COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1997

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ORANGE COUNTY, CALIFORNIA

RETIREMENT SYSTEM

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 1997

RAYMOND A. FLEMING
ADMINISTRATOR

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TABLE OF CONTENTS

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I. INTRODUCTORY SECTION

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RETIREMENT SYSTEM

June 8, 1998

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701

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, 1997, the System's 53rd 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.

Structure of the Report

This report is presented in five 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 auditors, Ernst & Young LLP, and the general purpose financial statements of the System.
- The Investment Section contains the Investment Consultant's statement produced by Callan Associates, OCERS' investment consulting firm, along with graphs and schedules regarding asset allocation, asset diversification, and history of performance.
- The Actuarial Section includes the certification letter produced by the independent actuary, Towers Perrin, along with supporting schedules and information.
- The Statistical Section contains graphs and schedules with comparative data related to active and deferred membership, retired membership, average monthly retirement benefits, revenues and expenses, and participating employers.

Accounting System and Reports

This CAFR was prepared in conformity with generally accepted accounting principles and reporting guidelines set forth by the Government Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined*

ORANGE COUNTY RETIREMENT SYSTEM ■ 2223 WELLINGTON AVENUE, SANTA ANA, CA 92701
TELEPHONE: 714 558-6200 ■ FAX: 714 558-6236

Board of Retirement
June 8, 1998
Page 2

Benefit Pension Plans and Note Disclosures for Defined Contributions Plans, and the County Employees Retirement Law of 1937.

The accompanying financial statements are prepared using the accrual basis of accounting. Contributions from employees and members are recognized in the period in which employees provide services. Investment income is recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

Ernst & Young LLP, independent auditors, have audited the general purpose financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

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, 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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.

Additions to Plan Net Assets

The total additions to plan net assets for 1997, including net appreciation in fair value of investments and net of investment management fees, were $592,190,000. This amount includes member and employer contributions of $64,581,000 and net investment income of $527,609,000. Net investment income represented an increase of $133,112,000 over prior year; this increase was attributable to increases in fair value of investments and increases in interest and dividends income. Details of the components of the additions to plan net assets are included in the Statements of Changes in Plan Net Assets on page 24.

Board of Retirement
June 8, 1998
Page 3

Deductions to Plan Net Assets

Expenses for 1997, excluding investment management fees, were $124,100,000 which represented an increase of $10,822,000 over prior year. This increase was the result of higher retirement benefits payments and an increase in the number of retirees. The components of the total deductions are payments of retirement benefits of $109,660,000, refunds of contributions and interest to terminated members of $9,048,000 and administrative expenses of $5,392,000.

Changes in System Memberships

OCERS' membership increases for the calendar year 1997 were as follows:

	1997	1996	Increase	Change
Active Members	19,005	18,315	690	3.77%
Retired Members	6,912	6,631	281	4.24%
Deferred Members	1,184	1,087	97	8.92%

Financial and Economic Summary

The past year has been a prosperous year for OCERS. Growth in the economy has come mainly from the technology, construction and tourism areas, while various other industries also seem to be making progress. Tax revenues for the State of California have increased and it is anticipated that additional revenues will be made available to Counties, Cities and Special Districts.

Unemployment rates have trended down statewide and in Orange County as well. The unemployment rates in Orange County continued to be below the national average. Specifically, California added an estimated 335,000 jobs during 1997; this is a healthy growth rate of 2.6%. Orange County added an estimated 33,000 jobs during 1997. Two-thirds of all new full-time jobs paid more than the U.S. median wage and employment in low-paid service jobs was falling. Orange County's housing demand continued to strengthen during 1997, and well into 1998, driven by active job growth, low mortgage rates and healthy consumer confidence.

Investment Summary

OCERS' investments turned in a solid performance during 1997. For the 1997 year, the portfolio earned a total return of 17.07%. Over long-term periods, the portfolio has earned total annualized returns of 15.48% over the past two years, 18.02% over the past three years and 12.75% over the past five and one-half years. These earnings have significantly outperformed the actuarially assumed rate of 8%. On a fair value basis, the total plan net assets grew from $3,372,633,000 to $3,840,723,000.

Board of Retirement
June 8, 1998
Page 4

Funding
OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 1997, the funding ratio of the System was approximately at 93.85%; a six-year history of OCERS' funding progress is presented on page 41. For 1997, OCERS experienced an increase of $468,090,000 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 24.

Conclusion
I would like to take this opportunity to thank the members 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 its dedicated effort in supporting the System through this past year. 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,

Raymond A. Fleming
Administrator

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, 1996

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

Linda K. Savitsky
President

Jeffrey L. Esser
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT
AS OF DECEMBER 31, 1997

Regular Members:

Mary K. Abbott	Elected Member - General Orange County Employees Retirement System Term expires December 30, 2000
Keith L. Concannon	Elected Member - Retired Employees Term expires December 30, 1998
Thomas N. Fox	Elected by Safety Members (Sheriff) Vice Chairperson 1997 Term expires June 30, 2000
Thomas J. Lightvoet	Appointed Member Appointed by Board of Supervisors Term expires May 1, 1998
Bruce Moore	Elected Member - General Probation Department Term expires December 30, 1998
John M.W. Moorlach	Ex-Officio Member Chairperson 1997 County Treasurer
Bert Scott ✓	Appointed Member Appointed by Board of Supervisors Term expires May 1, 1998
Charles H. Simons	Appointed Member Appointed by Board of Supervisors Term expires January 25, 1999
Supervisor Charles V. Smith ✓	Appointed Member Appointed by Board of Supervisors Term Expires September 16, 1999

Alternate Member:

Michael J. Carmody	Elected Member – Safety (Alternate for Safety Members) Alternate for all Elected Members Fire Department Term expires June 30, 2000

SUMMARY OF PLAN PROVISIONS

1. Plan Description and History

OCERS was established in 1945 by the County of Orange (County) 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 months' 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.

