RETIREMENT
SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1995

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

ORANGE COUNTY, CALIFORNIA

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1995

Terrance L. Slattery
Interim Administrator

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I. INTRODUCTORY SECTION

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RETIREMENT SYSTEM

June 6, 1996

Board of Retirement
Orange County Employees Retirement System
2942 Daimler Street
Santa Ana, CA 92705

Dear Board Members:

It is with great pleasure that I submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 1995, the System's 51st year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the OCERS' management. The required financial statements have been prepared in accordance with generally accepted accounting principles, the reporting guidelines for government entities, and the County Employees Retirement Law of 1937. Ernst & Young LLP, independent auditors, have audited the financial statements. Management believes that the internal accounting control structure is adequate and that the accompanying statements, schedules and tables are fairly presented.

Structure of the Report

This report is presented in four sections:

- The Introductory Section describes the System's management and organizational structure, a summary of the plan provisions and a listing of the professional services used.
- The Financial Section contains the opinion of the independent auditor, Ernst & Young LLP, and the general purpose financial statements of the System.
- The Actuarial Section includes the certification letter produced by the independent actuary, Towers Perrin, along with supporting schedules and information.
- The Statistical Section contains schedules with comparative data related to revenue and expenses, membership and investments.

Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 1994. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

ORANGE COUNTY RETIREMENT SYSTEM • 2942 DAIMLER STREET, SANTA ANA, CA 92705
TELEPHONE: 714 975-1962 • FAX: 714 975-8413

Board of Retirement
June 6, 1996
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In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such comprehensive annual financial report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for evaluation.

Financial and Economic Summary
The past year has been another challenging one for OCERS. The Southern California economy is finally emerging from recession, although at a slow rate. Growth in the economy has come mainly from the technology and tourism areas, while various other industries also seem to be making progress. Unemployment rates have trended down and in Orange County have gone below the national average rates. However, with the bankruptcy ongoing throughout 1995, the County government has had serious fiscal constraints requiring it to implement a significant layoff program as well as an early retirement incentive program. In addition, due to the effects of bankruptcy and resulting budgetary cutbacks, the County and OCERS negotiated a one-year agreement effective July 1, 1995, whereby all County employer retirement contributions would be paid from the reserve account established at OCERS resulting from the proceeds obtained from the issuance of the County's Pension Obligation Bonds in September 1994.

The effects of the County's personnel cutbacks had a significant impact on OCERS. The System's retired membership increased from 5,816 on December 31, 1994, to 6,359 at December 31, 1995. This represents an annual increase of 9% in the number of retirees. With this influx of recent retirements, the average monthly pension payment per member rose from $1,112 to $1,210. Also, mainly due to the County layoffs, the number of members in deferred status rose from 908 to 979. Conversely, OCERS' active employee membership decreased from 19,589 to 18,200. The reductions in employer contributions, active membership, and the increasing number of retirees have had an effect upon OCERS' cash requirements which has resulted in OCERS withdrawing moneys from the investments monthly.

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 1995, the funded ratio of the System was approximately at 124.1%. The System experienced a net increase of $528,001,000 during the year in net assets.

Board of Retirement
June 6, 1996
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Details of the components of this increase are included in the Statement of Changes in Net Assets Available for Benefits on page 24.

Investment Summary
OCERS' investments turned in a solid performance during 1995. For the calendar year, the portfolio earned a total return of 23.3%. Over long-term periods, the portfolio has earned total annualized returns of 11.78% over the past five years and 10.76% during the past ten years. These earnings have significantly outperformed the actuarially assumed rate of 8%. On a market value basis, the total net assets available for benefits grew from $2,498,489,000 to $3,026,490,000.

Conclusion
I would like to take this opportunity to thank each member of the System for their confidence in OCERS during the past year. I also want to express my thanks to the Board of Retirement for their dedicated effort in supporting the System through this past year of landmark events. Likewise, I thank the consultants and staff for their commitment to OCERS and for their diligent work to assure the System's continued successful operation.

Respectfully submitted,

Terrance L. Slattery

Terrance L. Slattery
Interim Administrator

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Certificate of Achievement for Excellence in Financial Reporting

Presented to

Orange County Employees Retirement System, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 1994

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

Timothy H. Riordan
President

Jeffrey L. Esser
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT

AS OF DECEMBER 31, 1995

Regular Members:

Mary K. Abbott	Elected Member - General Orange County Employees Retirement System Term expires December 30, 1997
Michael J. Carmody	Elected Member - Safety Fire Department Term expires June 30, 1997
Keith L. Concannon	Elected Member - Retired Employees Chairperson 1995 Term expires December 30, 1998
Thomas J. Lightvoet	Appointed Member Vice-Chairperson 1995 Appointed by Board of Supervisors Term expires May 1, 1998
Sara E. Ruckle	Elected Member - General Office of District Attorney Term expires December 30, 1995
John M.W. Moorlach	Ex-Officio Member County Treasurer
Bert Scott	Appointed Member Appointed by Board of Supervisors Term expires May 1, 1998
Mark L. Moehlman	Appointed Member Appointed by Board of Super visors Term expires January 25, 1996
Robert E. Thomas	Appointed Member Appointed by Board of Supervisors Term expires September 13, 1996

Alternate Member:

Thomas N. Fox	Alternate for Safety Members (Alternate for all elected members) Elected by Safety Members (Sheriff) Term expires June 30, 1997

SUMMARY OF PLAN PROVISIONS

1. **Plan Description and History**

OCERS was established in 1945 by the Board of Supervisors under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. It is a cost-sharing, multiple-employer defined benefit pension plan governed by a nine-member Board of Retirement.

Members employed prior to September 21, 1979, are designated as Tier I members. The Board of Supervisors amended the plan by adopting certain sections of the Government Code for members entering the plan after September 20, 1979, who are designated as Tier II members. All regular full-time employees or part-time employees, scheduled to work 20 hours or more per week for the County or other participating employers become members of the plan upon employment.

2. **Monthly Salary Base for Benefits**

Highest one-year average for Tier I members; three-year average for Tier II members.

3. **Service Retirement**

A. Eligibility

10 years of service and age 50, or 30 years of service and any age (20 years for safety members); age 70 with any service.

B. Benefit Formula per Year of Service

Tier I: 1/50 x Final Average Monthly Compensation x Years of Service Credit x Factor Based on Age at Retirement = Monthly Allowance.

Tier II: 1/60 x Final Average Monthly Compensation x Years of Service Credit x Factor Based on Age at Retirement = Monthly Allowance.

4. **Non-Service Connected Disability**

A. Eligibility

Five years of service.

B. Benefit Formula per Year of Service

Tier I: 1.8% x Years of Service Credit x Final Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, years of service credit to age 62 can be added in order to pay up to a maximum of one-third of final average monthly compensation.)

Tier II: 1.5% x Years of Service Credit x Final Average Monthly Compensation. (If benefit is less than 1/3 of final average monthly compensation, years of service credit to age 65 can be added in order to pay up to a maximum of one-third of final average monthly compensation.)

5. **Service Connected Disability**

A. Eligibility

No age or service requirement.

B. Benefit

50% of final average monthly compensation.

6. **Active Member Death Before Completion of Five Years of Service**

Refund of employee contributions with interest plus one months' salary for each year of service to a maximum of six month's salary.

7. **Active Member Death After Completion of at Least Five Years of Service**

Qualified Surviving Spouse, or child, has the following options:

A. Refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary; or

B. 60% of earned benefit payable to surviving eligible spouse; or

C. Combined benefit equal to a lump-sum payment plus a reduced monthly allowance.

If no eligible spouse or child exists, the named beneficiary receives refund of employee contributions with interest plus one month's salary for each year of service to a maximum of six months' salary.

8. **Service-Connected Death**

50% of final average monthly compensation payable to qualified spouse, or eligible child (if no qualified spouse).

9. **Death After Retirement**

A. Non-Service Connected Disability Retirement

60% of member's unmodified allowance continued to eligible spouse. (Member may elect a modified allowance at time of retirement.)

B. Service-Connected Disability Retirement

100% of member's allowance continued to eligible spouse or eligible child.

C. $1,000 Burial Benefit

Payable to named beneficiary following death of original retiree.

10. **Withdrawal Benefits**

A. Less than Five Years of Service

Refund of accumulated employee contributions with interest.

B. Five or More Years of Service

If contributions are left on deposit, the member is entitled to the earned vested benefits commencing at any time after member would have been eligible to retire.

11. **Post-Retirement Cost-of-Living Benefits**

Based on changes in Consumer Price Index to a maximum of 3% per year; percentage in excess of 3% is "banked" for future increases.

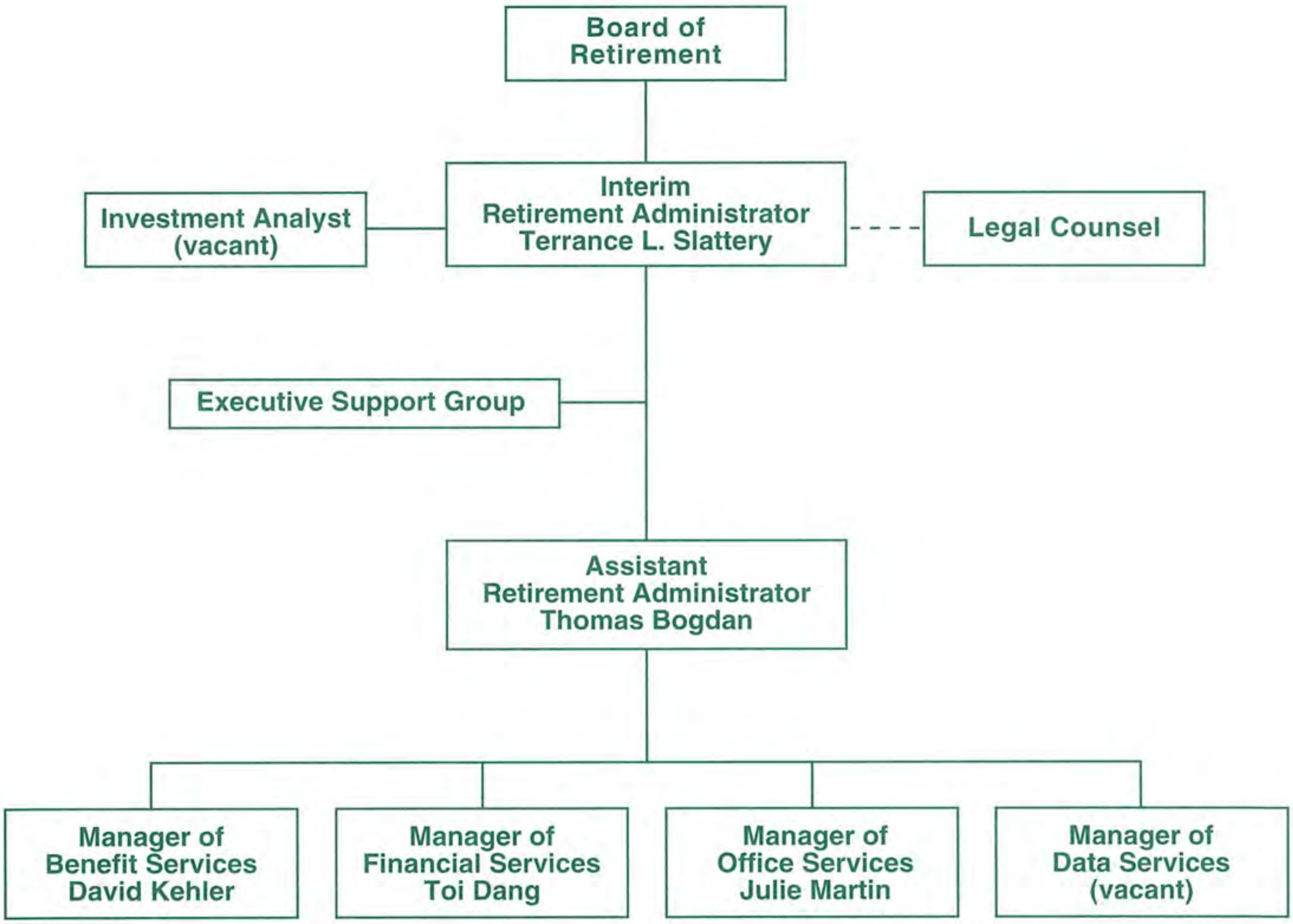
12. **County Contributions**

Determined by Projected Unit Credit funding method with a 30-year declining period amortization of Unfunded Actuarial Accrued Liability.

13. **Member Contributions - Tier I (Tier II in parentheses)**

Normal based on entry age, 1/200 (1/120) at 60 for General Members; 1/200 (1/100) at 50 for Safety Members. Cost-of-Living contributions equal to percentage of normal: 45.51% (25.89%) of General; 78.67% (39.55%) of Safety.

ORGANIZATION CHART



As of May 1, 1996

ORGANIZATION OF OCERS

EXECUTIVE: The Executive Section is responsible for the administration of the Orange County Employees Retirement System, including the management of the investment program, in accordance with the policies, regulations, and general guidelines of the Board of Retirement. It is also responsible for the interface with investment managers, the investment consultant, the actuary, legal counsel, and the County, as well as any other consultants authorized by the Board.

BENEFITS SERVICES: This Section is responsible for providing all benefit services to the members of the System. This includes benefit calculations, investigation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, and membership counseling.

FINANCIAL SERVICES: This Section is responsible for all of the financial records and reports including financial statements, control and balancing of payroll and members' contributions and reconciliation of investments. The Accounting Division also interfaces with the County Auditor-Controller and Treasurer's Office.

OFFICE SERVICES: This Section is responsible for providing administrative and clerical support services for OCERS, as well as for the maintenance of membership records of all OCERS members. In addition, Office Services is responsible for purchasing, building management, and for the internal payroll and personnel functions of OCERS.

DATA SERVICES: Utilizing the HP 3000/937, this Section provides all of the computer and technical support for OCERS including production of the retiree payroll and Electronic Fund Transfer tapes.

LEGAL: This Section is responsible for providing legal advice to the Board of Retirement, Administrator, and staff in order to ensure compliance with all local, state and federal laws governing investments, operating procedures, and personnel issues. This Section also represents OCERS in all legal proceedings. A Deputy County Counsel is responsible for this Section.

CONSULTING SERVICES

ACTUARY
Towers Perrin
Timothy J. Marnell, ASA (M.A.A.A.)
Chicago, IL

INVESTMENT CONSULTANT
Callan Associates, Inc.
Michael J. O'Leary, Jr., CFA
Denver, CO

INDEPENDENT AUDITOR
Ernst & Young LLP
Irvine, CA

LEGAL COUNSEL
County Counsel of Orange County
Santa Ana, CA

Steefel, Levitt & Weiss
San Francisco, CA

BANKRUPTCY COUNSEL
Katz, Hoyt, Seigel & Kapor
Los Angeles, CA

INVESTMENT COUNSEL
Stradling, Yocca, Carlson & Rauth
Newport Beach, CA

INVESTMENT MANAGERS

DOMESTIC EQUITY
Amerindo Investment Advisors, Inc.
San Francisco, CA

BZW Global Investors
San Francisco, CA

Columbus Circle Investors
Stamford, CT

Delaware Investment Advisers
Philadelphia, PA

Husic Capital Management
San Francisco, CA

Invesco Capital Management, Inc.
Atlanta, GA

Nelson, Benson & Zellmer, Inc.
Denver, CO

STI Capital Management
Orlando, FL

GLOBAL FIXED INCOME
Boston Partners Asset Management Company, LP
Boston, MA

Delaware International Advisers, Ltd.
London, England

Kennedy Associates, Inc.
Seattle, WA

LaSalle Street Capital Management, Ltd.
Chicago, IL

Loomis, Sayles & Company
Boston, MA

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

INTERNATIONAL EQUITY
Capital Guardian Trust Company
Los Angeles, CA

INVESTMENT MANAGERS (Cont.)

