437,567)	0.00%		
2010 (2)	\$ -	\$ (605,708,172)	\$ (605,708,172)	0.00%		
2011 (2)	\$ -	\$ (582,833,550)	\$ (582,833,550)	0.00%		
2012 (2)	\$ -	\$ (633,845,120)	\$ (633,845,120)	0.00%		
<i>Combined</i>						
2007	\$ 8,059,879,804	\$ 10,423,729,900	\$ 2,363,850,096	77.32%	\$ 1,370,844,734	172.44%
2008	\$ 8,036,074,797	\$ 11,073,181,349	\$ 3,037,106,552	72.57%	\$ 1,463,372,408	207.54%
2009 (1)	\$ 7,945,567,096	\$ 12,575,515,749	\$ 4,629,948,653	63.18%	\$ 1,498,161,713	309.04%
2010	\$ 7,982,368,659	\$ 13,142,137,175	\$ 5,159,768,516	60.74%	\$ 1,494,093,569	345.34%
2011	\$ 7,897,102,116	\$ 13,724,012,399	\$ 5,826,910,283	57.54%	\$ 1,456,444,123	400.08%
2012	\$ 7,833,882,926	\$ 14,630,250,955	\$ 6,796,368,029	53.55%	\$ 1,478,253,368	459.76%

(1) = Change in actuarial assumption.

(2) = Due to a change in the interest rate assumption for the PGHBP
(pension benefits and combined reports - 7.5%, PGHBP - 4.5%).

See notes to required supplementary information.

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended December 31,</u>	<u>Annual Required Contribution (ARC) (a)</u>	<u>Required Statutory Basis (1) (b)</u>	<u>Employer Contribution (2) (c)</u>	<u>Percent of ARC Contributed (c/a)</u>
<i>Pension Benefits</i>				
2007	\$ 287,061,532	\$ 258,899,040	\$ 230,114,335	80.16%
2008	\$ 283,892,734	\$ 180,817,908	\$ 150,227,360	52.92%
2009	\$ 352,850,988	\$ 183,808,380	\$ 152,506,089	43.22%
2010	\$ 454,327,461	\$ 186,360,878	\$ 144,539,577	31.81%
2011	\$ 493,724,370	\$ 190,901,487	\$ 160,652,118	32.54%
2012	\$ 540,218,287	\$ 193,372,210	\$ 152,734,539	28.27%
<i>Postemployment Group Health Benefit Plan (PGHBP)</i>				
2007	\$ 169,154,664	\$ -	\$ 31,420,216	18.57%
2008	\$ 169,823,905	\$ -	\$ 37,781,310	22.25%
2009	\$ 157,964,519	\$ -	\$ 35,779,228	22.65%
2010	\$ 163,823,488	\$ -	\$ 40,183,057	24.53%
2011	\$ 165,176,771	\$ -	\$ 38,185,306	23.12%
2012	\$ 156,700,388	\$ -	\$ 37,986,237	24.24%
<i>Changes in Actuarial Assumptions</i>				
2007	(3) \$ (35,123,851)	\$ -		
2008	(3) \$ (47,090,866)	\$ -		
2009	(3) \$ (42,633,564)	\$ -		
2010	(3) \$ (45,832,565)	\$ -		
2011	(3) \$ (44,948,293)	\$ -		
2012	(3) \$ (41,118,575)	\$ -		
<i>Combined</i>				
2007	\$ 421,092,345	\$ 258,899,040	\$ 261,534,551	62.11%
2008	\$ 406,625,773	\$ 180,817,908	\$ 188,008,670	46.24%
2009	\$ 468,181,943	\$ 183,808,380	\$ 188,285,317	40.22%
2010	\$ 572,318,384	\$ 186,360,878	\$ 184,722,634	32.28%
2011	\$ 613,952,848	\$ 190,901,487	\$ 198,837,424	32.39%
2012	\$ 655,800,100	\$ 193,372,210	\$ 190,720,776	29.08%

(1) = Tax levy after 3.0% overall loss.

(2) = Includes employer federal subsidized programs.

(3) = Due to a change in the interest rate assumption for the PGHBP
(pension benefits and combined reports - 7.5%, PGHBP - 4.5%).

See notes to required supplementary information.