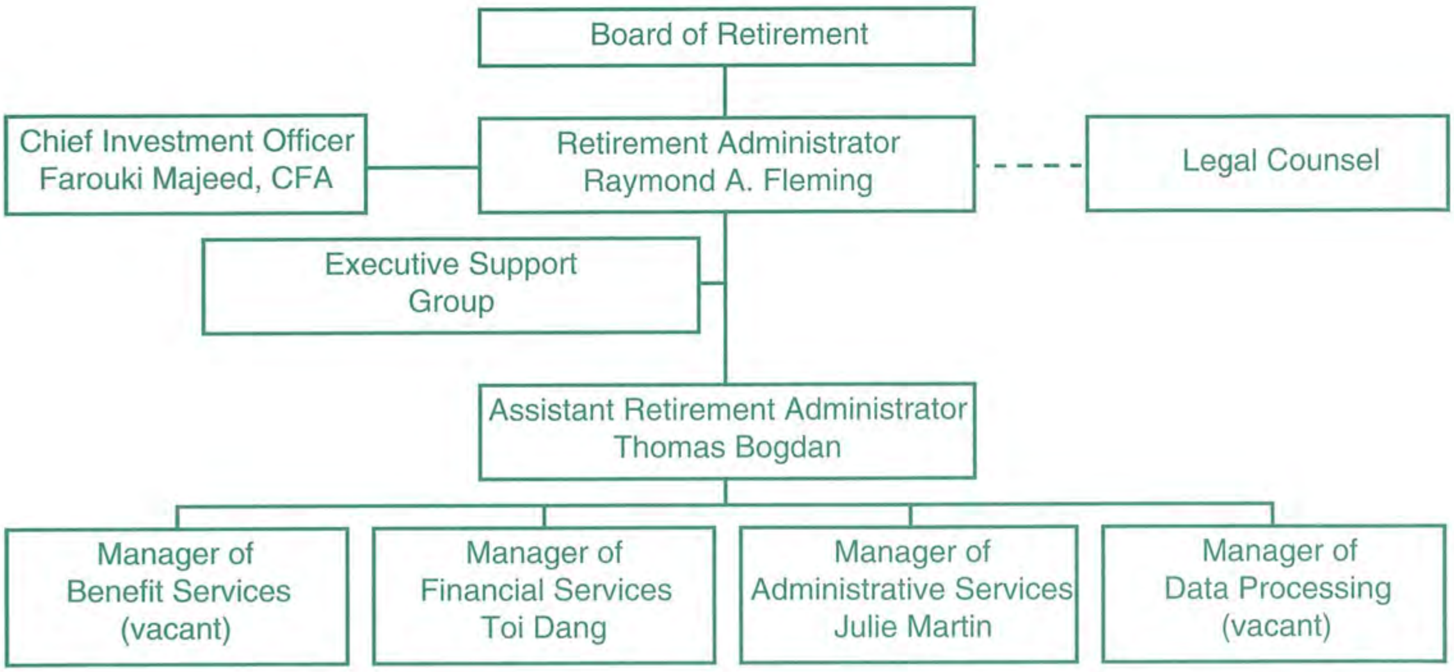
12. **County Contributions**

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, 1998

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.

ADMINISTRATIVE 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, Administrative Services is responsible for purchasing, building management, and for the internal payroll and personnel functions of OCERS.

DATA PROCESSING: 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.

PROFESSIONAL SERVICES

As of May 1, 1998

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

BANKRUPTCY COUNSEL

Katz, Hoyt, Seigel & Kapor
Los Angeles, CA

INVESTMENT COUNSEL

Stradling, Yocca, Carlson & Rauth
Newport Beach, CA

GENERAL COUNSEL

Steefel Levitt & Weiss
San Francisco, CA

INVESTMENT MANAGERS

DOMESTIC EQUITY

Amerindo Investment Advisors, Inc.
San Francisco, CA

BZW Global Investors
San Francisco, CA

Dodge & Cox
San Francisco, CA

Delaware Investment Advisers
Philadelphia, PA

Husic Capital Management
San Francisco, CA

Siphron Capital Management, Inc.
Beverly Hills, CA

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

Loomis, Sayles & Company
Boston, MA

Pacific Investment Management Company (PIMCO)
Newport Beach, CA

INTERNATIONAL EQUITY

Capital Guardian Trust Company
Los Angeles, CA

Capital Guardian International, Inc.
Los Angeles, CA

INVESTMENT MANAGERS (Cont.)

Schroder Capital Management International
London, England

REAL ESTATE

Domestic
American Realty Advisors
Glendale, CA

DA Management
Newport Beach, CA

Heitman/JMB Advisory Corporation
Chicago, IL

SSR Realty Advisors
San Francisco, CA

PMRealty Advisors
PMRA III
Newport Beach, CA

Sentinel Real Estate Corporation
New York, NY

International
GIM Capital Management, Inc.
Summit, NJ

PRICOA Property Investment Management, Ltd.
London, England

NON-TRADITIONAL INVESTMENTS

Managers
Brinson Partners, Inc.
Chicago, IL

HabourVest Partners, LLC
Boston, MA

Limited Partnerships
TCW Asset Management Company
Los Angeles, CA

Whippoorwill Associates, Inc.
White Plains, NY

Timberland
Hancock Timber Resource Group
Boston, MA

Prudential Timber Investments, Inc.
Boston, MA

CUSTODIAN

Bankers Trust Company of California, N.A.
Los Angeles, CA

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II. FINANCIAL SECTION

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ERNST & YOUNG LLP

Suite 800
18400 Von Karman Avenue
Irvine, California 92612-1551

Phone: 714 794 2300

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, 1997 and 1996, as listed in the table of contents. These general purpose financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these general purpose 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the plan net assets of the Orange County Employees Retirement System at December 31, 1997 and 1996, and the changes in its plan net assets 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

May 29, 1998

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GENERAL PURPOSE FINANCIAL STATEMENTS

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
(in thousands)

	December 31	
	1997	1996
Assets		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E)	$ 334,474	$ 176,617
Collateral Held for Securities Lent (Note E)	185,418	273,947
Total Cash and Short-Term Investments	519,892	450,564
Receivables		
Forward Currency Contracts, Net (Note F)	300	227
Investment Income	34,514	21,899
Securities Sales	42,324	2,642
Employer/Employee Contributions	6,284	6,862
Total Receivables	83,422	31,630
Investments, at Fair Value (Notes B and E)		
United States Government Debt Securities and Corporate Bonds	1,294,082	1,018,542
Foreign Bonds	138,390	127,256
Domestic Equity Securities	1,235,616	1,216,221
International Equity Securities (Note E)	380,245	335,868
Real Estate	367,096	360,716
Venture Capital and Limited Partnership Interest (Note E)	179,379	150,153
Total Investments	3,594,808	3,208,756
Fixed Assets, Net (Note B)	559	2,655
Total Assets	4,198,681	3,693,605
Liabilities		
Collateral Held for Securities Lent (Note E)	185,418	273,947
Securities Purchased	155,150	26,909
Mortgages Payable (Note H)	1,181	5,124
Other	16,209	14,992
Total Liabilities	357,958	320,972
Net Assets Held in Trust for Pension Plan Benefits (A schedule of funding progress is presented on page 41.)	$ 3,840,723	$ 3,372,633

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
(in thousands)

	Years Ended December 31	
	1997	**1996**
Additions		
Contributions (Note C)		
Employer	$ 17,570	$ 16,463
Employee	47,011	48,461
Total Contributions	64,581	64,924
Investment Income:		
Net Appreciation in		
Fair Value of Investments (Note E)	355,986	240,675
Interest on:		
Domestic and International Securities	91,585	82,849
Cash with County Treasurer (Note E)	82	234
Short-Term Investment Fund (Note E)	1,929	1,609
Domestic Dividends	48,274	26,333
Rental Income	14,726	23,433
International Dividends	5,311	5,576
Venture Capital and Limited Partnership	23,777	22,809
Securities Lending Revenues	892	740
Total Investment Income	542,562	404,258
Less Investment Expenses	(14,953)	(12,176)
Gain on Orange County		
Treasurer's Pooled Investment (Note E)	0	2,415
Net Investment Income	527,609	394,497
Total Additions	592,190	459,421
Deductions		
Participants' Benefits	109,660	101,125
Member Withdrawals	9,048	7,166
Administrative Expenses (Note G)	5,392	4,987
Total Deductions	124,100	113,278
Net Increase	468,090	346,143
Net Assets Held in Trust for Pension Plan Benefits		
Beginning of Year	3,372,633	3,026,490
End of Year	$ 3,840,723	$ 3,372,633

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 1997

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 (County) 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, 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 (County Retirement Law), 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, 1997 and 1996:

Active Personnel
(unaudited)

	December 31	
	1997	**1996**
General Members		
County and Agencies Paid by County Payroll	13,838	13,541
Outside Agencies	2,428	2,195
Pending (Retirement or Withdrawal)	300	213
Subtotal - General Members	16,566	15,949

Active Personnel (cont.)
(unaudited)

	December 31	
	1997	**1996**
Safety Members		
County and Agencies Paid by County Payroll	1,673	1,609
Outside Agencies	754	745
Pending (Retirement or Withdrawal)	12	12
Subtotal - Safety Members	2,439	2,366
Deferred (General & Safety) Members		
Regular	555	514
Employment with Other Agencies (Reciprocity)	629	573
Subtotal - Deferred Members	1,184	1,087
Total Active Personnel	20,189	19,402

At December 31, 1997 and 1996, 13,320 and 13,725 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits
(unaudited)

	December 31, 1997			December 31, 1996		
	Gen.	**Safety**	**Total**	**Gen.**	**Safety**	**Total**
Service Retirements	4,762	346	5,108	4,633	329	4,962
Continuances	543	47	590	484	44	528
Subtotal-Service Retirements	5,305	393	5,698	5,117	373	5,490
Service-Connected						
Disability	430	220	650	388	206	594
Continuances	33	13	46	36	14	50
Subtotal-Service Disability	463	233	696	424	220	644
Nonservice-Connected						
Disability	408	20	428	380	18	398
Continuances	90	0	90	99	0	99
Subtotal-Nonservice Disability	498	20	518	479	18	497
Total Retired Personnel	6,266	646	6,912	6,020	611	6,631

5. **Employee 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.