Capital Guardian International, Inc.
Emerging Markets Growth Fund
Los Angeles, CA

Schroder Capital Management International
London, England

Schroder Capital Management International
Emerging Market Fund
London, England

REAL ESTATE

Domestic

American Realty Advisors
Glendale, CA

DA Management
Newport Beach, CA

Heitman/JMB Advisory Corporation
Chicago, IL

Metric Institutional Realty Advisors, LP
Metric Apartment Co-Investment Trust
San Francisco, CA

PMRealty Advisors
PMRA III
Newport Beach, CA

Sentinel Real Estate Corporation
Sentinel Realty Partners II
New York, NY

International

GIM Capital Management, Inc.
Summit, NJ

PRICOA Property Investment Management, Ltd.
London, England

Timberland

Hancock Timber Resource Group
ForesTree II Fund
ForesTree III Fund
Boston, MA

Prudential Timber Investments, Inc.
PruTimber Fund I, LP
PruTimber Fund II, LP
PruTimber Fund III, LP
Boston, MA

NON-TRADITIONAL INVESTMENTS

Managers

Brinson Partners, Inc.
Chicago, IL

Hancock Venture Partners, Inc.
John Hancock Venture Capital LP II
John Hancock Venture Capital LP III
John Hancock Venture Capital LP IV
Boston, MA

Hancock International Private Equity Partners LP (HIPEP)
Boston, MA

Limited Partnerships

American Industrial Partners
American Industrial Partners Capital Fund, LP
American Industrial Partners Capital Fund II, LP
San Francisco, CA

INVESTMENT MANAGERS (Cont.)

Castle Harlan, Inc.
Castle Harlan Partners II, LP
Mill Valley, CA

The Cypress Group L.L.C.
Cypress Merchant Banking Partners LP
New York, NY

Energy Investors Funds
Energy Investors Fund II, LP
Mill Valley, CA

First Reserve Corporation
First Reserve Fund VI
Greenwich, CT

The Gordon+Morris Group
Gordon+Morris Investment Partnership, LP
Newport Beach, CA

IMR General, Inc.
IMR Fund, LP
Minneapolis, MN

Prudential Equity Investors, Inc.
Prudential Private Equity Investors III, LP
New York, NY

Schroder Venture Managers, Inc.
Asia Pacific Trust
Schroder Ventures International Life Sciences Fund
New York, NY

TCW Asset Management Company
TCW Commingled Debt and Royalty Fund IIIC
TCW Commingled Debt and Royalty Fund IVB
Los Angeles, CA

Torch Energy Advisors, Inc.
TEAI VIII-B, LP
Houston, TX

Whippoorwill Associates, Inc.
Vega Partners III, LP
White Plains, NY

CUSTODIAN

Boatmen's Trust Company
St. Louis, MO

II. FINANCIAL SECTION

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ERNST & YOUNG LLP

Suite 600
3750 University Avenue
P.O. Box 1270
Riverside, California 92502

Phone: 909 276 7200
Fax: 909 787 8184

Report of Independent Auditors

Orange County Employees Retirement System
Board of Retirement

We have audited the accompanying general purpose financial statements of the Orange County Employees Retirement System (System) as of and for the years ended December 31, 1995 and 1994, as listed in the table of contents. These financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Orange County Employees Retirement System at December 31, 1995 and 1994, and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental schedules included as "Other Supplementary Information," as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. These schedules have been subjected to the auditing procedures applied in our audits of the general purpose financial statements and, in our opinion, are fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Ernst + Young LLP

April 22, 1996

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GENERAL PURPOSE FINANCIAL STATEMENTS

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS

(in thousands)

	December 31	
	1995	1994
Assets		
Investments, at Fair Value		
(Notes B and F)		
United States Government Debt		
Securities and Corporate Bonds	$ 890,911	$ 796,660
Foreign Bonds	114,338	51,595
Domestic Equity Securities	1,148,498	872,887
Real Estate	332,046	250,103
International Equity		
Securities (Note F)	213,411	192,973
Venture Capital and		
Limited Partnership Interest (Note F)	77,978	70,307
Total Investments	2,777,182	2,234,525
Cash and Cash Equivalents (Note G)	258,267	289,925
Receivables		
Forward Currency Contracts (Note H)	128	1,257
Investment Income	23,892	20,072
Securities Sales	2,139	9,273
Employer/Employee Contributions	8,365	1,849
Total Receivables	34,524	32,451
Fixed Assets, Net (Note B)	261	337
Collateral Held for Securities		
Lent (Note F)	180,784	213,329
Total Assets	$ 3,251,018	$ 2,770,567
Liabilities		
Collateral Held for Securities		
Lent (Note F)	180,784	213,329
Securities Purchased	20,851	42,202
Mortgages Payable (Note J)	5,305	5,475
Miscellaneous Liabilities	17,588	11,072
Total Liabilities	224,528	272,078
Net Assets Available for Benefits	$ 3,026,490	$ 2,498,489

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

(in thousands)

	Years Ended December 31 1995	Years Ended December 31 1994
Additions		
Investment Income (Loss)		
Net Appreciation (Depreciation) in Fair Value of Investments (Note F)	$ 414,557	$ (124,842)
Interest on:		
Domestic and International Securities	75,552	64,817
Cash with County Treasurer (Note G)	528	313
Short Term Investment Fund (Note G)	5,850	1,478
Domestic Dividends	32,874	24,460
Rental Income	21,926	18,548
International Dividends	2,956	298
Venture Capital and Limited Partnership	17,518	5,637
Securities Lending Revenues	542	658
Total Investment Income (Loss)	572,303	(8,633)
Less Investment Counseling Fees	(10,851)	(8,508)
Gain (Loss) on Orange County Treasurer's Pooled Investment (Note G)	7,858	(36,146)
Net Investment Income (Loss)	569,310	(53,287)
Contributions (Note C)		
Employer	20,814	369,382
Employee	47,953	47,442
Total Contributions	68,767	416,824
Total Additions	638,077	363,537
Deductions		
Participants' Benefits	92,582	79,932
Member Withdrawals	12,523	7,426
Administrative Expenses (Note I)	4,971	4,132
Total Deductions	110,076	91,490
Increase in Net Assets Available	528,001	272,047
Net Assets Available for Benefits		
Beginning of Year	2,498,489	2,226,442
End of Year	$ 3,026,490	$ 2,498,489

See accompanying notes to financial statements

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

STATEMENTS OF ACCUMULATED PLAN BENEFITS

(in thousands)

	December 31	
	1995	1994
Actuarial Present Value of Accumulated Plan Benefits		
Vested Benefits		
Retired	$ 1,124,595	$ 938,227
Terminated Vested	76,463	64,073
Active Vested	806,970	795,383
Total Vested Benefits	2,008,028	1,797,683
Nonvested Benefit	237,826	233,071
Actuarial Present Value of Accumulated Plan Benefits (Note B)	$ 2,245,854	$ 2,030,754

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

STATEMENTS OF CHANGES IN ACCUMULATED PLAN BENEFITS

(in thousands)

	Years Ended December 31	
	1995	1994
Actuarial Present Value of Accumulated Plan Benefits as of January 1	$ 2,030,754	$ 1,835,846
Increase (Decrease) During the Year Attributable to:		
Additional Benefits Accumulated	160,275	138,893
Benefits Paid	(103,572)	(87,358)
Increase for Interest Due to Decrease in Discount Period	158,397	143,373
Net Increase	215,100	194,908
Actuarial Present Value of Accumulated Plan Benefits as of December 31 (Note B)	$ 2,245,854	$ 2,030,754

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 1995

NOTES TO FINANCIAL STATEMENTS

A. Description of Plan

The following is a brief description of the Orange County Employees Retirement System (OCERS). Participants should refer to their Summary Plan Description for more complete information.

1. **General.** OCERS is a cost-sharing multiple-employer, defined benefit pension plan covering substantially all employees of the County of Orange and of the following agencies: Orange County Transportation Authority, Department of Education (closed to new members), City of San Juan Capistrano, UCI Medical Center (closed to new members), Foothill/Eastern Transportation Corridor Agency, San Joaquin Hills Transportation Corridor Agency, Cypress Recreation and Park District, County Sanitation Districts of Orange County, Capistrano Valley Water District, Capistrano Beach Sanitation District, Orange County Cemetery District, Santiago Library System, Orange County Vector Control District, Orange County Fire Authority and Orange County Law Library.

   The participating entities share proportionally in all risks and costs, including benefit costs. One actuarial valuation is performed for OCERS as a whole, and the same contribution rates apply to each participating entity.

   OCERS was established in 1945 under the provisions of the County Employees Retirement Law of 1937, and provides members with retirement, death, disability, and cost-of-living benefits. OCERS is a related organization of the County of Orange, California. The Board of Retirement consists of nine members of which four are appointed by the County's Board of Supervisors, four are elected by the members of OCERS, and the County Treasurer is an ex-officio member. The County of Orange is not financially accountable for OCERS. During 1994, OCERS obtained a 100% interest in a subsidiary, OCRS Holding Corporation, which has been blended in these financial statements.

   The Board of Supervisors adopted certain sections of the Government Code for members employed after September 20, 1979, designated as Tier II members. The establishment of Tier II resulted in reduced allowances to those members. Members employed prior to September 21, 1979, are designated as Tier I members. The differences between Tier I and Tier II benefits are discussed below.

2. **Retirement Allowances.** An employee with ten or more years of service is entitled to an annual retirement allowance beginning at age 50. The amount of the retirement allowance is based upon the member's age at retirement, the member's "final compensation" as defined in Section 31462 of the Retirement Law of 1937, and the total years of service under OCERS.

Retirement Allowances for Tier I members are calculated using a fixed formula which will provide an allowance equal to 2 percent of the member's "final compensation" for each full year of service credit at age 57. Retirement allowances for Tier II members are calculated using a fixed formula which will provide the same allowance at approximately age 61 1/2.

If an employee terminates before rendering five years of service, the employee forfeits the right to receive benefits and is entitled to withdraw the employee contributions made, together with accumulated interest, unless the member enters a reciprocal retirement system and elects to keep these monies on deposit with OCERS.

If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued.

3. **Death and Disability Benefits.** Upon the death of an active employee, a death benefit, equal to the deceased member's accumulated contributions, plus 1/12 of the annual compensation earnable by the deceased member during the 12 months immediately preceding death, multiplied by the number of completed years of service under OCERS, but not exceeding six months compensation, is paid to the employee's beneficiary. Upon the death of any member of OCERS who would have been entitled to retirement, the surviving spouse, as an option, may receive an annual allowance equal to 60 percent of the retirement allowance to which the deceased member would have been entitled as of the date of death. The death of a member due to service-connected injury or disease entitles the decedent's surviving spouse or child under 18 years of age to receive an annual allowance equal to one-half the member's "final compensation." In addition, the beneficiary of any member who dies before retirement with at least ten years of service under OCERS, or after retirement while receiving a retirement allowance from OCERS, is paid a death benefit of $750 or $1000, respectively.

   An active employee who becomes totally disabled as a result of a service-connected injury or disease is paid an annual disability allowance equal to the larger of 50 percent of the employee's "final compensation" or the normal retirement benefits accumulated by the member as of the date the member became disabled. An active employee who becomes totally disabled as a result of nonservice-connected disease or injury is paid an annual allowance up to one-third of the employee's "final compensation," or the normal retirement benefits accumulated by the member as of the date of disability, whichever is the larger amount.

4. **Active and Retired Members.** The following is a summary of OCERS' membership composition at December 31, 1995 and 1994:

NOTES TO FINANCIAL STATEMENTS (Continued)

Active Personnel
(unaudited)

	December 31	
	1995	1994
General Members		
County and Agencies Paid by County Payroll	13,312	14,546
Outside Agencies	2,346	2,539
Pending (Retirement or Withdrawal)	174	209
Subtotal - General Members	15,832	17,294
Safety Members		
County and Agencies Paid by County Payroll	2,351	2,288
Pending (Retirement or Withdrawal)	17	7
Subtotal - Safety Members	2,368	2,295
Deferred (General & Safety) Members		
Regular	461	388
Employment with Other Agencies (Reciprocity)	518	520
Subtotal - Deferred Members	979	908
Total Active Personnel	19,179	20,497

At December 31, 1995 and 1994, 12,337 and 11,737 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits
(unaudited)

	December 31, 1995			December 31, 1994		
	Gen.	Safety	Total	Gen.	Safety	Total
Service Retirements	4,483	317	4,800	4,055	286	4,341
Continuances	469	34	503	434	32	466
Subtotal-Service Retirements	4,952	351	5,303	4,489	318	4,807
Service-Connected Disability	347	191	538	330	174	504
Continuances	37	13	50	32	12	44
Subtotal-Service Disability	384	204	588	362	186	548

Retired Personnel Receiving Benefits (cont.)
(unaudited)

	December 31, 1995			December 31, 1994		
	Gen.	Safety	Total	Gen.	Safety	Total
Nonservice-Connected						
Disability	221	9	230	213	10	223
Continuances	230	8	238	229	9	238
Subtotal-Nonservice Disability	451	17	468	442	19	461
Total Retired Personnel	5,787	572	6,359	5,293	523	5,816

5. **Employees Purchased Annuities.** OCERS provides accounts for additional member contributions as allowed under Government Code Section 31627. Contributions plus accumulated interest at the actuarial interest rate less 50 basis points are held in individual member accounts.

B. Summary of Significant Accounting Policies

1. **Basis of Accounting.** OCERS' financial statements are prepared on the accrual basis of accounting in accordance with Financial Accounting Standards No. 35. Contributions from employers and members are recognized as revenue in the period in which employees provide services. Investment income is recognized as revenue when earned. The net appreciation (depreciation) in fair value of investments held by OCERS is recorded as an increase (decrease) to investment income based on the valuation of investments at year end.

   The accompanying financial statements include the accounts of OCERS and its wholly-owned subsidiary OCRS Holding Corp., incorporated March 1994. All intercompany accounts and transactions have been eliminated in consolidation.

   Certain 1994 amounts have been reclassified to conform to the 1995 presentation.

   In November 1994, the Governmental Accounting Standards Board (GASB) issued Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans. This Statement establishes financial reporting standards for defined benefit plans and for the notes to the financial statements of defined contribution plans of state and local government entities. This Statement is effective for periods beginning after June 15, 1996. OCERS has elected not to early adopt this Statement as of December 31, 1995, and has not completed all of the complex analyses required to estimate the full impact of this new Statement.

   In May 1995, the GASB issued Statement No. 28, Accounting and Financial Reporting for Securities Lending Transactions. This Statement establishes accounting and financial reporting standards for securities lending transactions. Statement No. 28

is effective for periods beginning after December 15, 1995. OCERS has elected to early adopt this Statement as of December 31, 1994, and the impact of the Statement did not result in material changes.

2. **Fixed Assets.** Fixed assets are carried at cost less accumulated depreciation. Depreciation is calculated using the straight-line method with a 5 year useful life for computer software, 5 to 15 years for equipment and furniture, and 10 years for building improvements. The cost and accumulated depreciation of fixed assets at December 31, 1995 and 1994, were as follows:

	1995	1994
Furniture and Equipment	$ 765,953	$ 700,179
Computer Software	663,713	654,015
Building Improvements	52,823	52,823
Total Fixed Assets (at cost)	1,482,489	1,407,017
Less Accumulated Depreciation	(1,221,856)	(1,070,045)
Total Fixed Assets - Net of Depreciation	$ 260,633	$ 336,972

3. **Valuation of Investments.** Quoted market prices are used to value United States Government securities, corporate and foreign bonds and debentures, and domestic and international common stocks. Mortgage notes are valued at an amount equal to the unpaid principal balance of the loans. Interest rates on the mortgage notes, discounted to reflect prepayment probabilities, do not differ significantly from market rates. Real estate equity investments are stated at market value, determined by independent appraisals performed on the properties held. The venture capital funds and limited partnership investments were determined by the investment managers based on the underlying financial statements and performance of the investments and acceptable valuation methodologies. At December 31, 1995, OCERS had investments in U.S. Treasury bonds and notes and in the Wells Fargo Nikko Equity Index Fund which individually represented more than 5 percent of OCERS' net assets available for benefits.

4. **Actuarial Present Value of Accumulated Plan Benefits.** Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable, under OCERS' provisions, to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees and their beneficiaries; (b) beneficiaries of employees who have died; and (c) present employees and their beneficiaries. Benefits under OCERS are based on employees' "final compensation". For Tier I members, a one-year average is used to calculate benefits, while for Tier II members, a three-year average is used to calculate benefits. The accumulated plan benefits for active employees are based on their average compensation. Benefits payable under all circumstances (retirement, death, disability, and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of accumulated plan benefits is determined by the actuary and is that amount which results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. Some of the actuarial assumptions used for financial statement purposes differ from those used for plan funding purposes. Such differences result from preparing the financial statements in accordance with the requirements of Statement of Financial Accounting Standards No. 35. The preparation of the general purpose financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the general purpose financial statements and accompanying notes. The significant actuarial assumptions as of December 31, 1995, were:

a. Life expectancy of participants at December 31, 1995, and at December 31, 1994, is based on the 1983 Group Annuity Mortality Table.
b. Retirement, disability, turnover, and mortality assumptions are based on OCERS' actual experience.
c. The investment return, net of administrative expense, is assumed to be 8 percent at December 31, 1995, and at December 31, 1994.
d. Retirees' benefits are assumed to increase 3 percent annually, once retired, in accordance with OCERS' cost-of-living provisions.
e. Prior service cost is amortized over an initial 30-year period. The remaining period, as of December 31, 1995, was 12 years.
f. Salaries are assumed to remain at current levels in future years.