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

REQUIRED SUPPLEMENTARY INFORMATION

**NOTES TO SCHEDULE OF FUNDING PROGRESS AND
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2012
Actuarial cost method	Entry Age Normal
Amortization method	Level Dollar - Open
Amortization period	30 years
Asset valuation method	Five Year Smoothed Average Market
Actuarial assumptions	
Investment rate of return	
Pension benefits	7.5% compounded annually
Retiree health insurance plan	4.5% compounded annually
Combined	7.5% compounded annually
Projected salary increases	
Inflation	3.0% per year
Merit	<u>2.0%</u> per year
Total	<u>5.0%</u> per year
Postretirement benefit increases	
	3.0% compounded per year for employee and widow(er) annuitants for Tier 1 participants
	1.5% simple per year for employee and widow(er) annuitants for Tier 2 participants.
Medical trend rate	8.0% in the first year, decreasing by .5% per year until an ultimate rate of 5.0% is reached.
Mortality rates	UP-1994 Mortality Table for Males, rated down 2 years; UP-1994 Mortality Table for Females, rated down 1 year
Retirement age assumptions	Based on actual past experience assume all employees retire by age 75

SUPPLEMENTARY INFORMATION

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

**SCHEDULES OF NET ADMINISTRATIVE EXPENSES
AND PROFESSIONAL AND CONSULTING FEES**

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
ADMINISTRATIVE EXPENSES		
Bank charges	\$ 31,312	\$ 30,612
Document imaging	50,150	-
Election expense	153,890	115,956
Employee benefits	452,410	456,209
Insurance - fidelity, fiduciary and liability	117,358	79,745
Maintenance of equipment, systems, software and support	487,032	485,793
Membership, conference and training	24,596	18,938
Office expense	79,963	88,510
Postage	79,962	121,428
Printing and stationery	69,669	68,441
Professional and consulting fees	348,987	296,599
Recovery site expense	36,485	16,050
Regulatory filing fees	8,000	8,000
Rent	372,581	353,144
Salaries	2,046,968	1,987,278
Utilities	13,643	14,289
Total	4,373,006	4,140,992
Less administrative expenses allocated to Forest Preserve District Employees' Annuity and Benefit Fund of Cook County	(69,653)	(62,149)
Net administrative expenses	\$ 4,303,353	\$ 4,078,843
PROFESSIONAL AND CONSULTING FEES		
Actuarial service	\$ 95,516	\$ 94,382
Audit	106,619	75,443
Consulting	50,770	30,096
Legal	72,157	72,771
Lobbyist	23,925	23,907
Total	\$ 348,987	\$ 296,599

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
INVESTMENT MANAGER EXPENSE		
Amalgamated Bank of Chicago	\$ 54,364	\$ 862,836
American Realty Advisors	630,360	475,018
ARCH Venture Partners	-	65,514
Atlanta Life Investment Advisors	290,711	242,282
Blackstone Alternative Asset Management	1,742,527	-
BNY Mellon CIS	166,196	176,345
Capri Capital Partners	376,044	380,523
CBRE Global Investors	45,658	-
Channing Capital Management	717,490	507,415
Chicago Equity Partners	414,169	467,711
Cozad Asset Management, Inc.	254,869	189,472
Credit Suisse Securities	72,660	80,763
Diversified Global Asset Management	477,131	-
Evercore Partners	21,116	24,569
Evergreen Venture Partners	26,967	43,984
Fiduciary Management Associates	477,708	277,194
Fortaleza Asset Management, Inc.	102,970	84,869
Franklin Templeton Investments	1,420,409	1,135,262
Frontenac Company	-	17,151
Frontier Capital Management	582,008	1,275,380
Great Lakes Advisors, Inc.	315,319	510,322
J.P. Morgan Asset Management	1,000,133	908,899
John Buck Company	92,045	112,382
Killian Capital Management	154,264	173,107
Lazard Asset Management, LLC	451,156	426,318
Lightspeed Venture Partners	52,629	78,962
LM Capital Group, LLC	443,990	470,645
Loomis Sayles & Company, LP	644,219	-
MacKay Shields	649,306	-
Mesirow Financial	152,100	657,629
Mondrian Investment Partners, Ltd.	731,852	591,664
Morgan Stanley	28,675	447,934