6. **Federal Income Tax Status.** OCERS is exempt from federal income taxes under the Internal Revenue Code.

B. Summary of Significant Accounting Policies

1. **Basis of Accounting.** OCERS' financial statements are prepared on the accrual basis of accounting. 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. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due. Under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, OCERS has elected not to apply Financial Accounting Standards Board pronouncements issued after November 30, 1989.

   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.

   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 adopted the provisions of this Statement beginning with the year ended December 31, 1997. The adoption of this Statement had no material effect on the general purpose financial statements.

2. **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, which approximates fair value as 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 fair value, determined by independent appraisals performed on the properties held. The values of 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.

3. **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, 1997 and 1996, were as follows:

	1997	1996
Furniture and Equipment	$ 1,087,000	$ 857,000
Computer Software	779,000	685,000
Building and Building Improvements	53,000	2,405,000
Total Fixed Assets (at cost)	1,919,000	3,947,000
Less Accumulated Depreciation	(1,360,000)	(1,292,000)
Total Fixed Assets - Net of Depreciation	$ 559,000	$ 2,655,000

In 1997, OCERS transferred $2,324,000, the cost of its office building purchased in 1996, to real estate portfolio.

4. **Reclassification of Prior Year Amounts.** Certain amounts in the prior year financial statements have been reclassified to conform with the current year presentation.

C. Contributions Required and Contributions Made

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, 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, 1997 and 1996, were $554,353,000 and $511,278,000, respectively, including interest credited at an interest rate of 8 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.

The County 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 for the POB's in the County Investment Account (Investment Account). County Counsel, OCERS legal counsel, had previously issued an opinion which requires OCERS to charge all participating agencies the same employer contribution rate based upon type of membership, i.e. general, safety. Therefore, OCERS and the County of Orange, a single participating district, entered into an agreement which provides an offsetting credit based upon an amount actuarially determined to deplete the County Investment Account over the then remaining UAAL amortization period.

In 1995, the Board of Retirement of OCERS and the County of Orange, entered into an agreement modifying the previous agreement for the use of the Investment Account. The modification provided, that for the year 1995, the employer contributions for the County of Orange would be paid entirely from the Investment Account.

Subsequently, in 1996, the Board of Retirement and the County of Orange entered into an agreement for the use of the Investment Account over a new funding period of 20 years. The agreement provides that the Investment Account will be used to fund the County's employer contribution and in a decreasing percentage each year. In 1997, the Investment Account funded approximately 90% of the County's employer contribution and the County made cash contributions for the remaining 10%. For each subsequent year the funding by the Investment Account will decrease by 5% annually, while the County of Orange employer cash contribution will increase by a corresponding amount. As of December 31, 1997 and 1996, the County Investment Account had a remaining balance, including interest earnings, of $322,333,000 and $313,250,000, respectively.

Contributions for 1997 and 1996 approximate $64,581,000 ($17,570,000 employer and $47,011,000 employee) and $64,924,000 ($16,463,000 employer and $48,461,000 employee), respectively, consisting of:

	1997	1996
Normal Cost	$ 54,953,000	$ 56,532,000
Amortization of Unfunded Actuarial Accrued Liability	9,628,000	8,392,000
Total	$ 64,581,000	$ 64,924,000

The contributions to OCERS for 1997 and 1996 were made in accordance with the actuarially determined requirements as follows:

	Percent of Employees' Payroll					
	Oct '97 - Dec '97		Jul '96 - Sep '97		Jul '95 - Jun '96	
	Gen.	Safety	Gen.	Safety	Gen.	Safety
Employer Contributions:						
Normal Cost	3.38%	5.77%	3.33%	5.59%	3.68%	6.58%
Amortization of Unfunded Actuarial Accrued Liability	(1.06%)	17.77%	(0.97%)	18.34%	1.21%	21.35%
Subtotal	2.32%	23.54%	2.36%	23.93%	4.89%	27.93%
Additional Contribution	0.00%	0.00%	0.50%	0.50%	0.50%	0.50%
Total	2.32%	23.54%	2.86%	24.43%	5.39%	28.43%

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, and December 31, 1995, 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, and June 30, 1996, respectively. The .50% employer additional contribution is credited to the Unallocated Fund Balance.

D. Plan Termination

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

E. Investments

1. Investments Authorized

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

2. Investment Concentration

At December 31, 1997 and 1996, OCERS had investments in the Wells Fargo Nikko Equity Index Fund which individually represented more than five percent of OCERS' plan net assets.

3. 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, 1997, OCERS had money market funds of $334,273,000, which were uninsured and uncollaterized, and pooled cash in the County of Orange Treasurer's Investment Pool of $201,000. 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 $130,352,000 in principal and $1,829,000 in unpaid accrued interest at December 6, 1994. As a result of the County 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 1996 and 1995 , OCERS received distributions from the OCIP of approximately 80% of its original principal, resulting in gains of $2,415,000 and $7,858,000, respectively. 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.

4. Credit Risk

OCERS' investments are categorized below to give an indication of the level of risk assumed by OCERS at year-end. The categories are:

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 uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent 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 other counterparties, but not in OCERS' name.

Investments not evidenced by securities are not categorized. The investment values (in thousands) are summarized as follows:

	Cost	Fair Value
Category 1 Classification		
U.S. Government Debt Securities	$ 363,876	$ 384,437
Corporate Debt Securities	629,376	634,224
U.S. Government Bonds	160,000	162,756
Foreign Bonds	119,401	115,721
Domestic Equity Securities	656,942	823,808
International Equity Securities	294,946	333,809
Subtotal	2,224,541	2,454,755
Amounts Not Subject to Classification		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral		
Corporate Debt Securities	51,914	69,451
U.S. Government Debt Securities	56,607	43,214
Domestic Equity Securities	32,794	32,775
International Equity Securities	8,812	7,989
Foreign Bonds	24,874	22,669
Orange County Treasurer's Pooled Investment	201	201
Real Estate Investments	401,225	367,096
Domestic Equity Index Fund	136,194	379,033
International Pooled Equity Funds	33,507	38,447
Nontraditional Investment in Venture Capital and Limited Partnership	145,117	179,379
Subtotal	891,245	1,140,254
Less: Orange County Treasurer's Pooled Investment	201	201
Total Investments	$ 3,115,585	$ 3,594,808

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

5. Net Appreciation

Investments in securities were held by Bankers Trust Company, successor to Boatmen's Trust, as custodian. During 1997 and 1996, OCERS' investments (including investments bought and sold, as well as held during each year) appreciated in values by $355,986,000 and by $240,675,000, respectively, as follows:

	Years Ended December 31	
	1997	1996
	(in thousands)	
Net Appreciation (Depreciation) in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	$ 280,810	$ 197,340
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	28,455	(1,384)
International Equity Securities	24,950	32,991
Subtotal	334,215	228,947
Net Appreciation in Fair Value as Determined by Estimated Fair Value:		
Real Estate	14,256	2,205
Nontraditional	7,515	9,523
Total Net Appreciation	$ 355,986	$ 240,675

6. 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, 1997 and 1996 were securities with market values of $176,098,000 and $270,347,000, 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. There are no restrictions on the amount of securities that can be lent at one time. There were no violations of the security lending provisions that occurred during 1997.