C. Contributions Required and Contributions Made

As a condition of participation, employees are required to contribute a percentage of their annual compensation to OCERS. For Tier I members, the normal rate of contribution is based on the member's age of entry into OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member's "final compensation" for each year of service rendered at age 60 for General Members, and at the age of 50 for Safety Members. For Tier II General Members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member's "final compensation" for each year of service rendered at age 60. For Tier II Safety Members, the rate of contribution is calculated to provide an annual annuity equal to 1/100 of the member's "final compensation" for each year of service rendered at age 50.

Present employees' accumulated contributions at December 31, 1995 and 1994, were $461,678,566 and $432,299,843, respectively, including interest credited at an interest rate of 5 percent per annum. Interest is credited as of June 30 on the balance of the members' accounts as of the prior December 31, and as of December 31 on the balance of the members' accounts as of the prior June 30. (Three percent, the balance of the assumed interest rate of 8 percent, is credited to the County Advance Reserve.)

NOTES TO FINANCIAL STATEMENTS (Continued)

The County's and participating agencies' funding policy is to make periodic contributions to OCERS in amounts such that, when combined with employees' contributions and with investment income, will fully provide for all employees' benefits by the time they retire.

In September 1994, the County of Orange issued $320 million in Pension Obligation Bonds (POB) of which $318.3 million in proceeds were paid to OCERS to fund the County's portion of the Unfunded Actuarial Accrued Liability (UAAL).

For accounting purposes, OCERS maintains the proceeds from the POBs in the County Investment Account because the County Counsel had previously issued an opinion that OCERS is required to charge all participating agencies one employer rate for general and one employer rate for safety members. Therefore, OCERS entered an agreement with the County of Orange in which it was agreed that the County would pay the same rate with an offsetting credit based upon an amount actuarially determined to deplete the County Investment Account over a 14 year basis. In exchange, OCERS agreed to pay the composite earning rates, earned by OCERS, to the County Investment Account on a quarterly basis.

Subsequently, The Board of Retirement entered an agreement, for a one year period, with the County, to be effective July 1995, in which the County's contribution to OCERS was curtailed and the appropriate monies transferred from the County Investment Account to the Employer Reserve Account. As of December 31, 1995, after the necessary transfers and investment earnings, the POB Account totaled $329 million.

Contributions for 1995 and 1994 approximate $68,767,000 ($20,814,000 employer and $47,953,000 employee) and $98,524,000 ($51,082,000 employer and $47,442,000 employee), respectively. The employer contribution amount includes the net amount of the County Investment Account credit and the transferred amounts as agreed by OCERS and the County of Orange.

	1995	1994
Normal Cost	$ 62,117,000	$ 81,785,000
Amortization of Unfunded Actuarial Accrued Liability	6,650,000	16,739,000
Funding of County's Portion of Unfunded Actuarial Accrued Liability	-0-	318,300,000
Total	$ 68,767,000	$ 416,824,000

The contributions to OCERS for 1995 and 1994 were made in accordance with the actuarially determined requirements as follows:

	Percent of Employees' Payroll					
	Jul '95 - Dec '95		Jul '94 - Jun '95		Jan '94 - Jun '94	
	Gen.	Safety	Gen.	Safety	Gen.	Safety
Employer Contributions:						
Normal Cost	3.68%	6.58%	3.38%	6.20%	2.40%	4.15%
Amortization of Unfunded Actuarial Accrued Liability	1.21%	21.35%	0.53%	18.56%	0.15%	13.78%
Subtotal	4.89%	27.93%	3.91%	24.76%	2.55%	17.93%
Additional Contribution	0.50%	0.50%	0.00%	0.00%	0.00%	0.00%
Total	5.39%	28.43%	3.91%	24.76%	2.55%	17.93%

The Memorandum of Understanding (MOU) between OCERS and the County of Orange requires that Employer Contributions must increase by the lesser of .50% of pay and the amount necessary to increase OCERS' Unallocated Fund Balance (UFB) to 3% of OCERS' total assets. At December 31, 1994, OCERS' UFB fell below 3% of OCERS' total assets. Therefore, the contribution rate increased by .50% effective with the pay period ending after June 30, 1995. The .50% employer additional contribution is credited to the Unallocated Fund Balance.

	1995		1994	
	Amount	Percent of Employees' Payroll	Amount	Percent of Employees' Payroll
Employee Contributions	$ 47,953,000	6.58%	$ 47,441,879	6.17%
Employer Contributions	$ 20,814,000	2.85%	$ 51,082,347	6.63%

D. Funding Status and Progress

The amount shown in the following schedule as "pension benefit obligation" is a standardized disclosure measure of the actuarial present value of credited projected benefits adjusted for the effects of projected salary increases and any step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status on a going concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among public employees retirement systems. The measure is that used for the Analysis of Funding Progress on page 45 and is independent of the actuarial funding method used to determine contributions to OCERS. Ten-year historical trend information designed to provide information about OCERS' progress made in accumulating sufficient assets to pay benefits when due is presented on page 45.

The pension benefit obligation also differs from the present value of accumulated plan benefits (see Note B.4), used in the financial statements, which does not project future salary increases. The projections at December 31, 1995 and 1994, were determined using an 8 percent discount rate. The significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation.

Year-end balances of the overfunded pension benefit obligation were as follows:

	December 31	
	1995	1994
	(in thousands)	
Pension benefit obligation:		
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	$ 1,201,057	$ 1,002,300
Active participants:		
Provided by employee contributions including allocated investment income	438,949	413,058
Provided by employer contributions		
- Vested benefits	368,020	382,325
- Nonvested benefits	430,865	416,478
Total pension benefit obligation	2,438,891	2,214,161
Net assets available for benefits, at market value	3,026,490	2,498,489
Overfunded pension benefit obligation	$ 587,599	$ 284,328

The overfunded pension benfit obligation is based on GASB Statement No. 5 projected benefit obligations. The System continues to have an Unfunded Actuarial Accrued Liability.

E. Plan Termination

There are no plan termination provisions under the County Employees Retirement Law of 1937 which govern the operation of OCERS.

F. Investments

1. Investments Authorized

Government Code Section 31595 authorizes OCERS to invest in any form or type of investment deemed prudent in the informed opinion of the Retirement Board, except as otherwise expressly restricted by California Constitution or by law.

2. Credit Risk

OCERS' investments are categorized below to give an indication of the level of risk assumed by OCERS at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by OCERS or by its agent in its name. Category 2, of which OCERS has none, includes insured and unregistered investments for which the securities are held by Boatmen's trust department or agents in OCERS' name. Category 3, of which OCERS has none, includes uninsured and unregistered investments for which the securities are held by broker-dealers or by Boatmen's, but not in OCERS' name.

The investment values (in thousands) are summarized as follows:

	Cost	Market Value (Carrying Value)
Category 1 Classification		
U.S. Government Debt Securities	$ 208,052	$ 222,162
Corporate Debt Securities	379,532	408,631
U.S. Government Bonds	138,695	137,363
Foreign Bonds	108,752	114,338
Domestic Equity Securities	614,510	771,319
International Equity Securities	124,447	153,272
Subtotal	1,573,988	1,807,085
Amounts Not Subject to Classification		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral		
Corporate Debt Securities	6,307	7,779
U.S. Government Bonds	70,102	78,085
Domestic Equity Securities	42,480	61,219
International Equity Securities	27,117	35,582

Amounts Not Subject to Classification	Cost	Market Value (Carrying Value)
Orange County Treasurer's Pooled Investment	309	309
Collateralized Mortgage Obligations	36,423	36,891
Real Estate Investments	367,904	332,046
Domestic Equity Index Fund	176,431	315,960
International Pooled Equity Funds	22,226	24,557
Non-Traditional Investment in Venture Capital and Limited Partnership	77,544	77,978
Subtotal	826,843	970,406
Less: Orange County Treasurer's Pooled Investment	309	309
Total Investments	$ 2,400,522	$ 2,777,182

A detailed report of the investment holdings is available for review at the OCERS location.

3. Net Appreciation

Investments in securities were held by Boatmen's Trust Company as custodian. During 1995 and 1994, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in value by $414,556,857 and depreciated in value by $124,842,028, respectively, as follows:

	Years Ended December 31	
	1995	1994
	(in thousands)	
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	$ 280,603	$ (28,637)
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	125,760	(96,084)
International Equity Securities	11,315	(3,085)
Subtotal	417,678	(127,806)

Net Appreciation (Depreciation) in Fair Value as Determined by Estimated Fair Value:		
Real Estate	11,616	(5,939)
Non-Traditional	(14,737)	8,903
Total Net Appreciation (Depreciation)	$ 414,557	$ (124,842)

4. Financial Futures Contracts Held for Purposes Other than Trading

The net changes in market value of these contracts comprised $19,528,652 of net appreciation and $10,938,729 of the net depreciation during 1995 and 1994, respectively. As of December 31, 1995 and 1994, OCERS had open contracts of $161,709,813 and $107,788,031, respectively, for the purchase of U.S. Treasury bonds and notes, with delivery at specified future dates. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in securities values and interest rates.

OCERS is required to maintain a deposit with the broker as collateral to support open futures contracts. As of December 31, 1995 and 1994, OCERS had collateral deposits of $1,946,967 and $2,688,265, respectively, in cash equivalents, U.S. Treasury bills and notes.

5. Securities Lending Contracts

Included in the investment accounts for United States Government securities, international securities, corporate bonds and debentures, foreign bonds and debentures, and common stocks at December 31, 1995 and 1994 were securities with market values of $182,665,160 and $212,308,709, respectively, which had been lent by OCERS, through a securities lending agent, to various securities brokers in return for cash collateral equal to 102 percent (105 percent for international investments) of the market value (priced daily) of the securities lent, and additional collateral has to be provided by the next day if its value falls to less than 100 percent of the market of the value of the securities lent. OCERS invests the cash collateral in short-term securities which cannot be pledged or sold by OCERS unless the borrower defaults. Securities on loan at year-end are presented as unclassified in the preceding schedule of custodial credit risk. In lending of both domestic and international securities, the term to maturity of the securities lent is matched with the term to maturity of the investment of collateral. Such matching existed at year-end.

OCERS invested the cash collateral in short-term securities, which included certificates of deposit and commercial paper from certain domestic banks and savings and loans, repurchase agreements through certain brokers, and certain money market funds. Investments purchased with cash collateral are held by Boatmen's Trust Company in separate collateral accounts. The risks involved in a security lending program generally include: borrower bankruptcy, collateral deficiencies, problems with settlements, corporate actions, and dividends and interest.

Gross security lending revenues for 1995 and 1994 are $542,036 and $658,593, respectively. The costs of securities lending transactions are reported as expenses in the accompanying financial statements.

OCERS' securities lending agents are responsible for monitoring the market value of the securities lent to ensure that the value of the collateral equals or exceeds 100 percent of the market value of the securities lent as of the valuation date. At December 31, 1995 and 1994, OCERS held broker collateral with market values totaling $180,784,173 and $213,328,689, respectively.

6. International Investments

Specific investments in international securities are held by Bankers Trust Company, in accordance with a subcustodial agreement with Boatmen's Trust Company, and managed by three investment managers. Other investments are held in four pooled funds, all of which are invested in equities of companies located in international emerging markets.

7. Non-Traditional Investments

OCERS' non-traditional investments represent investments made in private debt and equity securities through limited partnership and venture capital arrangements. OCERS has employed two investment methods. One method is the use of investment management firms to invest OCERS' assets in limited partnerships as well as direct private placements. OCERS has made five separate commitments of funds to two investment management firms. The second method of investment is OCERS' participation as a limited partner in limited partnership funds. To date, OCERS has made commitments of $180,350,000 in 23 limited partnerships. These limited partnerships are diversified between venture capital, corporate finance, buyout, energy, and oil and gas investments.

8. Derivative Holdings Held for Trading Purposes

Of the total investments in OCERS' domestic fixed income portfolio of $890,911,000 as of December 31, 1995, approximately $252,340,000 are classified as derivative securities. The approximate annual income derived by OCERS from these securities is $14,237,000. These holdings include asset-backed securities, mortgage-backed securities, collateralized mortgage obligations, zero coupon bonds and variable rate securities. These derivative securities offer favorable yields and advantageous risk/reward profiles with the vast majority of the holdings being guaranteed by either the U.S. Government or one of its agencies.

G. Cash and Cash Equivalents

OCERS' investments may not be entirely invested in securities at a given time. Those funds not in the form of securities are invested in short-term money market funds and cash equivalents, including the Orange County Investment Pool. At December 31, 1995, OCERS had money market funds of $257,957,638, which were uninsured and uncollateralized, and

pooled cash in the County of Orange Treasurer's Investment Pool of $308,940. Interest in the Orange County Investment Pool is computed monthly on an average daily balance.

On December 6, 1994, the County of Orange and the Orange County Investment Pool (OCIP) filed for bankruptcy under Chapter 9 of the United States Bankruptcy Code. OCERS had three cash accounts invested in the OCIP which consisted of $130,352,323 in principal and $1,829,134 in unpaid accrued interest at December 6, 1994. As a result of the County's and OCIP's bankruptcies and based on subsequent information, the Board of Retirement valued the cash invested in the pool as of December 31, 1994, at 73% of its original principal.

During 1995, OCERS received distributions from the OCIP of approximately 80% of its original principal, resulting in $7,858,139 as a gain. The current settlement agreement with the County provides that the remaining claims of approximately 20% of its original principal will be paid from litigation proceeds, if any. As additional proceeds are received, if any, the proceeds will be recognized as gains.

H. Forward Currency Contracts

OCERS' international investment managers invest in forward currency contracts. These are agreements to exchange different currencies at specified rates and settlement dates. Differences between the contract and market exchange rates at settlement result in gains or losses. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movements in exchange and interest rates. OCERS' balances for the forward currency receivables and payable accounts are based upon the currencies' contract exchange rates in relation to their market exchange rates at December 31, 1995 and 1994. An accounts receivable balance that is greater than the payable balance represents a net gain on the contracts. An accounts receivable balance that is less than the payable balance indicates a net loss.

I. Administrative Expenses

Section 31596.1 of the Government Code allows certain costs to be excluded from administrative expenses which are subject to statutory limitation. The excluded costs are not budgetary items but are included in the amounts classified as administrative expenses for OCERS' financial statements.

	Years Ended December 31 1995	1994
Expenses Subject to Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	$ 16,200	$ 10,900
Employee Salaries and Benefits	1,903,531	1,758,513
Total Personnel Services	1,919,731	1,769,413
Office Operating Expenses:		
Operating Expenses	302,177	315,750
Professional Services	667,492	528,977
Rent/Leased Real Property	183,319	179,019
Depreciation/Amortization	151,727	154,549
Total Office Operating Expenses	1,304,715	1,178,295
Total Expenses Subject to Statutory Limitation	3,224,446	2,947,708
Expenses Not Subject to Statutory Limitation		
Commingled Interest Cost	917	1,470
Actuarial Costs	216,280	92,936
Custodian Services	1,045,591	881,363
Legal Costs	419,940	137,396
Additional Death Benefit Costs	63,335	70,812
Total Expenses Not Subject to Statutory Limitation	1,746,063	1,183,977
Total Administrative Expenses	$ 4,970,509	$ 4,131,685

J. Mortgage Payable

OCERS had mortgages payable at December 31, 1995, for two investment properties:

- La Sierra property, $3,986,630 payable in equal monthly installments of $42,671, at interest of 10% per annum, and maturing on May 1, 2001.
- North Torrance Shopping Center, $1,317,920 in two notes payable due in equal monthly installments of $15,240 and $909 at interest rates of 8.875 and 10 percent, per annum, and maturing on August 1, 2007, and September 1, 2004, respectively.

K. Additional Retiree Benefit Account

The Additional Retiree Benefit results from a Memorandum of Understanding (MOU) with the County of Orange in which $176,232,077 was used in 1993 to reduce the Unallocated Fund Balance (UFB). By the terms of the MOU, 75 percent ($125,844,140) was transferred to the County Advance Reserve. The remaining 25 percent ($50,387,937) was transferred to the Additional Retiree Benefit Account (ARBA). The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees.