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

SCHEDULES OF INVESTMENT EXPENSES

YEARS ENDED DECEMBER 31, 2012 AND 2011

	<u>2012</u>	<u>2011</u>
INVESTMENT MANAGER EXPENSE (CONTINUED)		
Muller and Monroe Asset Management	17,818	20,913
NCM Capital	330,917	385,655
New Century Investment Management	367,053	21,522
Optimum Investment Advisors	-	238,866
Opus Capital Group	19,392	24,474
Pacific Venture Group	46,252	64,082
Progress Investment Management	1,158,699	935,869
Prudential Real Estate Investors	142,419	-
RhumbLine Advisers	90,344	159,211
Robeco Investment Management	285,085	317,985
Russell Implementation Services, Inc.	1,026,664	-
SPC Capital Management	100,000	100,000
State Street Global Advisors	250,799	239,300
The Rock Creek Group	364,212	-
Thornburg Investment Management	1,037,626	952,462
TIAA-CREF	627,546	601,055
Trident Capital	63,528	72,584
William Blair & Company	595,758	1,284,868
Wind Point Partners	-	48,861
	<u>19,113,157</u>	<u>16,151,857</u>
INVESTMENT CONSULTING FEES		
Callan Associates Inc.	364,799	353,933
Mesirow Financial	-	1,500
	<u>364,799</u>	<u>355,433</u>
INVESTMENT CUSTODIAN FEES		
BNY Mellon	<u>147,630</u>	<u>146,500</u>
Total investment expenses	<u>\$ 19,625,586</u>	<u>\$ 16,653,790</u>

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

ADDITIONS BY SOURCE

<u>Year Ended December 31,</u>	<u>Employer Contributions (1)</u>	<u>Employee Contributions (2)</u>	<u>Net Investment and Net Securities Lending Income (Loss) (3)</u>	<u>Other (4)</u>	<u>Total Additions</u>
2007	\$258,141,230	\$123,047,516	\$ 476,910,124	\$10,002,552	\$ 868,101,422
2008	\$183,916,221	\$123,776,705	\$(1,858,853,846)	\$ 7,081,386	\$(1,544,079,534)
2009	\$183,713,870	\$127,795,881	\$ 1,013,615,250	\$11,741,894	\$ 1,336,866,895
2010	\$181,509,323	\$129,449,866	\$ 832,882,639	\$12,966,051	\$ 1,156,807,879
2011	\$195,337,621	\$127,577,473	\$ 82,701,033	\$17,614,316	\$ 423,230,443
2012	\$190,720,776	\$130,570,599	\$ 887,687,519	\$10,190,689	\$ 1,219,169,583

DEDUCTIONS BY TYPE

<u>Year Ended December 31,</u>	<u>Benefits</u>	<u>Refunds</u>	<u>Net Administrative Expenses</u>	<u>Total Deductions</u>
2007	\$398,689,231	\$ 66,623,357	\$ 3,866,188	\$ 469,178,776
2008	\$427,453,465	\$ 24,724,102	\$ 4,172,536	\$ 456,350,103
2009	\$452,007,855	\$ 20,404,911	\$ 4,248,287	\$ 476,661,053
2010	\$482,523,408	\$ 25,041,818	\$ 4,074,955	\$ 511,640,181
2011	\$523,396,627	\$ 29,165,335	\$ 4,078,843	\$ 556,640,805
2012	\$563,092,126	\$ 33,081,726	\$ 4,303,353	\$ 600,477,205

1 - Includes net tax levy

2 - Includes deductions in lieu of disability.

3 - Includes realized and unrealized net gain or loss on investments and net securities lending income.

4 - Includes employer federal subsidized programs, Medicare Part D, prescription/repayment plan rebates and miscellaneous income. Early Retirement Reinsurance Program reimbursement is included in 2011 and 2012.

**COUNTY EMPLOYEES' AND OFFICERS' ANNUITY
AND BENEFIT FUND OF COOK COUNTY**

SCHEDULE OF TAXES RECEIVABLE

DECEMBER 31, 2012

<u>Levy Year</u>	<u>Gross Levy</u>	<u>Uncollected Balance</u>	<u>Reserve for Loss and Costs</u>	<u>Net Uncollected Balance</u>
2011	\$ 192,234,211	\$ 30,273,444	\$ 5,207,783	\$ 25,065,661
2012	\$ 196,139,483	<u>196,139,483</u>	<u>5,343,503</u>	<u>190,795,980</u>
		<u>\$ 226,412,927</u>	<u>\$ 10,551,286</u>	<u>\$ 215,861,641</u>

Note:

Uncollected taxes for years 2010 and prior are fully reserved.

2011 tax levy includes net Illinois Replacement Tax of \$53,736,719.

2012 tax levy includes net Illinois Replacement Tax of \$48,170,211.