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 Banker's Trust Company in separate collateral accounts. The contract with Bankers Trust Company requires it to indemnify OCERS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent). The risks involved in a security lending program generally include: borrower bankruptcy, collateral deficiencies, problems with settlements, corporate actions, and dividends and interest. OCERS had no losses on securities lending transactions resulting from the default of a borrower or the lending agents for the years ended December 31, 1997 and 1996.

Gross security lending revenues for 1997 and 1996 were $892,000 and $740,000, respectively. The costs of securities lending transactions are reported as investment 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, 1997 and 1996, OCERS held broker collateral with market values totaling $185,418,000 and $273,947,000, respectively.

7. International Investments

Investments in international securities are 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.

8. Nontraditional Investments

OCERS' nontraditional 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 $92,497,000 in 14 limited partnerships. These limited partnerships are diversified between venture capital, corporate finance, buyout, energy, and oil and gas investments.

9. Derivative Holdings Held for Trading Purposes

Of the total investments in OCERS' domestic fixed income portfolio of $1,294,082,000 as of December 31, 1997, approximately $511,529,000 are classified as derivative securities (see note F for other derivative investments). These holdings include asset-backed securities, mortgage-backed securities, zero coupon bonds and variable rate securities. The investment objective of these derivative securities is to achieve 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. Details of these derivative securities are as follows:

Securities	1997
FHA	$ 8,202,000
FHLMC	127,075,000
FNMA	93,765,000
GNMA	197,275,000
Mortgage Backed Issued by Financial Institutions	50,077,000
Others	35,135,000
Total Derivative Securities	$ 511,529,000

F. Financial Investments with Off-Balance Sheet Risk

1. 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, 1997 and 1996. 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. At December 31, 1997 and 1996, OCERS had net forward currency contract receivables of $300,000 and $227,000, respectively.

2. Financial Futures Contracts Held for Purposes Other than Trading

The net changes in fair value of financial futures contracts held for purposes other than trading comprised $6,093,000 of net appreciation and $3,180,000 of net depreciation during 1997 and 1996, respectively. As of December 31, 1997 and 1996, OCERS had open contracts of $164,216,000 and $143,184,000, respectively, for the purchase of U.S. Treasury bonds and notes, with delivery at specified future dates. Risks arise 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, 1997 and 1996, OCERS had collateral deposits of $2,069,000 and $2,107,000, respectively, in cash equivalents, U.S. Treasury bills and notes.

G. 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	
	1997	1996
Expenses Subject to Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	$ 20,000	$ 14,000
Employee Salaries and Benefits	2,307,000	2,222,000
Total Personnel Services	2,327,000	2,236,000
Office Operating Expenses:		
Operating Expenses	428,000	296,000
Professional Services	922,000	712,000
Rent/Leased Real Property	153,000	164,000
Depreciation/Amortization	68,000	70,000
Total Office Operating Expenses	1,571,000	1,242,000
Total Expenses Subject to Statutory Limitation	3,898,000	3,478,000
Expenses Not Subject to Statutory Limitation:		
Commingled Interest Cost	2,000	5,000
Actuarial/Fund Evaluation Costs	298,000	218,000
Custodian Services	880,000	935,000
Legal Costs	201,000	203,000
Additional Death Benefit Costs	113,000	148,000
Total Expenses Not Subject to Statutory Limitation	1,494,000	1,509,000
Total Administrative Expenses	$ 5,392,000	$ 4,987,000

H. Mortgage Payable

OCERS has a mortgage payable at December 31, 1997, for investment property at:

- North Torrance Shopping Center, $1,181,000 in two notes payable due in equal monthly installments of $15,000 and $1,000 at interest rates of 8.875 and 10 percent, per annum, and maturing on August 1, 2007, and September 1, 2004, respectively.

I. Reserve Accounts

The plan net assets of $3,840,723,000 as of December 31, 1997 includes reserves of $2,904,175,000 and unreserved net assets of $936,548,000. The unreserved net assets include the Investment Account of $322,333,000 and the Unallocated Fund Balance (UFB) of $129,518,000.

The reserve balances as of December 31, 1997 are as follows (in thousands):

Active Members Reserves	Retired Members Reserves	Employer Advanced Reserves	ARBA Reserves	Officers' Liability Reserve	Earthquake Reserve	Death Benefits Reserve	Total Reserves
$ 554,353	$ 915,645	$1,329,139	$ 84,517	$ 10,000	$ 10,000	$ 521	$ 2,904,175

The Additional Retiree Benefit Account (ARBA) results from a Memorandum of Understanding (MOU) with the County of Orange in which $176,232,000 was used in 1993 to reduce the UFB. By the terms of the MOU, $125,844,000 was transferred to the County Advance Reserve, which is included in Employer Advanced Reserves. The remaining $50,388,000 was transferred to the ARBA. The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees.

J. Impact of Year 2000 (unaudited)

Some of OCERS' older computer programs were written using two digits rather than four to define the applicable year. As a result, those computer programs have time-sensitive software that recognize a date using "00" as the year 1900 rather than the year 2000. This could cause a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions, posting members' contributions, processing retirement payroll and paying invoices.

Areas of potential problems have been identified and a working plan has been drafted to modify and test programming changes and to replace software so that its computer systems will function properly with respect to dates in the year 2000 and thereafter. OCERS expects to complete the year 2000 project by the end of 1998. The total Year 2000 project cost is estimated to be less than $500,000.

K. California Supreme Court Decision – Ventura County

On August 14, 1997, the Supreme Court of the state of California issued a decision in a case entitled Ventura County Deputy Sheriffs Association vs. Board of Retirement of Ventura County Employees' Retirement Association, Case No. S055682. On October 1, 1997, the decision of the California Supreme Court became final. The Supreme Court held that a County Retirement System operating under the provisions of the County Employees Retirement Law of 1937 must include certain types of cash incentive payments and additional pay elements, received by an employee, within the employee's "compensation earnable" and "final compensation" when calculating the employee's retirement benefits.

On February 6, 1998 the Board of Retirement of Orange County Employees Retirement System adopted Resolution No. 98-001 to include certain cash incentive payments and additional pay elements in the definition of compensation earnable to comply with the Supreme Court decision. The Board's Resolution is applicable retroactively to October 1, 1994, the date the original lawsuit was filed. On May 4, 1998 the Board of Retirement adopted Resolution No. 98-009 to transfer approximately $209,205,000 from Unallocated Fund Balance, the balance of excess earnings over the actuarially assumed rates, to Employer Advanced Reserve accounts to defray the retroactive cost of implementing the Supreme Court decision as of December 31, 1997. Implementation of such Board action is pending resolution of litigation filed by employers and employee groups.