REQUIRED SUPPLEMENTARY INFORMATION

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ANALYSIS OF FUNDING PROGRESS
FOR THE LAST TEN YEARS
(in thousands)

Name	Net Assets Available for Benefits	Pension Benefit Obligation	% Funded	Unfunded (Overfunded) Pension Benefit Obligation	Annual Covered Payroll	Unfunded (Overfunded) Benefit As % of Covered Payroll
1986	$ 886,688	$1,103,480	80.4	$ 216,792	$416,030	52.1
1987	973,537	1,209,127	80.5	235,590	440,496	53.5
1988	1,142,190	1,255,075	91.0	112,885	481,919	23.4
1989	1,392,567	1,416,041	98.3	23,474	545,251	4.3
1990	1,452,337	1,564,142	92.9	111,805	624,088	17.9
1991	1,809,386	1,495,584	121.0	(313,802)	677,957	(46.3)
1992	1,945,122	1,844,738	105.5	(100,384)	701,526	(14.4)
1993	2,226,442	2,000,543	111.3	(225,899)	725,193	(31.2)
1994	2,498,489	2,214,161	112.8	(284,328)	769,175	(37.0)
1995	3,026,490	2,438,891	124.1	(587,599)	727,768	(80.7)

Analysis of the dollar amounts of net assets available for benefits, pension obligation, and unfunded pension obligation in isolation can be misleading. Expressing net assets available for benefits as a percentage of pension benefit obligation provides one indication of OCERS' funding status on a going concern basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Trends in unfunded (overfunded) pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded (overfunded) pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of OCERS' progress made in accumulating sufficient assets to pay benefits when due.

Note: The pension benefit obligation for all years has been computed in accordance with GASB Statement No. 5.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REVENUES BY SOURCE AND EXPENSES BY TYPE
FOR THE LAST TEN YEARS
(in thousands)

Revenues By Source

Year	Employee Contributions	Employer Contributions	Employer Contributions As % of Payroll	Investment* Income	Total Revenues
1986	$ 23,591	$ 66,551	15.99	$ 79,792	$ 169,934
1987	25,825	71,645	16.26	54,117	151,587
1988	28,476	77,854	16.15	61,679	168,009
1989	32,004	61,728	11.32	74,217	167,949
1990	37,700	84,466	13.53	83,143	205,309
1991	41,536	92,598	13.65	93,239	227,373
1992	42,349	59,664	8.50	85,837	187,850
1993	45,170	43,922	6.05	99,797	188,889
1994	47,442	369,382**	48.02	71,555	488,379
1995	47,953	20,814	2.85	154,753	223,520

Expenses By Type

Year	Benefits Paid	Administrative Expenses	Withdrawals	Total Expenses
1986	$ 31,505	$ 913	$ 4,218	$ 36,636
1987	34,128	1,258	5,409	40,795
1988	39,889	1,566	6,209	47,664
1989	44,254	2,200	7,124	53,578
1990	52,050	2,921	7,509	62,480
1991	58,249	3,283	5,679	67,211
1992	64,130	3,681	5,681	73,492
1993	74,238	3,854	5,928	84,020
1994	79,932	4,132	7,426	91,490
1995	92,582	4,971	12,523	110,076

Contributions were made in accordance with actuarially determined contribution requirements.

* Net of investment manager fees. Does not include net appreciation in fair market value.

** Employer contributions include $318,300,000 representing the County's funding of its portion of the unfunded actuarial accrued liability.

OTHER SUPPLEMENTARY INFORMATION

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
Personnel Services:		
Board Members' Allowance	$ 16,200	$ 10,900
Employee Salaries and Benefits	1,903,531	1,758,513
Total Personnel Services	**1,919,731**	**1,769,413**
Office Operating Expenses:		
Operating Expenses	366,429	388,032
Professional Services	2,349,303	1,640,672
Rent/Leased Real Property	183,319	179,019
Depreciation/Amortization	151,727	154,549
Total Office Operating Expenses	**3,050,778**	**2,362,272**
Total Administrative Expenses	**$ 4,970,509**	**$ 4,131,685**

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
INVESTMENT SUMMARY
(in thousands)

	December 31, 1994				December 31, 1995		
Type ofBook Investment	**Market Value**	**Value**	**Sales and Purchases**	**Book Redemption**	**Market Value**	**Market Value**	**% of Total Value**
U.S. Treasury Securities	$ 136,868	$ 131,674	$ 175,436	$ 136,003	$ 176,301	$ 185,659	6.69%
Corporate and Foreign Bonds	536,218	511,997	763,850	805,477	494,591	530,748	19.11%
U.S. Government Bonds	188,884	192,488	619,135	548,646	259,373	271,115	9.76%
Collateralized Mortgage Obligations	27,110	12,096	16,788	26,302	17,596	17,727	0.64%
Domestic Common Stocks	757,265	872,887	643,134	566,976	833,423	1,148,498	41.35%
Real Estate	297,217	250,103	82,024	11,337	367,904	332,046	11.96%
International Equity	157,947	192,973	82,836	66,993	173,790	213,411	7.68%
Non-Traditional	55,136	70,307	26,707	4,299	77,544	77,978	2.81%
Total Investments	2,156,645	2,234,525	2,409,910	2,166,033	2,400,522	2,777,182	100.00%

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF CASH RECEIPTS AND DISBURSEMENTS
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994
(in thousands)

	1995	1994
Cash and Cash Equivalents Balance at Beginning of Year	$ 289,925	$ 175,624
Receipts:		
Employee Contributions	47,953	47,442
Employer Contributions	20,814	369,382
Investment Matured and Sold	2,166,033	1,827,172
Investment Income	279,307	67,223
Miscellaneous	(23,021)	5,166
Total Cash Receipts	2,491,086	2,316,385
Disbursement:		
Benefits Payments	84,489	79,932
Refunds to Terminated Members	12,523	7,426
Administrative Expenses	4,971	4,132
Investment Purchased	2,409,910	2,102,086
Investment Expenses	10,851	8,508
Total Cash Disbursements	2,522,744	2,202,084
Cash and Cash Equivalents Balance at End of Year	$ 258,267	$ 289,925

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1994

	1995	1994
Equity:		
Domestic	$ 3,171,691	$ 2,867,773
International	1,035,201	1,018,902
Global Fixed Income	2,367,388	1,602,860
Real Estate	1,939,324	1,132,942
Venture Capital	938,865	654,203
Other Alternative Investments	1,398,558	1,231,038
Total Fees & Other Investment Expenses	**$ 10,851,027**	**$ 8,507,718**

III. ACTUARIAL SECTION

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Timothy J. Marnell, ASA
Principal

200 West Madison Street, Suite 3100
Chicago, IL 60606-3414
312 609-9461
Fax: 312 609-9839

Towers Perrin

May 30, 1996

Members of the Board:

The financing objective of the plan has been to reduce the unfunded actuarial accrued liability to zero over a 30-year period commencing December 31, 1977 while maintaining contribution rates that remain approximately the same from generation to generation. The progress being made toward the realization of the financing objectives through December 31, 1995 is illustrated in the attached Exhibits I and II.

An actuarial investigation is performed every three years, during which an analysis is made of the appropriateness of all economic and noneconomic assumptions. Recommendations for changes are presented to the Board for consideration. The last triennial investigation was performed as of December 31, 1995, at which time changes to the economic assumptions were recommended to the Board. The next triennial investigation will be performed as of December 31, 1998. Regular valuations are performed every year to comply with GASB requirements, to adjust contribution rates, and to monitor the plan's funded status.

The asset value used in determining employer contribution rates (the actuarial value of assets) is a five-year moving average of book and market values (Exhibit V). The data used in the actuarial valuation and investigation were provided by the Board. We have enclosed a summary of the employee data used in performing actuarial valuations over the past several years (Exhibits III and IV).

The actuarial assumptions used in the December 31, 1995 valuation are summarized in the attachments. All assumptions were determined by the actuary and were adopted by the Board. The employee census data and asset information were provided by the Retirement Office. The census data was reviewed, compared against the prior year and appeared to be reasonable. The asset information was accepted without further audit.

On the basis of the December 31, 1995 valuation, it is our opinion that OCERS continues to be in sound condition in accordance with the actuarial principles of level cost financing.

Respectfully submitted,

Timothy J. Marnell

Timothy J. Marnell, A.S.A., M.A.A.A.
Principal

Chicago 50th Anniversary

Orange County Employees Retirement System

HISTORY OF UNFUNDED ACTUARIAL ACCRUED LIABILITY

(In Thousands)

Valuation Date	Actuarial Accrued Liability	Actuarial Value of Assets	Unfunded Actuarial Accrued Liability	Ratio of Assets to Actuarial Accrued Liability	Annual Active Member Compensation	Ratio of Unfunded Actuarial Accrued Liability to Active Compensation
12/31/86	1,220,915	713,506	507,409	58.44%	416,030	121.96%
12/31/87	1,343,982	821,884	522,098	61.16%	440,496	118.53%
12/31/88	1,453,858	985,030	468,828	67.75%	481,919	97.28%
12/31/89	1,651,988	1,136,210	515,778	68.78%	545,251	94.59%
12/31/90	1,840,915	1,297,575	543,340	70.49%	624,088	87.06%
12/31/91	1,763,894	1,567,131	196,763	88.84%	677,957	29.02%
12/31/92	2,140,081	1,807,319	332,763	84.45%	701,596	47.43%
12/31/93	2,305,019	2,024,447	280,572	87.83%	725,193	38.69%
12/31/94	2,550,059	2,177,673*	372,386	85.40%	769,175	48.41%
12/31/95	2,633,884	2,434,406*	199,478	92.43%	727,768	27.41%

Notes:

- 12/31/95 valuation included a change in the salary scale from 6.0% to 3.5% per annum through the year 2000, and 5.5% thereafter. The aggregate payroll increase assumption was also changed from 5.0% to 4.5% per annum.
- 12/31/91 valuation included a change in funding method from Entry Age Normal to Projected Unit Credit, a change in asset accounting concerning the unallocated fund balance, and changes in discount rate from 7.5% to 8.0%, salary scale from 5.5% to 6.0%, and payroll increases from 4.5% to 5.0%.
- 12/31/88 interest rate increased from 7.25% to 7.50%, salary scale from 5% to 5.5%, and payroll from 4.0% to 4.5%. Asset method changed from book to five-year-average of book and market.

* 12/31/94 and 12/31/95 exclude $311,022,000 and $329,064,000, respectively of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding is being amortized over a fourteen year period beginning July 1, 1994.

Orange County Employees Retirement System

HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate

Valuation Date	
12/31/86	
General	
Normal	7.21
UAAL	6.52
Total	13.73
Safety	
Normal	14.05
UAAL	15.82
Total	29.87
12/31/87	
General	
Normal	7.13
UAAL	6.59
Total	13.72
Safety	
Normal	14.28
UAAL	15.97
Total	30.25
12/31/88	
General	
Normal	5.06
UAAL	5.57
Total	10.63
Safety	
Normal	15.13
UAAL	14.95
Total	30.08

Valuation Date	
12/31/89	
General	
Normal	5.04
UAAL	5.77
Total	10.81
Safety	
Normal	15.26
UAAL	14.03
Total	29.29
12/31/90	
General	
Normal	4.75
UAAL	4.60
Total	9.35
Safety	
Normal	13.91
UAAL	10.42
Total	24.33
12/31/91	
General	
Normal	2.40
UAAL	0.15
Total	2.55
Safety	
Normal	4.15
UAAL	13.78
Total	17.93

Valuation Date	
12/31/92	
General	
Normal	3.56
UAAL	1.30
Total	4.86
Safety	
Normal	6.42
UAAL	17.92
Total	24.34
12/31/93	
General	
Normal	3.38
UAAL	0.53
Total	3.91
Safety	
Normal	6.20
UAAL	18.56
Total	24.76
12/31/94	
General	
Normal	3.68
UAAL	1.71
Total	5.39
Safety	
Normal	6.58
UAAL	21.85
Total	28.43

Valuation Date	
12/31/95	
General	
Normal	3.33
UAAL	(0.60)
Total	2.73
Safety	
Normal	5.59
UAAL	21.27
Total	26.86

Orange County Employees Retirement System

SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
12/31/86				
General	13,060	$354,930,242	$27,177	6.64%
Safety	1,687	61,099,766	36,216	5.75
Total	14,747	$416,030,008	$28,211	6.78
12/31/87				
General	13,147	$371,715,434	$28,274	4.04%
Safety	1,853	68,780,426	37,118	2.49
Total	15,000	$440,495,860	$29,366	4.09
12/31/88				
General	13,839	$407,356,604	$29,435	4.11%
Safety	1,904	74,562,254	39,161	5.50
Total	15,743	$481,918,858	$30,612	4.24
12/31/89				
General	14,587	$459,324,832	$31,489	6.98%
Safety	1,985	85,926,444	43,288	10.54
Total	16,572	$545,251,276	$32,902	7.48
12/31/90				
General	15,969	$523,453,762	$32,779	4.10%
Safety	2,214	100,633,832	45,453	5.00
Total	18,183	$624,087,594	$34,323	4.32
12/31/91				
General	16,426	$571,527,088	$34,794	6.15%
Safety	2,175	106,429,952	48,933	7.66
Total	18,601	$677,957,040	$36,447	6.19
12/31/92				
General	16,432	$590,453,256	$35,933	3.27%
Safety	2,144	111,142,980	51,839	5.94
Total	18,576	$701,596,236	$37,769	3.63
12/31/93				
General	16,611	$610,095,632	$36,728	2.21%
Safety	2,186	115,097,702	52,652	1.57
Total	18,797	$725,193,334	$38,580	2.15
12/31/94				
General	17,084	$645,117,097	$37,761	2.81%
Safety	2,289	124,058,327	54,198	2.94
Total	19,373	$769,175,424	$39,703	2.91
12/31/95				
General	15,658	$597,800,535	$38,179	1.11%
Safety	2,351	129,967,110	55,282	2.00
Total	18,009	$727,767,645	$40,411	1.78

Orange County Employees Retirement System

SUMMARY OF RETIRED MEMBERSHIP

Year	Number of Members: At Beginning of Year	Number of Members: Added During Year	Number of Members: Removed During Year	Number of Members: At End of Year	Annual Allowance (In Thousands)	% Increase in Annual Allowance	Average Monthly Allowance
1/86 to 12/86	3,714	N/A	N/A	3,870	$31,667,019	10.02%	$682
1/87 to 12/87	3,870	N/A	N/A	4,138	35,890,628	13.34	723
1/88 to 12/88	4,138	N/A	N/A	4,355	40,000,809	11.45	765
1/89 to 12/89	4,355	N/A	N/A	4,565	44,295,200	10.74	809
1/90 to 12/90	4,565	371	(158)	4,778	49,560,031	11.89	864
1/91 to 12/91	4,778	400	(149)	5,029	54,804,848	10.58	908
1/92 to 12/92	5,029	326	(51)	5,304	61,805,646	12.77	971
1/93 to 12/93	5,304	267	(59)	5,512	69,241,800	12.03	1,047
1/94 to 12/94	5,512	504	(200)	5,816	77,629,436	12.11	1,112
1/95 to 12/95	5,816	690	(147)	6,359	92,332,920	18.94	1,210

Orange County Employees Retirement System

DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS

As of December 31, 1995

Plan Year Ending	Market Value	Book Value	Ratio of Market Value to Book Value
1995	$2,573,558,176	$2,197,035,693	1.171377
1994	2,080,529,097	2,016,613,313	1.031695
1993	2,029,589,351	1,848,968,933	1.097687
1992	1,797,613,093	1,666,184,666	1.078880
1991	1,684,781,216	1,451,690,065	1.160565
1990	1,236,634,507	1,200,027,142	1.030505

(1) Average ratio in five years preceding December 31, 1995	1.108041
(2) Book value on December 31, 1995	2,197,035,693
(3) Actuarial value of assets: (1) x (2)	2,434,405,626

Orange County Employees Retirement System

SHORT-TERM SOLVENCY TEST

($ Amounts in Thousands)

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
12/31/86	$154,045	$449,928	$616,942	$713,506	100%	100%	58.44%
12/31/87	173,793	511,586	658,603	821,884	100	100	61.15
12/31/88	194,642	555,494	703,722	985,030	100	100	67.75
12/31/89	217,796	625,449	808,743	1,136,210	100	100	68.78
12/31/90	245,591	674,000	903,324	1,279,575	100	100	70.19
12/31/91	292,868	650,365	820,661	1,567,131	100	100	88.84
12/31/92	327,402	807,213	1,005,467	1,807,319	100	100	84.45
12/31/93	369,199	899,240	1,036,580	2,024,447	100	100	87.83
12/31/94	413,058	1,002,300	1,134,701	2,177,673	100	100	85.40
12/31/95	439,007	1,201,057	993,820	2,434,406	100	100	92.43

ACTUARIAL METHODS AND ASSUMPTIONS

The Projected Unit Credit method was used in conjunction with the following actuarial assumptions:

1. *Interest:* 8% per annum.