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REQUIRED SUPPLEMENTARY INFORMATION

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FUNDING PROGRESS FOR THE YEARS ENDED DECEMBER 31

(in thousands)

	Valuation Year					
	1997	1996	1995	1994	1993	1992
Actuarial Value of Assets[1] (a)	$3,128,132	$2,675,632	$2,434,406	$2,177,673	$2,024,447	$1,807,319
Actuarial Accrued Liability (b)	$3,332,967	$2,851,894	$2,633,884	$2,550,059	$2,305,019	$2,140,081
Total Unfunded Actuarial Accrued Liability (UAAL) (a-b=c)	$ 204,835	$ 176,262	$ 199,478	$ 372,386	$ 280,572	$ 332,762
Funded Ratio (a/b)	93.85%	93.82%	92.43%	85.40%	87.83%	84.45%
Covered Payroll (d)	$ 781,890	$ 758,897	$ 727,768	$ 769,175	$ 725,193	$ 701,526
UAAL as a Percentage of Covered Payroll (c/d)	26.20%	23.23%	27.41%	48.41%	38.69%	47.43%

Notes:

1. The 12/31/94, 12/31/95, 12/31/96, and 12/31/97 actuarial value of assets exclude $311,022,000, $329,064,000, $313,250,000, and $322,333,000, respectively of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 is being amortized over a 14-year period beginning July 1, 1994 and for 1996 and later is being amortized over a 20-year period beginning July 1, 1996.

SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEARS ENDED DECEMBER 31

(in thousands)

	1997	1996	1995	1994[1]	1993	1992
Annual Required Contribution[2]	$ 59,993	$ 69,856	$ 70,064	$ 53,976	$ 43,922	$ 59,664
Percentage Contributed	100%	100%	100%	100%	100%	100%

Notes:

1. 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. For accounting purposes, the proceeds were put into the County Investment Account (the Investment Account). Subsequent agreements between the Board of Retirement and the County provide that the Investment Account will be used to fund the County's employer contribution in decreasing percentage each year. In 1997, the Investment Account funded approximately 90% of the County's employer contribution.

2. Employer contributions for 1997, 1996, 1995, and 1994 included $42,423,000, $53,393,000, $49,250,000, and $2,894,000, respectively, of funds transfered from the Investment Account to pay for the County's employer's contribution.

The accompanying notes are an integral part of the Required Supplementary Information.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Note 1 - Description

The historical trend information about the Orange County Employees Retirement System is presented as required supplementary information. The information is intended to help users assess the funding status of the fund on a going-concern basis and to assess progress made in accumulating assets by pay benefits when due.

Note 2 - Actuarial Assumptions and Method

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

Valuation date	12/31/1997.
Actuarial cost method	Projected Unit Credit.
Amortization method	Level dollar.
Remaining amortization period	26
Asset valuation method	5-year moving average of the ratio of market value to book value multiplied by the current year's book value.
Actuarial assumptions	
Investment rate of return	8%
Projected Salary Increases	3.5% per annum through year 2000, 5.5% per annum thereafter.
Includes inflation at	4.5% subject to Tier maximum.
Cost-of-living adjustments	3% per annum with excess banked.

Note 3 - Significant Factors Affecting Trends in Actuarial Information

1997 Changes in Plan Provisions Since Prior Year

No significant changes in Plan provisions.

1996 Changes in Plan Provisions Since Prior Year

Salary scale changed from 2.5% to 3.5% per annum per individual through the year 2000, and 5.5% thereafter.

1995 Changes in Plan Provisions Since Prior Year

Salary scale changed from 6.0% to 2.5% per annum per individual.

1994 Changes in Plan Provisions Since Prior Year

No significant changes in Plan provisions.

1993 Changes in Plan Provisions Since Prior Year

Changed Mortality Table from 1971 GAM (for regular retirement) to 1983 Group Annuity. Changed Expectations of Life After Disability from 80% of Mortality Table to 60%.

1992 Changes in Plan Provisions Since Prior Year

Changed funding method from Entry Age Normal to Projected Unit Credit.

1991 Changes in Plan Provisions Since Prior Year

Changed discount rate from 7.5% to 8.0%; changed salary scale from 5.5% to 6.0%.

OTHER SUPPLEMENTARY INFORMATION

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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

(in thousands)

	1997	1996
Personnel Services:		
Board Members' Allowance	$ 20	$ 14
Employee Salaries and Benefits	2,307	2,222
Total Personnel Services	**2,327**	**2,236**
Office Operating Expenses:		
Operating Expenses	543	450
Professional Services	2,301	2,067
Rent/Leased Real Property	153	164
Depreciation/Amortization	68	70
Total Office Operating Expenses	**3,065**	**2,751**
Total Administrative Expenses	**$ 5,392**	**$ 4,987**

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 1997 AND 1996

(in thousands)

	1997	1996
Domestic Equity	$ 3,622	$ 3,484
International Equity	1,918	1,581
Global Fixed Income	2,745	2,490
Real Estate	3,994	2,614
Venture Capital	1,083	917
Other Alternative Investments	1,591	1,090
Total Fees & Other Investment Expenses	**$ 14,953**	**$ 12,176**

III. INVESTMENT SECTION

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CALLAN ASSOCIATES INC

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

April 29, 1998

CAI
SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Mr. Raymond A. Fleming
Administrator
Orange County Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

Dear Mr. Fleming:

Calendar 1997 was another exceptional year for U.S. financial markets. The Callan Broad Market Index, a capitalization weighted index of the largest 2000 companies, enjoyed an overall return of 31.12% for the year. As was the case in both 1995 and 1996 large companies tended to outperform smaller companies. The S&P 500 returned 33.27% for the year while the Callan Small Cap Index returned 22.41%. The Callan Small Cap Index is comprised of the smallest 1500 of the largest 2000 companies. Stock market returns for the trailing three years ended 12/31/97 amounted to more than 31% per annum for the S&P 500. During the past seven calendar years there have only been 3 down quarters and no negative years. Stock investors could not have asked for a better environment.

International stocks did not fare as well. European markets generally enjoyed very strong returns. The Morgan Stanley Capital International (MSCI) Europe stock index returned 37.95% when measured in local currencies and a lower but still very healthy 23.8% result in U.S. dollar terms. The strength of the dollar relative to major European currencies accounts for the difference. Asian stocks performed poorly both in local currency and dollar terms. The MSCI Pacific Basin Stock Index experienced a negative return of 25.49% in dollar terms for the full year. Most of the weakness occurred in the second half of 1997 and was related to the region's economic weakness. The widely used MSCI EAFE Index, a measure of international market performance in both European and Pacific developed markets, returned 1.78% for the year. The strong European returns were offset by poor Pacific region returns.

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Mr. Raymond A. Fleming
Orange County Retirement System
Page 2

Bond markets experienced healthy full year returns. The Lehman Aggregate Index, a measure of the investment grade U.S. bond market returned 9.64%. Good news on the inflation and deficit fronts helped fuel investor confidence. For the full year, the yield on high quality bonds declined markedly. For example, the long Treasury bond's yield fell 68 basis points and ended the year below 6%. This decline in yields supported the price advances that resulted in overall returns exceeding income return. Bond markets, particularly in the fourth quarter, also benefited from a "flight to quality" as many investors sought a safe haven in the midst of the Asian economic and currency crisis.

Real estate markets experienced strong returns in 1997. Continued economic strength, comparatively low construction levels and rising employment caused lower vacancy rates and some improvement in income. Investors also benefited from declining interest rates that made real estate income streams more valuable. While measures of real estate returns are always approximations, most institutional investors saw returns of 13 to 15% The NCREIF Classic Index, a prefee, appraisal based measure of unlevered institutional grade real estate properties, returned 14.33% for the full year.

The Orange County Employees Retirement System participated fully in these generally robust markets. OCERS enjoyed a full year return of 17.07%. This result compared favorably with the fund's policy benchmark index return of 16.21%. The policy benchmark index is a customized index comprised of market indices weighted in proportion to the System's strategic asset allocation policy. The fund's returns over longer periods continue to consistently outpace both the actuarial earnings assumptions and the System's policy benchmark indices.

OCERS' domestic equity managers lagged their market benchmark. Their underperformance, however, was more than offset by the outperformance of the System's other managers. The international equity managers handsomely outdistanced their benchmark. Similarly OCERS bond managers achieved another extraordinary year. The System also benefited from continued recovery in the real estate sector and from strong absolute returns in the alternative investments arena.