2. *Salary scale:* 3.5% per annum per individual through year 2000, 5.5% per annum thereafter; the aggregate salary increase assumed for the entire system is 4.50% per annum. The number of active employees is assumed not to increase.

3. *Consumer Price Index:* Increase of 4.5% per annum subject to tier maximums.

4. *Spouses and dependents:* 80% of male employees and 50% of female employees assumed married at retirement, with wives assumed four years younger than husbands.

5. *Rehire of former employees:* Assumed not to be rehired.

6. *Asset valuation:* Asset values taken directly from statements furnished by OCERS. See Exhibit V for a description of the development of the actuarial value of assets.

7. *Rates of termination of employment:* As shown in Table I, which follows.

8. *Expectation of life after retirement:* As shown in Table II.

9. *Expectation of life after disability:* As shown in Table III.

The above assumptions were adopted effective December 31, 1995. Actuarial gains and losses are included in the unfunded actuarial accrued liability and amortized as a level percent of increasing pay over a declining period.

Orange County Employees Retirement System

PROBABILITY OF OCCURRENCE

(Includes Eligibility)

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Ordinary Death	Ordinary Disability	Service Retire.	Service Disability	Service Death
General Members – Male							
20	0.2500	0.0000	0.0001	0.0000	0.0000	0.0000	0.0000
30	0.1110	0.0028	0.0003	0.0001	0.0000	0.0004	0.0000
40	0.0540	0.0097	0.0007	0.0004	0.0000	0.0010	0.0000
50	0.0330	0.0068	0.0010	0.0011	0.0460	0.0022	0.0000
60	0.0000	0.0000	0.0011	0.0052	0.0840	0.0050	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000
General Members – Female							
20	0.2090	0.0000	0.0001	0.0000	0.0000	0.0000	0.0000
30	0.1280	0.0033	0.0002	0.0001	0.0000	0.0000	0.0000
40	0.0790	0.0102	0.0004	0.0006	0.0000	0.0000	0.0000
50	0.0450	0.0062	0.0009	0.0015	0.0390	0.0003	0.0000
60	0.0270	0.0000	0.0016	0.0026	0.0950	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000
Safety Members							
20	0.1376	0.0000	0.0004	0.0000	0.0000	0.0011	0.0002
30	0.0454	0.0026	0.0005	0.0001	0.0000	0.0013	0.0006
40	0.0099	0.0052	0.0010	0.0004	0.0000	0.0066	0.0005
50	0.0000	0.0029	0.0036	0.0023	0.1230	0.0174	0.0030
60	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000

Orange County Employees Retirement System

EXPECTATION OF LIFE

Age and Service Retirees

1983 Group Annuity Mortality

Age	Male	Female
20	57.86	64.15
30	48.11	54.29
40	38.46	44.52
50	29.19	34.92
60	20.64	25.67
70	13.18	17.13
80	7.64	10.20
90	4.28	5.41
100	2.28	2.36

Orange County Employees Retirement System

EXPECTATION OF LIFE

Disabled Retirees

1981 Disabled Mortality

Age	General	Safety
20	38.73	49.29
30	31.98	40.36
40	26.21	31.77
50	21.08	23.59
60	16.37	16.64
70	11.70	11.70
80	7.00	7.00
90	4.09	4.09
100	2.20	2.20

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IV. STATISTICAL SECTION

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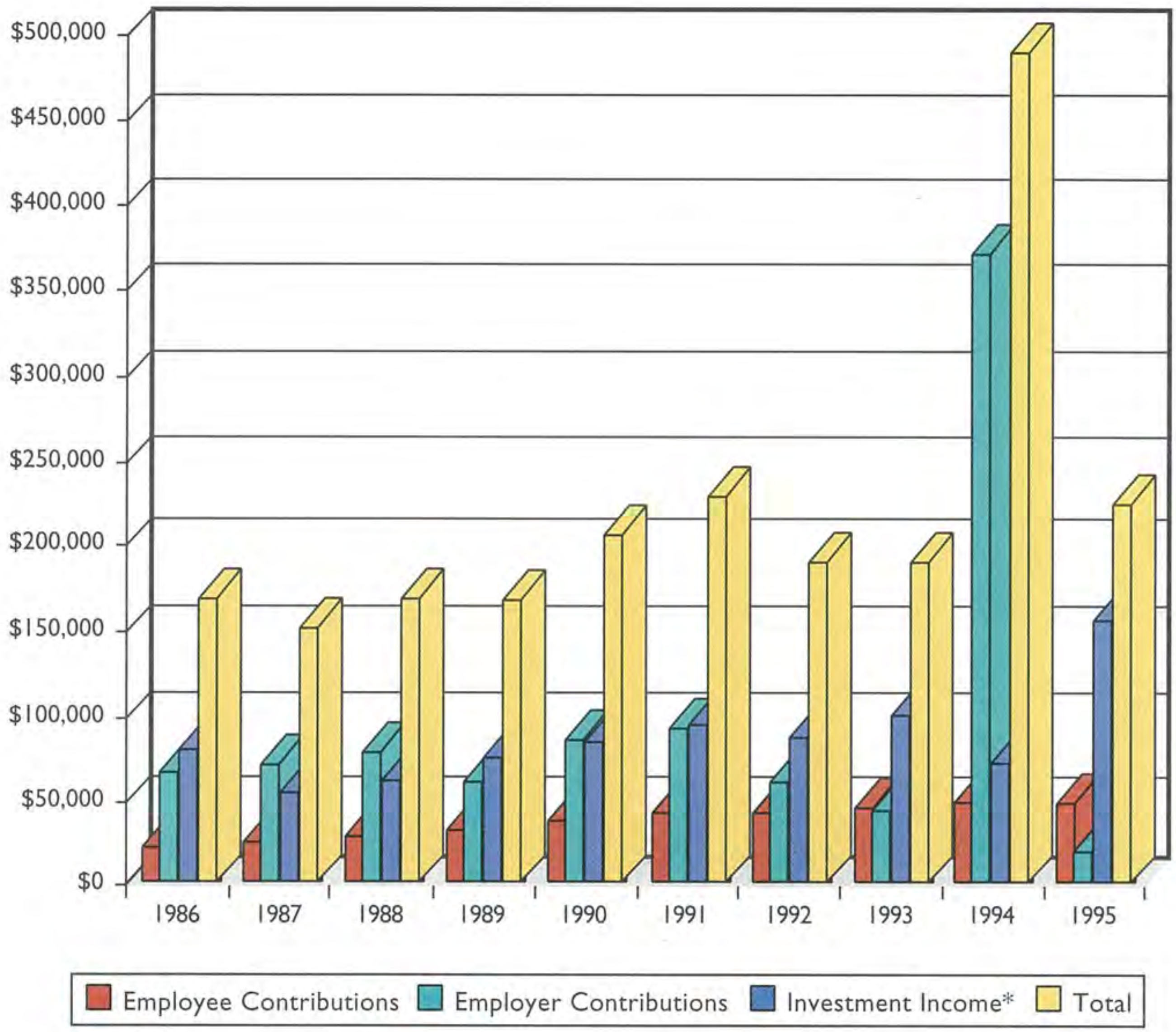
Revenues by Source

(in thousands)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Employee Contributions	$23,591	$25,825	$28,476	$32,004	$37,700	$41,536	$42,349	$45,170	$47,442	$47,953
Employer Contributions	$66,551	$71,645	$77,854	$61,728	$84,466	$92,598	$59,664	$43,922	$369,382	$20,814
Investment Income*	$79,792	$54,117	$61,679	$74,217	$83,143	$93,239	$85,837	$99,797	$71,555	$154,753
Total	$169,934	$151,587	$168,009	$167,949	$205,309	$227,373	$187,850	$188,889	$488,379	$223,520

*Net of investment manager fees. Does not include net appreciation fair market value.

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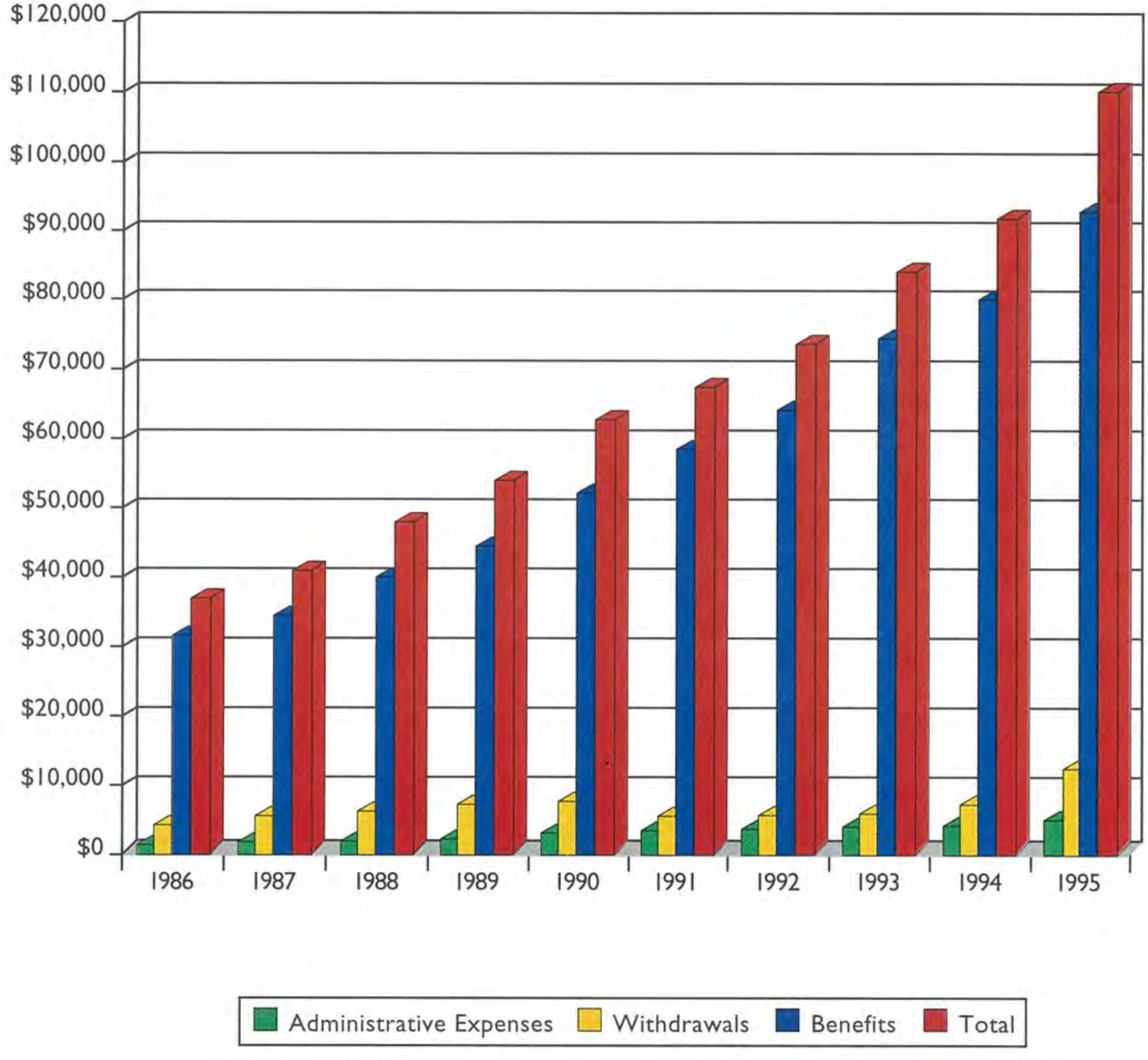
Expenses by Type

(in thousands)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Administrative Expenses	$913	$1,258	$1,566	$2,200	$2,921	$3,283	$3,681	$3,854	$4,132	$4,971
Withdrawals	$4,218	$5,409	$6,209	$7,124	$7,509	$5,679	$5,681	$5,928	$7,426	$12,523
Benefits	$31,505	$34,128	$39,889	$44,254	$52,050	$58,249	$64,130	$74,238	$79,932	$92,582
Total	$36,636	$40,795	$47,664	$53,578	$62,480	$67,211	$73,492	$84,020	$91,490	$110,076

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MEMBERSHIP INFORMATION

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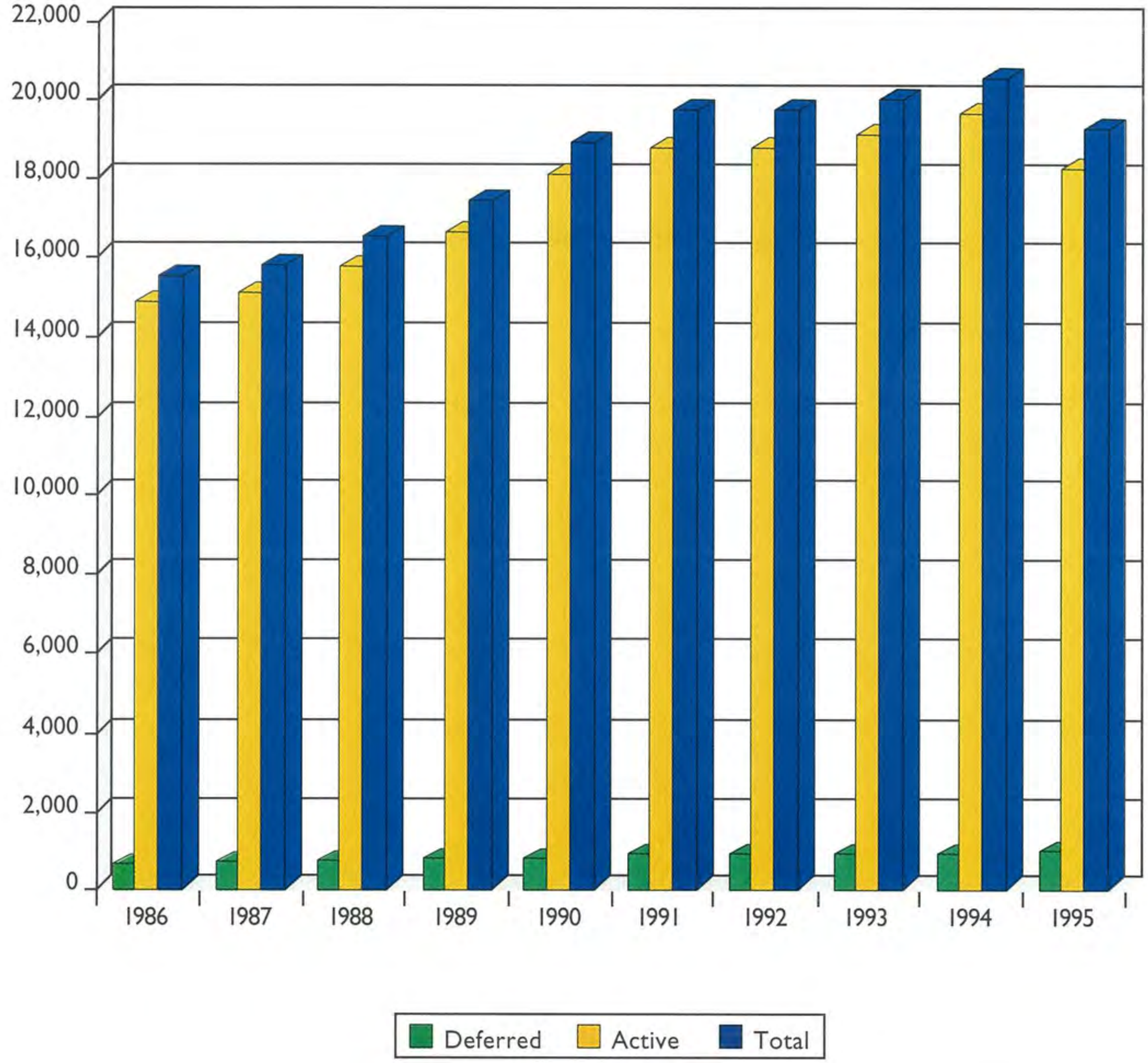
Membership History
1986-1995
(Active and Deferred)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Deferred	643	689	748	797	798	936	932	903	908	979
Active	14,820	15,050	15,744	16,573	18,066	18,702	18,735	19,073	19,589	18,200
Total	15,463	15,739	16,492	17,370	18,864	19,638	19,667	19,976	20,497	19,179