In aggregate OCERS' domestic equity managers' return of 28.37% lagged the Callan Broad Market Index return of 31.12% and the S&P 500 return of 33.27%. It also lagged the Callan Equity Database median of 29.78%. Most active equity managers underperformed the market indices, in large measure because of the strong performance of a comparatively small group of very large cap stocks. The Board addressed the underperformance by selecting several new managers and funding these new portfolios by reducing the assets entrusted to those managers who have not met their objectives. The changes primarily were implemented near year-end.

Callan Associates Inc

Mr. Raymond A. Fleming
Orange County Retirement System
Page 3

OCERS international managers achieved an overall return of 6.61%. This aggregate result includes the System's emerging and developed market commitments. The result was comfortably in excess of the MSCI EAFE Index and the MSCI Emerging Markets Index, negative 11.59% and positive 1.78% respectively. The total international return also compared favorably with Callan's Non-U.S. Equity Style Group median of 6.25%. OCERS active international managers, in aggregate, also have achieved strong absolute and relative returns over longer-term periods.

OCERS' bond managers posted an aggregate return of 11.87% for 1997. This compared very favorably with the Lehman Aggregate Bond Index return of 9.64%. It also ranked exceptionally well when compared with Callan's Total Fixed Income Database median of 9.4% or with the Callan Core Bond Style Group Median of 9.86%. Results for longer-term periods exhibit similar performance patterns, well above market and strong when contrasted to appropriate peer groups.

In sum, 1997 was an excellent year for the System. The fund's broadly diversified investment program produced very competitive overall results at less than average risk levels.

Sincerely,

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

MJO/vrh

Callan Associates Inc

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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 Orange County Employees Retirement System (the 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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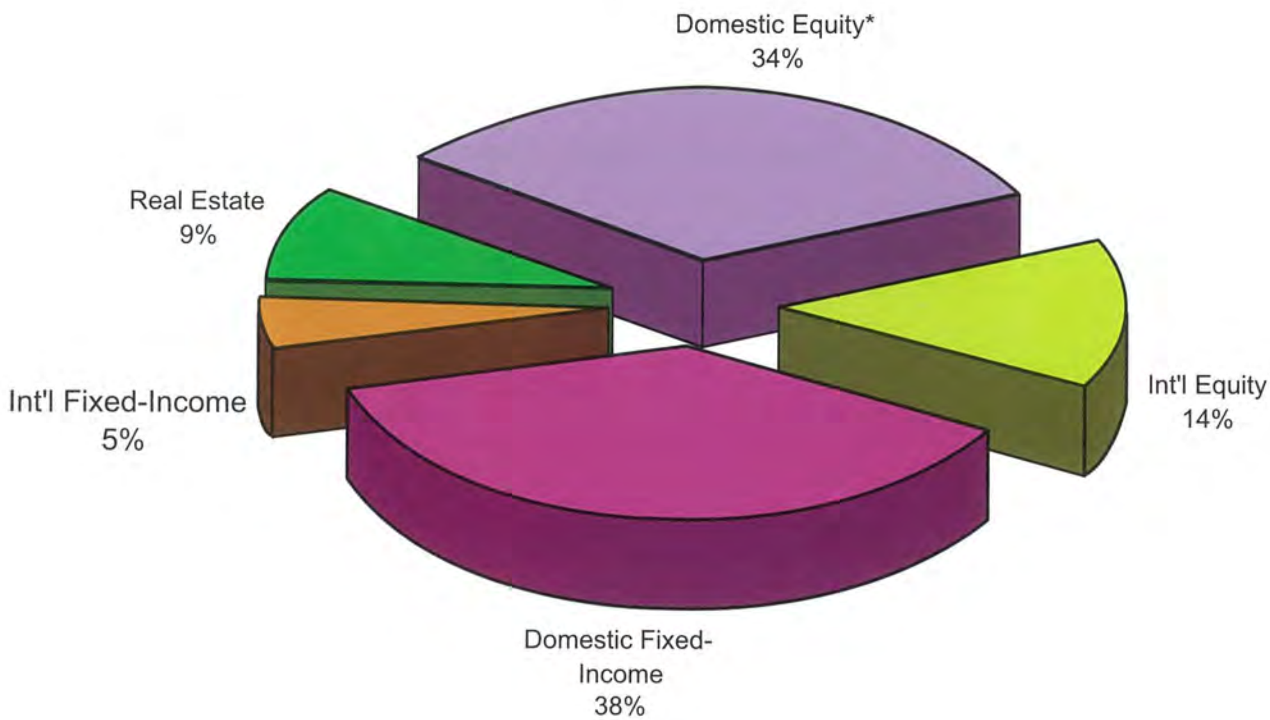
Orange County Employees Retirement System
Target Asset Allocation
As of December 31, 1997



* Nontraditional investments are parts of domestic equity allocation.

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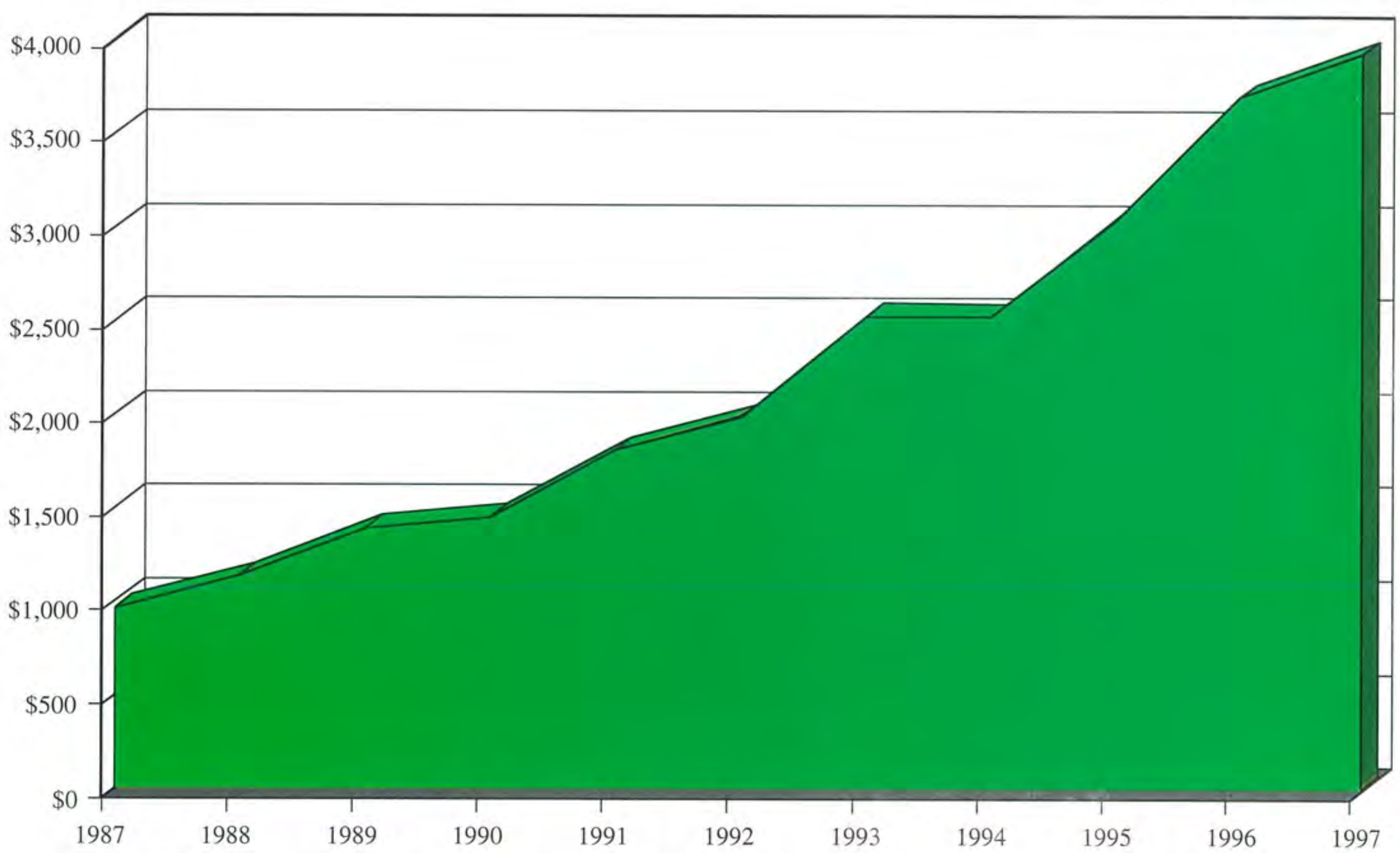
Orange County Employees Retirement System
Growth of System Assets at Market Value
For Ten Years Ended December 31, 1997
(in Millions of Dollars)



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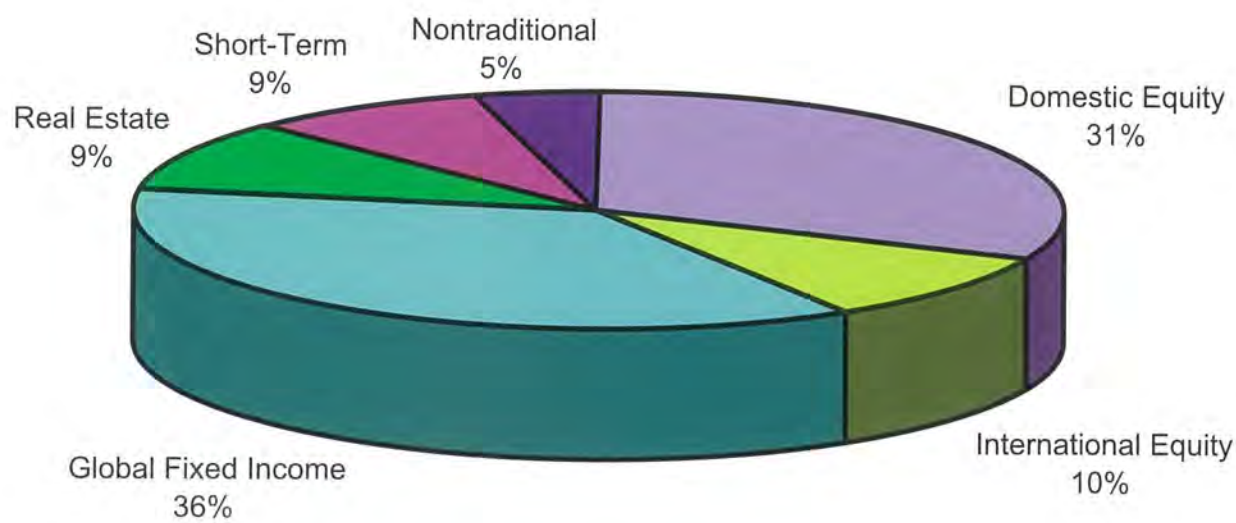
Orange County Employees Retirement System
Asset Diversification
December 31, 1997



	Market (000's)
Domestic Equity	**$1,235,616**
International Equity	**380,245**
Global Fixed Income	**1,432,472**
Real Estate	**367,096**
Short-Term	**334,474**
Nontraditional	**179,379**
Total	**$3,929,282**

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, amounts invested in the Orange County Investment Pool and amounts deposited at Wells Fargo Bank to fund monthly benefit payments.

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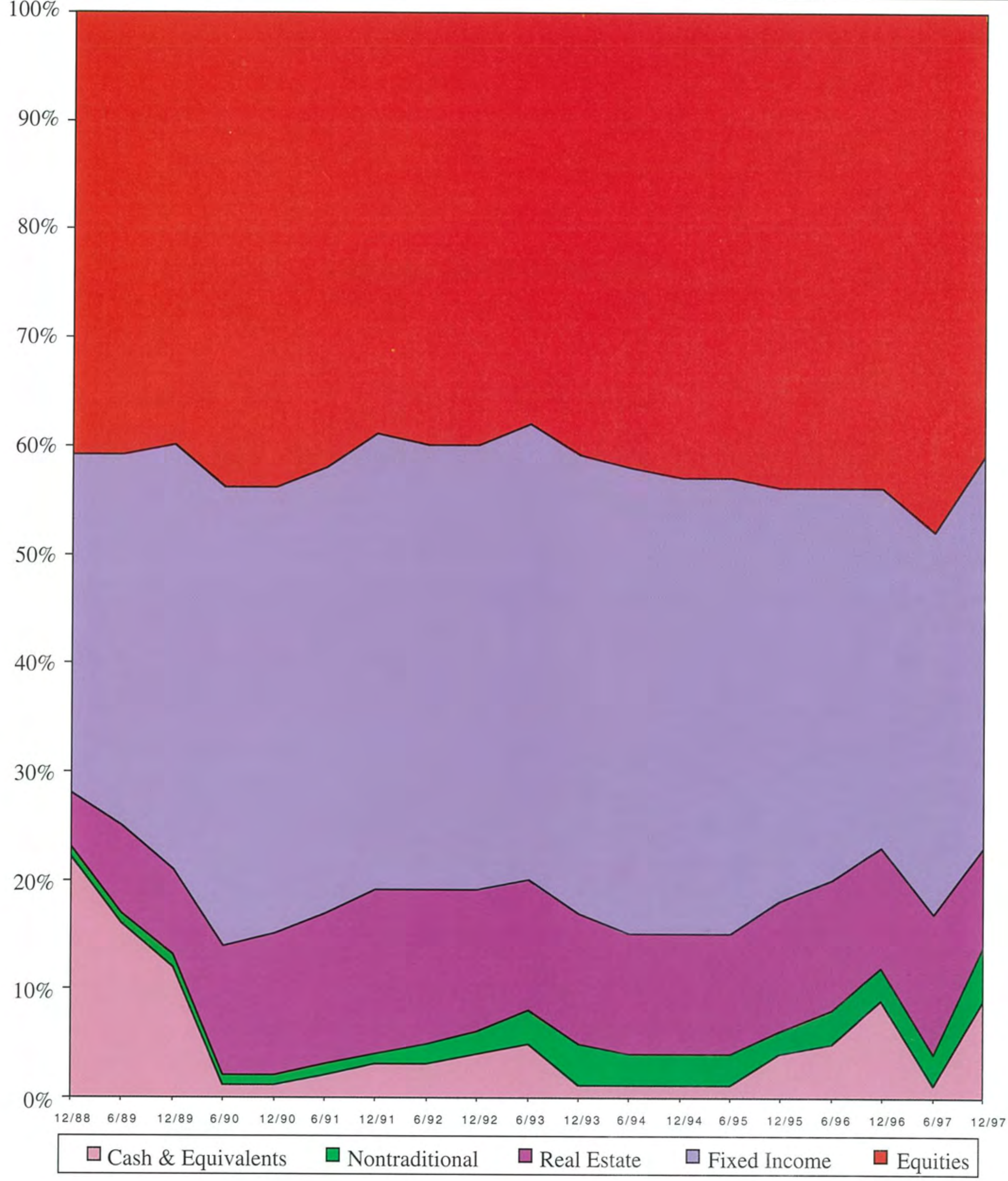
Orange County Employees Retirement System
Historical Asset Allocation (Actual)
December 1988 - December 1997