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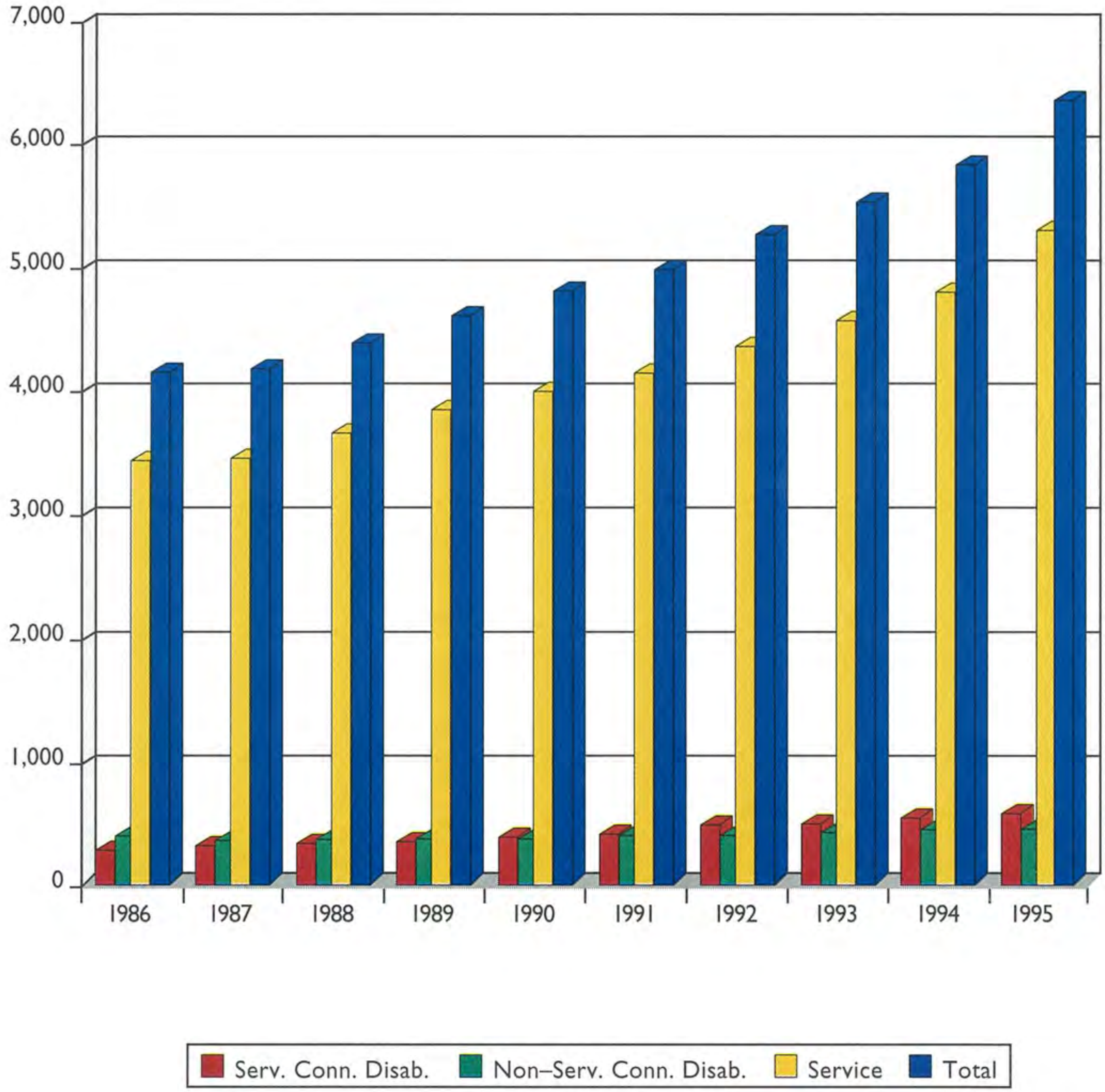
Membership History
1986-1995
(Retired)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Serv. Conn. Disab.	308	335	354	366	400	424	487	508	548	588
Non-Serv Conn. Disab.	390	374	376	391	398	400	411	437	461	468
Service	3,448	3,464	3,661	3,852	4,001	4,149	4,354	4,579	4,807	5,303
Total	4,146	4,173	4,391	4,609	4,799	4,973	5,252	5,524	5,816	6,359

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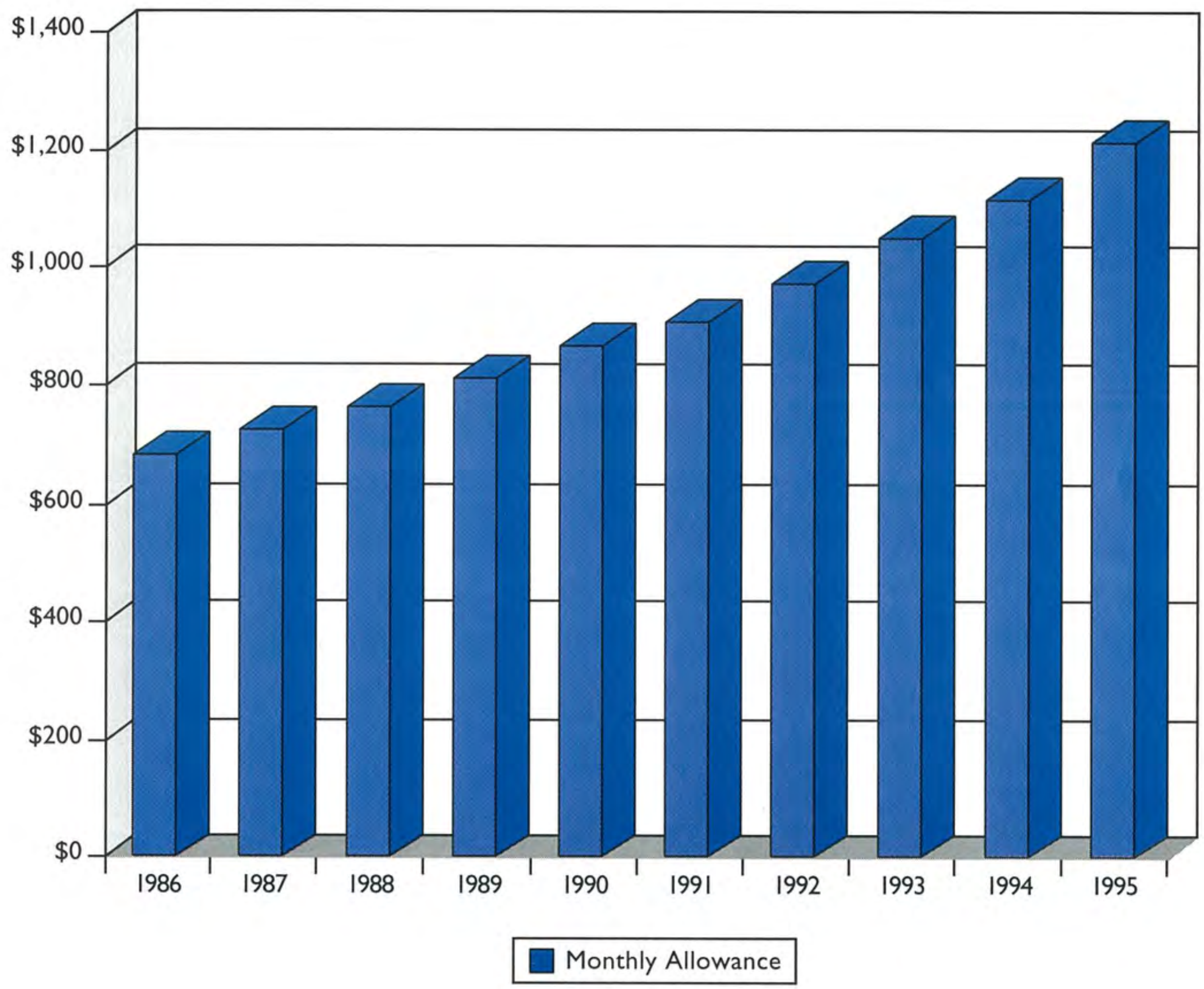
Average Monthly Retirement Benefits



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Monthly Allowance	$682	$723	$765	$809	$864	$908	$971	$1,047	$1,112	$1,210

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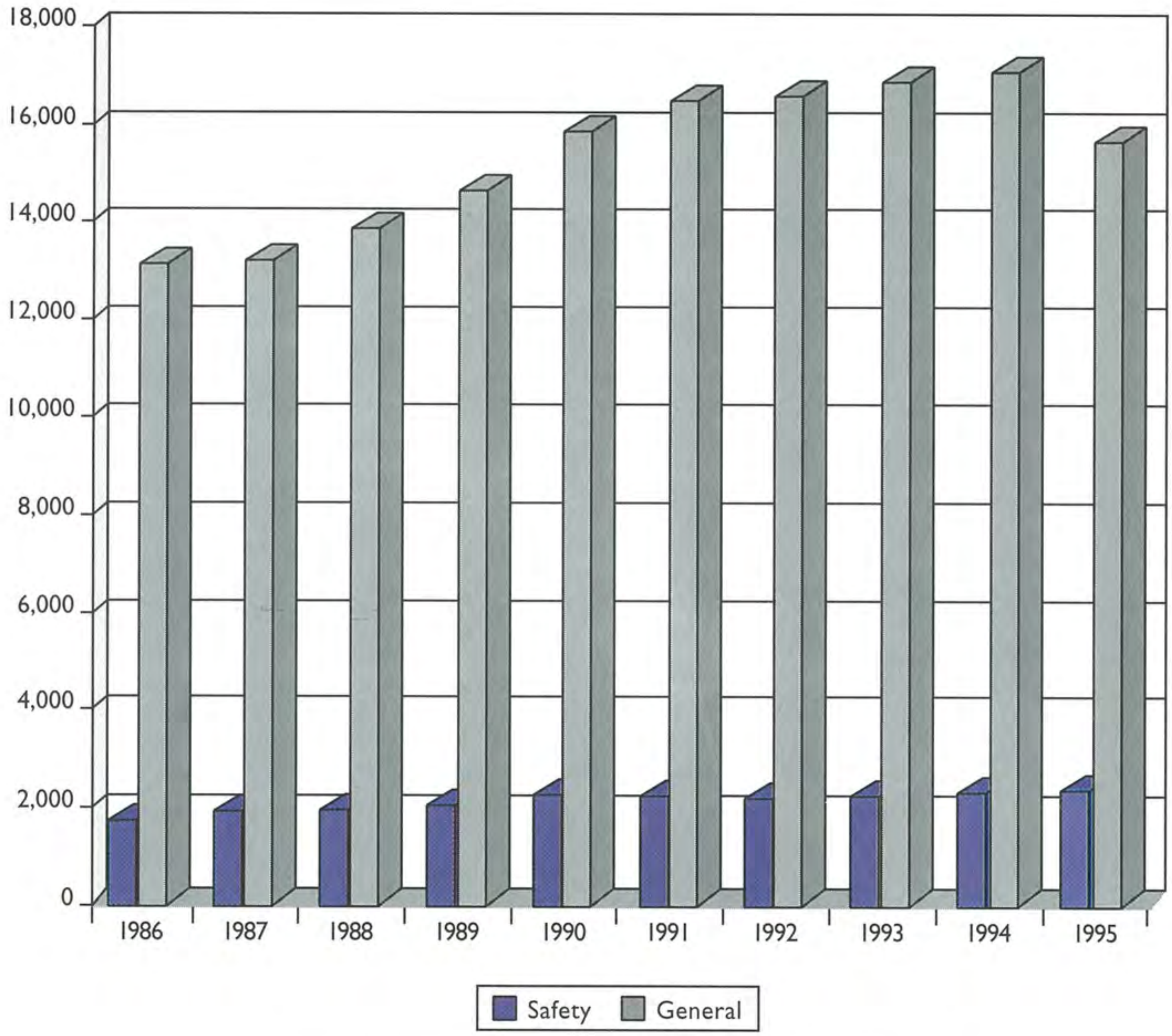
Membership Classification



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Safety	1,688	1,853	1,903	2,015	2,200	2,188	2,153	2,196	2,288	2,351
General	13,132	13,197	13,841	14,558	15,866	16,514	16,582	16,877	17,085	15,658

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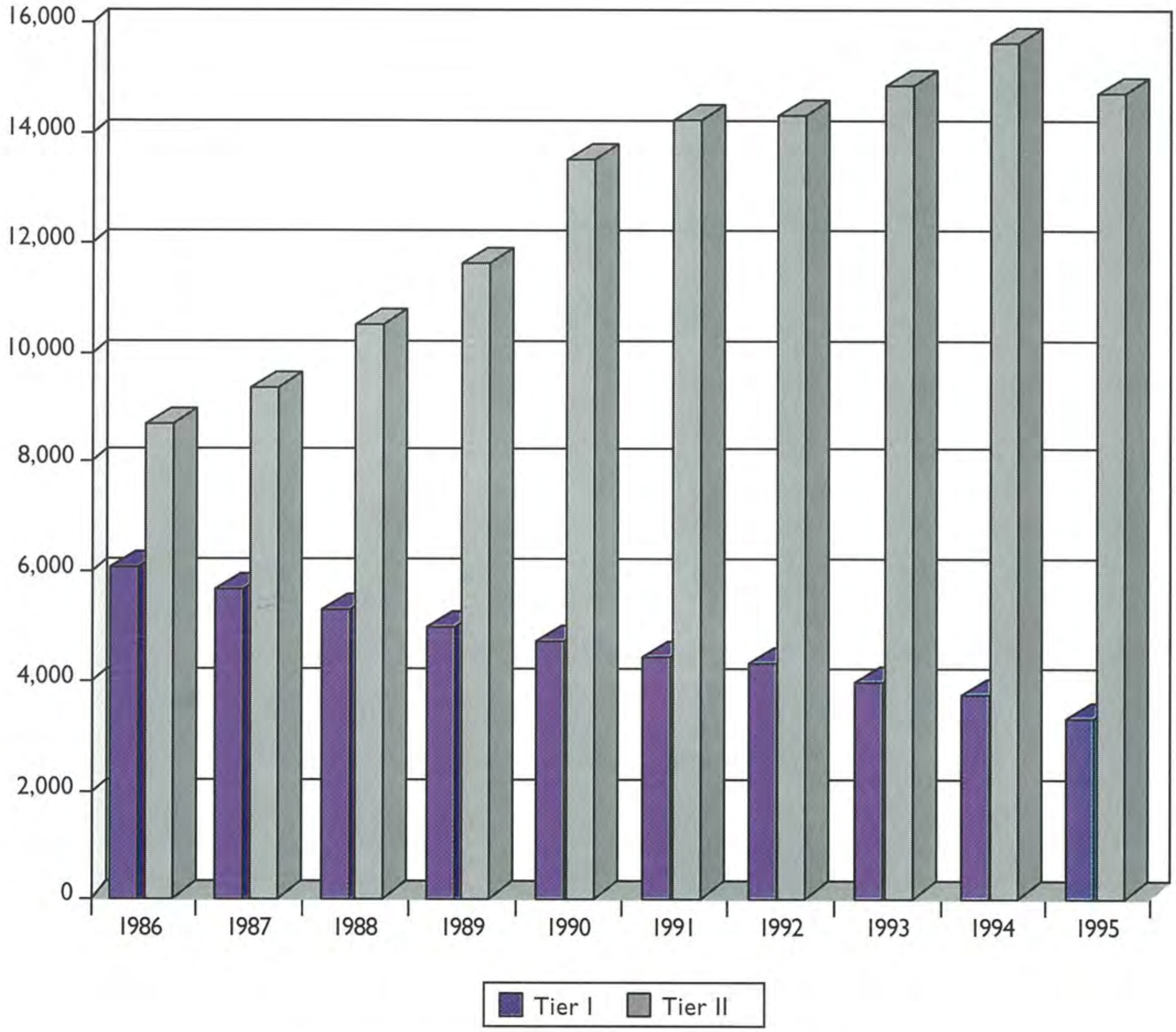
Membership by Tier

(Active Members)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Tier I	6,042	5,650	5,269	4,973	4,702	4,399	4,265	3,948	3,714	3,303
Tier II	8,705	9,350	10,474	11,599	13,481	14,202	14,311	14,849	15,659	14,706

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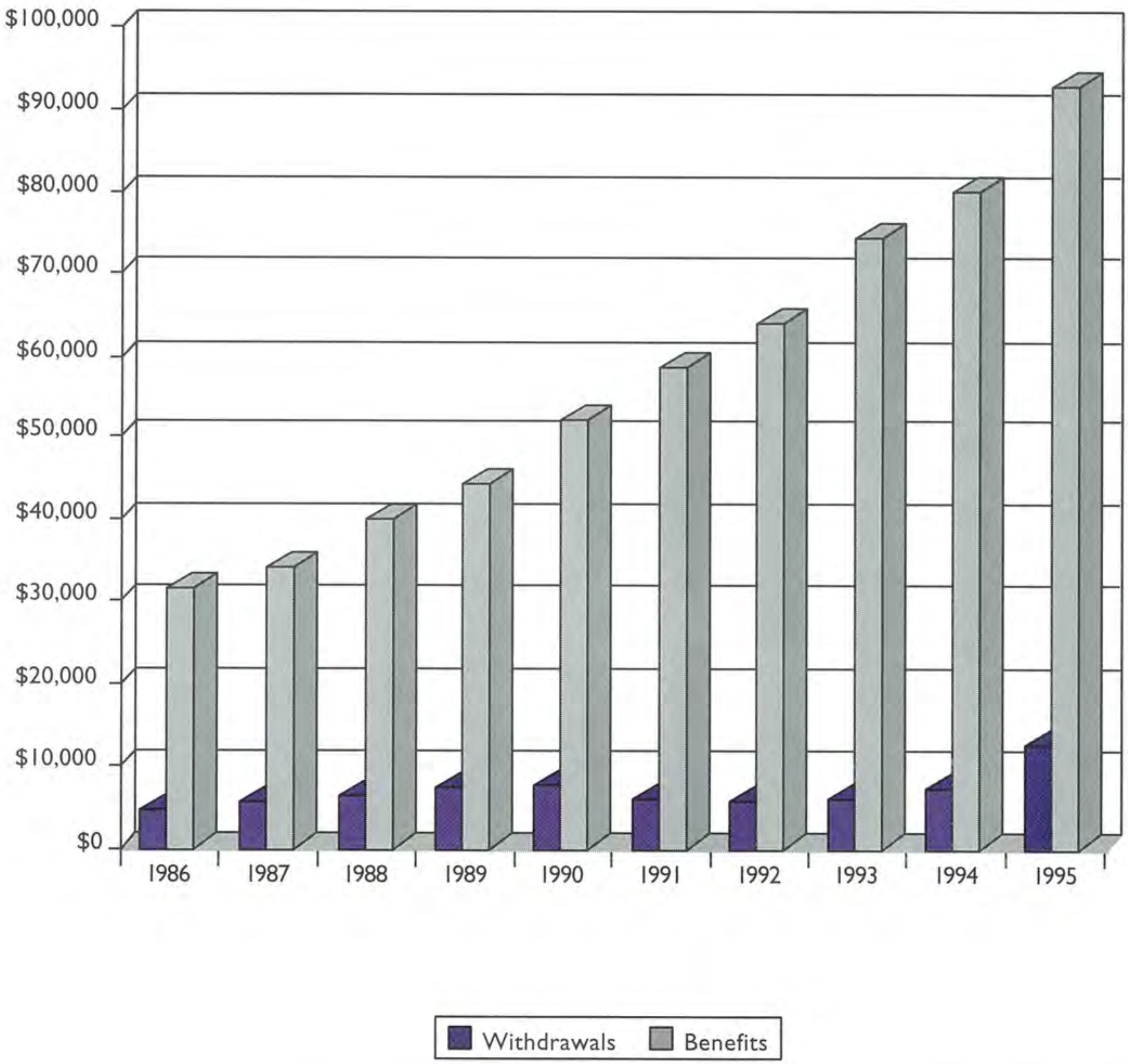
Benefits and Withdrawals Paid

(in thousands)



	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Withdrawals	$4,218	$5,409	$6,209	$7,124	$7,509	$5,679	$5,681	$5,928	$7,426	$12,523
Benefits	$31,505	$34,128	$39,889	$44,254	$52,050	$58,249	$64,130	$74,238	$79,932	$92,582

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INVESTMENT INFORMATION

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CALLAN ASSOCIATES INC

April 25, 1996

MICHAEL J. O'LEARY, JR., CFA
EXECUTIVE VICE PRESIDENT

Mr. Terry Slattery
Interim Administrator
Orange County Retirement System
2942 Daimler Street
Santa Ana, CA 92705

SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Dear Mr. Slattery:

After a difficult 1994, calendar year 1995 was an excellent year for investors, including the Orange County Employees Retirement System.

A major driving force contributing to strong returns was a remarkable recovery in the domestic bond market. Interest rates, which had risen dramatically in 1994, fell substantially in 1995. Measures of the broad investment grade bond market such as the Lehman Brothers Government/Corporate Bond Index enjoyed a total return of 19.2% for the year. The decline in interest rates coupled with good earnings growth and modest inflation all contributed to exceptional stock returns. The Standard & Poors 500 Stock Index, a measure of large company stocks, had a total return of 37.5%. Broader measures of the stock market achieved slightly lower returns as smaller companies did not perform quite as well. For example, the Callan Broad Market Index (a capitalization weighted index of the 2,000 largest public companies) returned 36.0%. International stocks, measured in U.S. dollar terms, had strong but not extraordinary results. The Morgan Stanley Capital International Europe, Australia and Far East Index returned 11.2%.

The Orange County Employees Retirement System participated fully in these market gains. The total Fund enjoyed a time-weighted return of 23.3%. We regularly compare the Fund's total return with a Policy Benchmark Index. The Benchmark is comprised of market indices weighted in the same proportion as OCERS' long-term strategic asset allocation plan. Calendar 1995 essentially matched the Target Benchmark's return of 23.6%. Over the trailing 5 and 8 year periods, the Fund's compound annual return of 11.8% and 11.1% exceeded the Benchmark's 11.4% and 10.8% returns.

OCERS' 1995 performance is particularly notable when one recognizes that the Fund has a comparatively large commitment to real estate (a policy target of 13%). Real estate returns tend to be much less volatile than either stock or bond returns. In years such as 1995, real estate detracts from overall returns, whereas in poor stock market years such as 1987 and 1990, it can help overall returns.

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Mr. Terry Slattery
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April 25, 1996

OCERS' domestic equity managers in aggregate returned 36.1% for 1995. This result slightly exceeded the Callan Broad Market Index return of 36.0% and was modestly below the S&P 500's 37.5% result. The domestic equity composite was comfortably above the Callan Total Equity median of 33.6%. Over the trailing 5 years, OCERS' domestic managers have returned 16.5% compounded annually versus the S&P 500's 16.6%.

OCERS' composite international stock portfolio (including emerging market exposure) returned 10.1% in 1995. Over the same period, the MSCI-EAFE Index returned 11.2% while the MSCI-Emerging Markets Index declined 6.9%. Over the trailing 5 years, OCERS' international equity portfolios have produced an 11.8% compound return which compares very favorably with Callan's Non-U.S. Equity Style Group median of 11.3% and the MSCI-EAFE Index return of 9.4%.

The area of strongest relative performance in 1995 for OCERS was the domestic fixed income portfolio. In aggregate, OCERS' bond managers returned 22.0% for the year. This result was well in excess of Callan's Total Fixed Income Database median (17.5%) and the Lehman Government/Corporate Bond Index (19.2%). The strong performance more than offset lower-than-market performance in 1994 and helped raise trailing 5 year results into the top decile.

In sum, OCERS enjoyed strong 1995 performance. Importantly, results in each major asset area were very competitive with appropriate market indices. In addition, the System's overall diversification plan is consistent with continued achievement of the System's earnings targets.

Sincerely,

Michael J. O'Leary, Jr., CFA
Executive Vice President

MJO:dsb

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES
ADOPTED BY THE BOARD OF RETIREMENT MAY 11, 1992

General

This statement is intended to set forth the factors involved in the management of investment assets for the retirement system. The responsibility of the Board (with the participation of its Investment Committee, Staff and Advisors) is to establish broad investment policy, guidelines and objectives for the total fund and its component parts, to select independent investment managers and to monitor the activities of the investment managers. The responsibility of each investment manager is to develop and implement management strategies in accordance with the stated investment policies, guidelines and objectives, in a manner consistent with the "prudent man" rule for similar funds, i.e., with care, skill, prudence and diligence, with full discretion subject to the guidelines and applicable statutes. The investment manager is responsible for administration of the investment program within parameters established.

Strategic Asset Allocation Policy and Maintenance

The Board periodically undertakes strategic asset allocation studies. Such studies define the targeted level of diversification among the various major asset classes and the range in which they are permitted to fluctuate. When significant changes are made to the plan, a transition plan is adopted.

In normal circumstances, asset levels are permitted to fluctuate around targeted levels, and cash inflows are administered by staff in a manner that is consistent with maintenance of the desired level of diversification. When asset fluctuations and/or external cash flows take actual allocation outside the accepted range, cash inflows shall be directed toward the underallocated asset categories and cash outflows shall be directed from the overallocated asset classes.

Should expected external flows be judged by staff to be insufficient to bring the plan within permitted ranges within a 12 month period, staff shall inform the Investment Committee. The Investment Committee then will formulate a recommendation to shift assets that will be presented to the full Board.

Program Administration and Manager Structure

For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. So, for example, the sum of all domestic equity managers should exhibit characteristics that are similar, but not necessarily identical, to the overall equity market. When asset fluctuation causes the asset class to exhibit characteristics that are dissimilar from the plan, staff shall direct cash flows to or from the various managers so that actual characteristics are consistent with the plan. Should unusual circumstances create a significant imbalance that cannot be corrected through the routine allocation of external cash flows, the Investment Committee shall formulate a recommendation for Board consideration.

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TARGET ASSET ALLOCATION RANGES

As of December 31, 1995

	Lower End	Target As a % of Total Assets	Upper End
Domestic Equity	33%	40%	47%
Core	13%	15%	18%
Growth	5%	10%	15%
Value	5%	10%	15%
Non-Traditional	3%	5%	7%

Non-traditional suballocation based on commitments, not actual investments.

	Lower End	Target As a % of Total Assets	Upper End
International Equity	7%	10%	13%
Growth	3%	5%	8%
Value	3%	5%	8%
Fixed Income	29%	35%	41%
Core	12%	18%	24%
Yield	4%	7%	10%
Intermediate	3%	5%	7%
International	3%	5%	7%
Real Estate	12%	15%	18%

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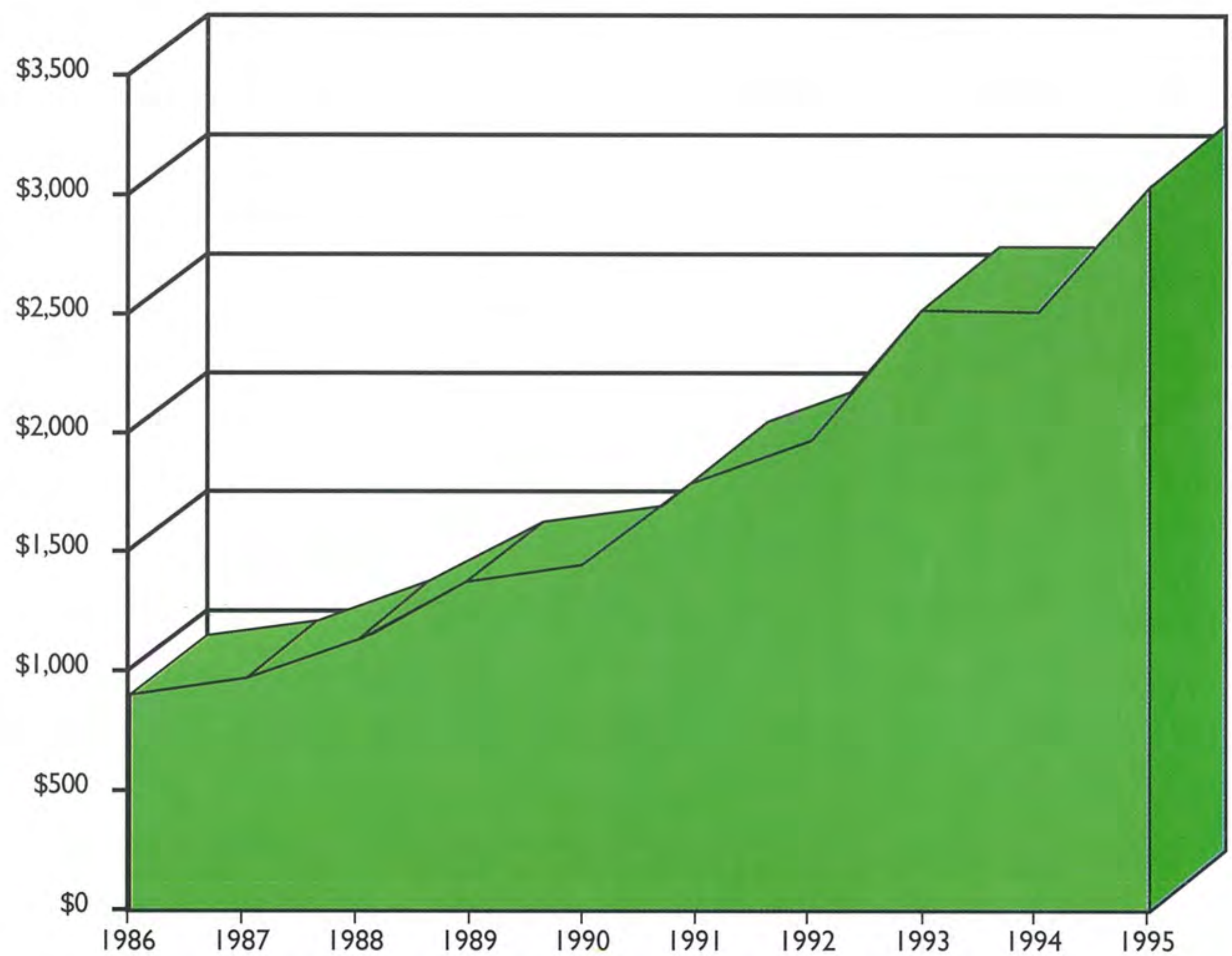
Orange County Employees Retirement System
Market Value Growth of System Assets
For Ten Years Ended December 31, 1995
(in Millions of Dollars)



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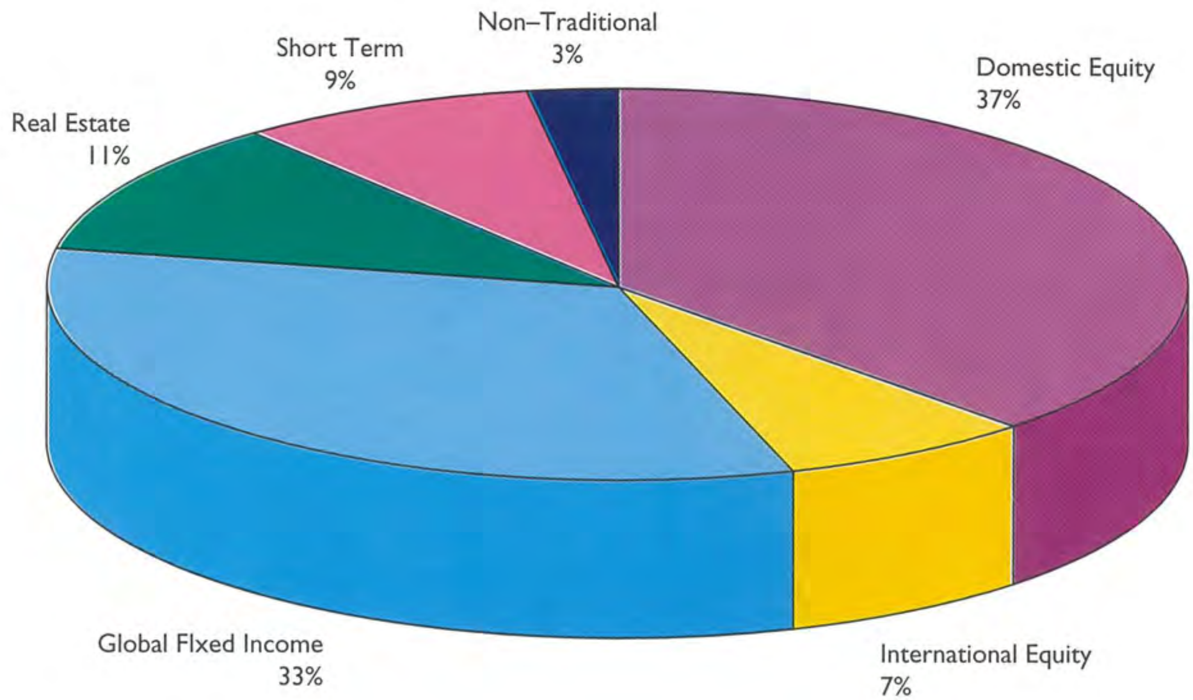
Orange County Employees Retirement System
Asset Diversification
December 31, 1995



	Market (000's)
Domestic Equity	$1,148,498
International Equity	213,411
Global Fixed Income	1,005,249
Real Estate	332,046
Short Term	258,267
Non–Traditional	77,978
Total	$3,035,449

Note: The numbers included in this chart were obtained from the audited financial reports. The short term investments indicated above include all cash under the discretion of investment managers.

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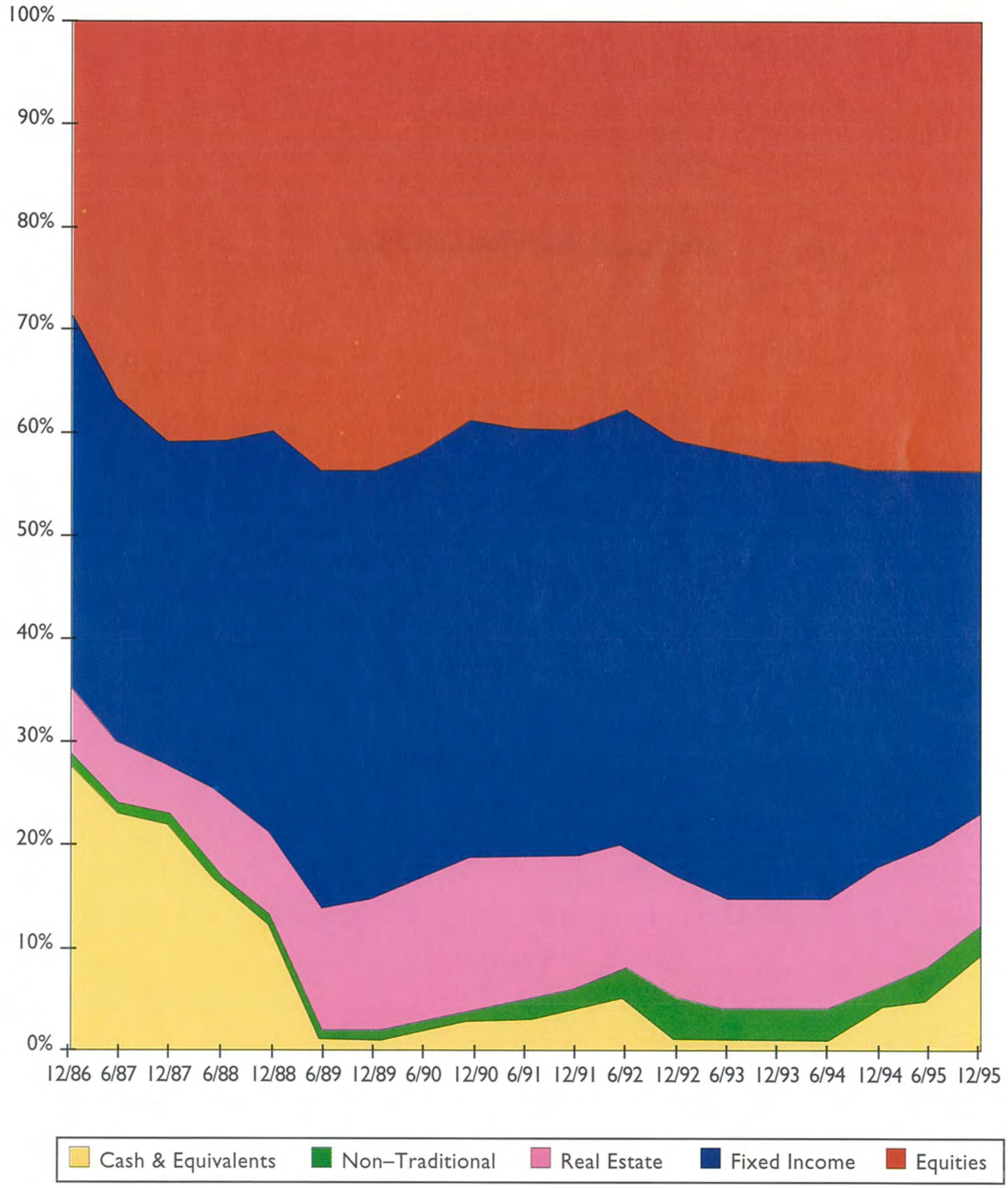
Orange County Employees Retirement System
Historical Asset Allocation (Actual)
December 1986 – December 1995



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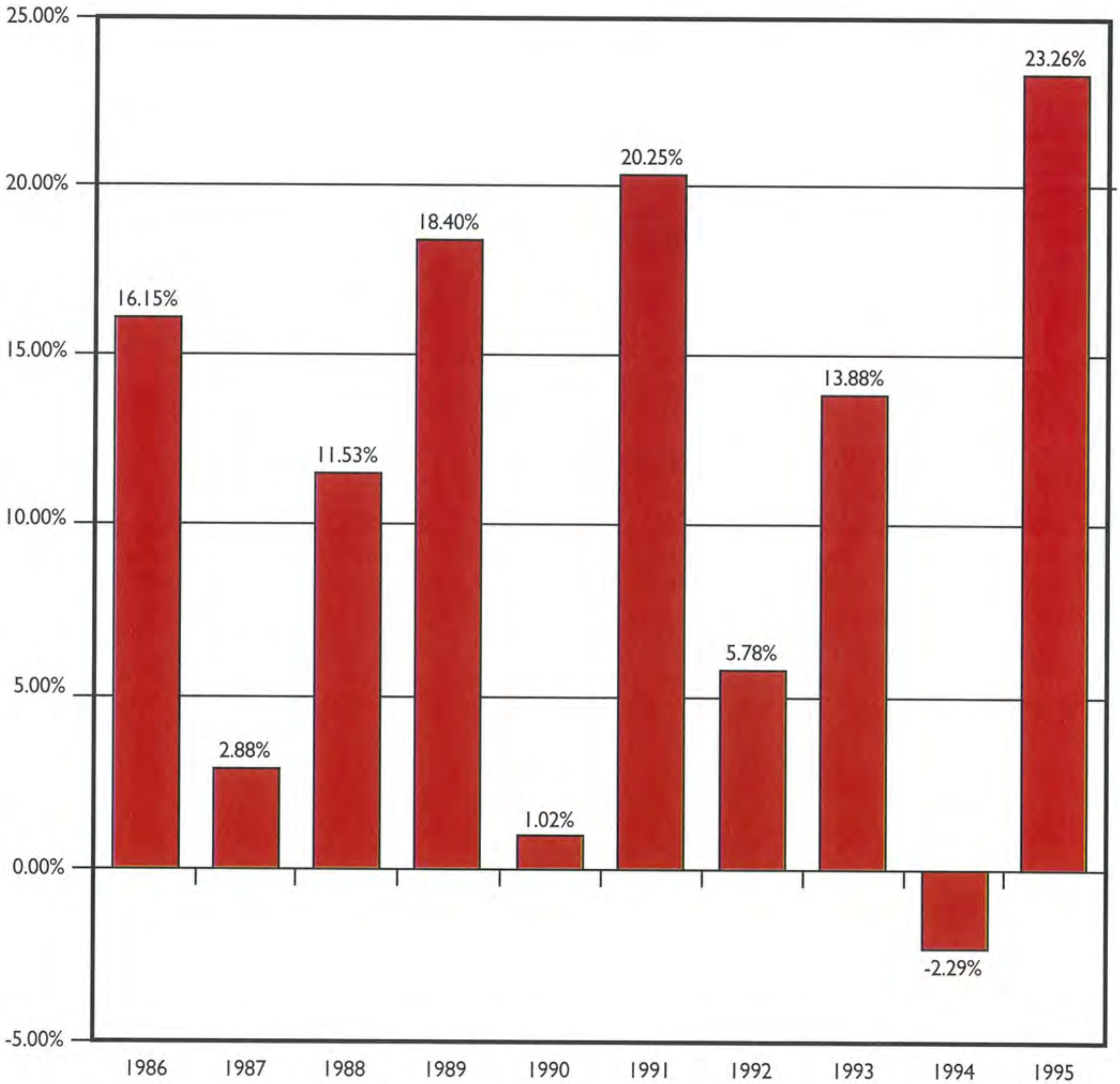
Orange County Employees Retirement System
History of Performance
(Based on Market Value)
For Calendar Years 1986 - 1995



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HISTORY OF EMPLOYER CONTRIBUTION RATES BY EFFECTIVE DATE

	Recommended Rates		Implemented Rates	
Effective Date	General	Safety	General	Safety
7/1/85	14.40%	28.74%	14.40%	28.74%
7/1/86	13.95%	30.40%	13.95%	30.40%
7/1/87	13.73%	29.87%	13.73%	29.87%
7/1/88	13.72%	30.25%	13.72%	30.25%
7/1/89	11.48%	31.39%	11.48%	31.39%
7/1/90	10.81%	29.29%	10.81%	29.29%
7/1/91	10.80%	27.77%	10.80%	27.77%
12/1/91	9.35%	24.33%	9.35%	24.33%
7/1/92	2.55%	17.93%	2.55%	17.93%
7/1/93 *	4.86%	24.34%	2.55%	17.93%
7/1/94	3.91%	24.76%	3.90%	24.76%
7/1/95 **	5.39%	28.43%	5.39%	28.43%

* Recommended Contribution Rates for 1993 were not implemented.

** Include .50% of Additional Contribution credited to Unallocated Fund Balance.

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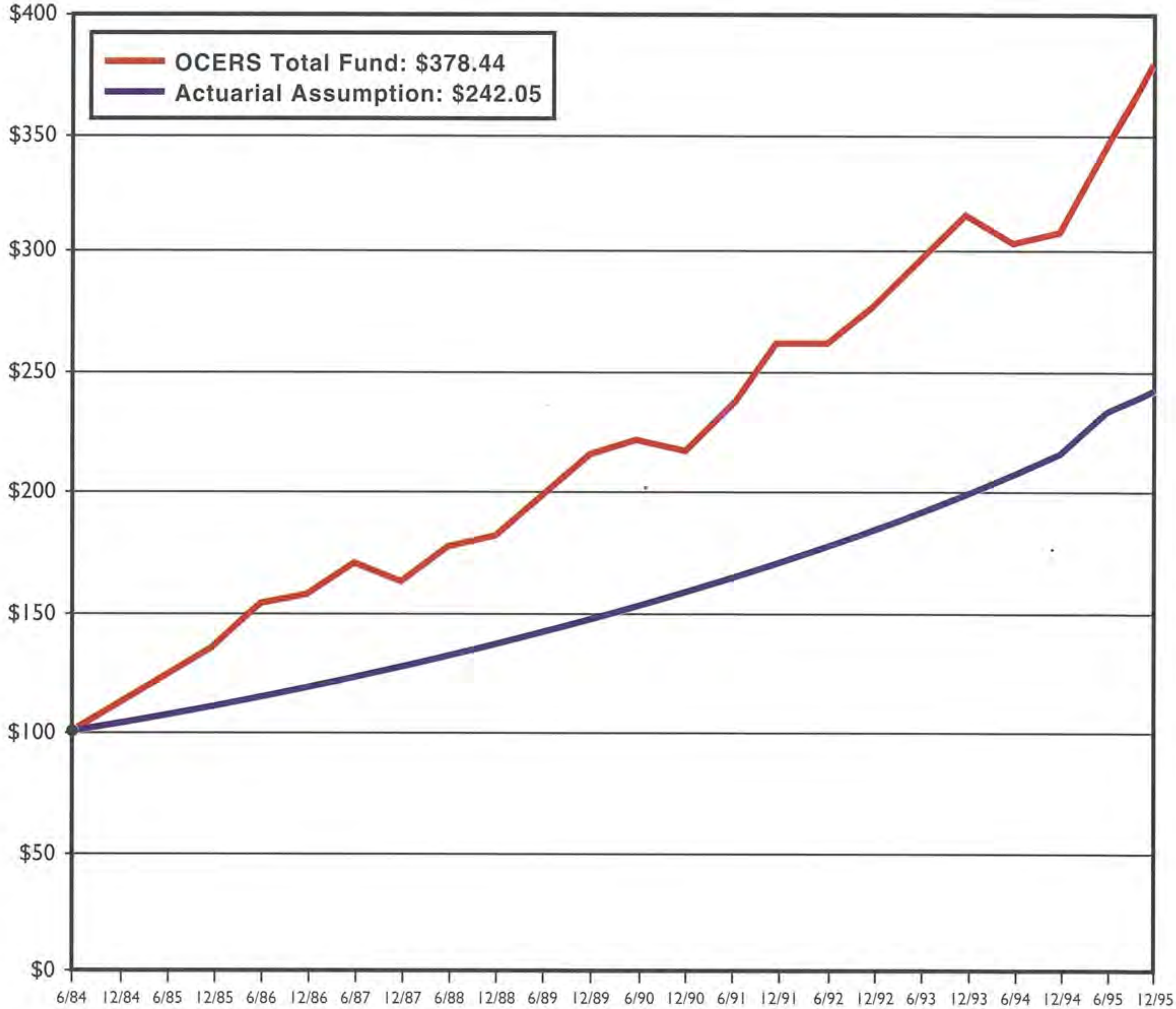
Orange County Employees Retirement System
Growth of Fund vs. Actuarial Assumption Rate*
For Period June 1984 — December 1995



* Actuarial Assumption Rate was 7.25% through 6/89; 7.5% through 6/91 and 8% thereafter. An assumed basis of $100 as of June 30, 1984 was adopted for the purpose of comparing the growth of the fund to the assumed actuarial rate.

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

HISTORY OF ACTUARIAL ASSUMPTION RATES

FOR THE PERIOD JANUARY 1945 - DECEMBER 1995

The table shown below is a comprehensive history of the interest rate assumption and the salary assumption rates corresponding to the Orange County Employees Retirement System since the inception of the system. These rates are adopted by the Board of Retirement and used by the consulting actuary in the creation of the actuarial valuation of the system.

Specifically, the interest rate assumption estimates the rate at which the funds of the system's investment portfolio will realize earnings over many years into the future. The salary assumption rate estimates the relative increases in the salary of a member from the date of the valuation to the estimated date of separation of the member from active service.

HISTORY OF OCERS ACTUARIAL ASSUMPTION RATES

EFFECTIVE DATE	INTEREST RATE	SALARY ASSUMPTION RATE
1/1/45	2.50%	0.00%
7/1/62	3.50%	0.00%
12/31/65	4.00%	0.00%
7/1/69	4.50%	0.00%
6/30/70	5.00%	0.00%
8/31/73	5.75%	0.00%
7/1/75	6.00%	0.00%
7/1/81	7.25%	5.00%
7/1/89	7.50%	5.50%
7/1/91	8.00%	6.00%

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF BENEFIT EXPENSES BY TYPE

(in thousands)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Retirement Benefits	$31,397	$33,863	$39,655	$44,005	$51,749	$57,910	$64,035	$73,544	$79,280	$92,335
Death Benefits	108	265	234	249	301	339	95	694	652	247
Withdrawals and Refunds	4,218	5,409	6,209	7,124	7,509	5,679	5,681	5,928	7,426	12,523
Total	**$35,723**	**$39,537**	**$46,098**	**$51,378**	**$59,559**	**$63,928**	**$69,811**	**$80,166**	**$87,358**	**$105,105**

LIST OF PARTICIPATING EMPLOYERS

County of Orange

Orange County Transportation Authority

Orange County Department of Education (closed to new members)

City of San Juan Capistrano

UCI Medical Center (closed to new members)

Foothill/Eastern Transportation Corridor Agency

San Joaquin Hills Transportation Corridor Agency

Cypress Recreation and Park District

Sanitation Districts of Orange County

Capistrano Valley Water District

Capistrano Beach Sanitation District

Orange County Cemetery District

Santiago Library System

Orange County Vector Control District

Orange County Law Library

Orange County Fire Authority

Orange County Employees Retirement System

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Orange County Employees Retirement System
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