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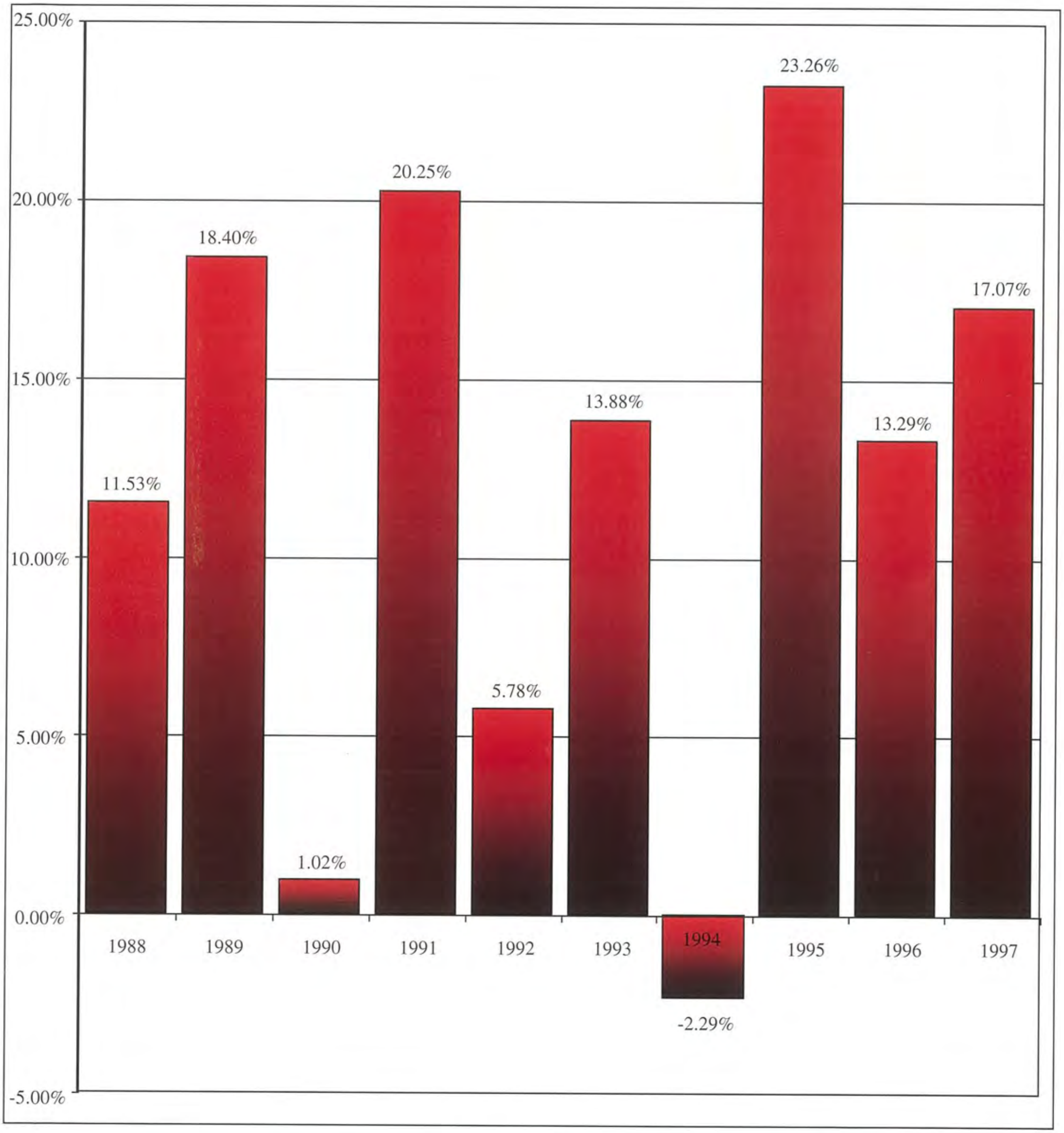
Orange County Employees Retirement System
History of Performance
(Based on Market Value)



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IV. ACTUARIAL SECTION

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Timothy J. Marnell, ASA
Principal

200 West Madison Street, Suite 3300
Chicago, IL 60606-3414
312 609-9461
Fax: 312 609-9839

Towers Perrin

May 29, 1998

Members of the Board:

The financing objective of the plan has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a 28-year period commencing December 31, 1995, while maintaining contribution rates that remain approximately the same from generation to generation. Emerging gains and losses are amortized separately over individual 15-year periods. Other changes to the UAAL, created by assumption changes or plan amendments, are amortized over periods established by the Board. The progress being made toward the realization of the financing objectives through December 31, 1997, 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). 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, 1997, 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, 1997, 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

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
12/31/88	$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	$332,762	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%
12/31/96	$2,851,894	$2,675,632*	$176,262	93.82%	$758,897	23.23%
12/31/97	$3,332,967	$3,128,132*	$204,835	93.85%	$781,890	26.20%

Notes:

- The 12/31/97 valuation included an increase in plan benefits to reflect the impact of the California Supreme Court decision in the Ventura County case regarding compensation earnable.
- The 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.
- The 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%.
- The 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.

* The 12/31/94, 12/31/95, 12/31/96 and 12/31/97 assets exclude $311,022,000, $329,064,000, $313,250,000 and $322,332,889, respectively, of the County's unamortized 1994 funding of its portion of the Unfunded Actuarial Accrued Liability, which funding for 1995 is being amortized over a fourteen year period beginning July 1, 1994 and for 1996 and later is being amortized over a 28-year period beginning July 1, 1996.

Orange County Employees Retirement System
HISTORY OF EMPLOYER CONTRIBUTION RATES

Employer Contribution Rate (% of pay)

Valuation Date	
12/31/88	
General	
Normal	5.06
UAAL	5.57
Total	10.63
Safety	
Normal	15.13
UAAL	14.95
Total	30.08
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
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
12/31/95	
General	
Normal	3.33
UAAL	(0.47)
Total	2.86
Safety	
Normal	5.59
UAAL	18.84
Total	24.43
12/31/96	
General	
Normal	3.38
UAAL	(1.06)
Total	2.32
Safety	
Normal	5.77
UAAL	17.77
Total	23.54
12/31/97	
General	
Normal	3.77
UAAL	(1.91)
Total	1.86
Safety	
Normal	6.79
UAAL	19.65
Total	26.44

Orange County Employees Retirement System
SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
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
12/31/96				
General	15,736	$623,682,535	$39,634	3.81%
Safety	2,354	135,214,811	57,440	3.90
Total	18,090	$758,897,346	$41,951	3.81
12/31/97				
General	16,266	$643,115,556	$39,537	(0.24%)
Safety	2,427	138,774,560	57,179	(0.45%)
Total	18,693	$781,890,116	$41,828	(0.29%)

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
1/88 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
1/96 to 12/96	6,359	426	(154)	6,631	99,751,438	8.03	1,254
1/97 to 12/97	6,631	505	(224)	6,912	109,661,326	9.93	1,322

Orange County Employees Retirement System
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
As of December 31, 1997

Plan Year Ending	Market Value	Book Value	Ratio of Market Value to Book Value
1997	$3,263,314,979	$2,765,715,751	1.179917
1996	2,829,039,344	2,408,673,997	1.174521
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

(1) Average ratio in five years preceding December 31, 1997	1.131039
(2) Book value on December 31, 1997	$2,765,715,751
(3) Actuarial value of assets: (1) x (2)	$3,128,132,377

Orange County Employees Retirement System
SHORT-TERM SOLVENCY TEST
($ Amounts in Thousands)

Valuation Date	(1) Active Member Cotributions	(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)
12/31/88	$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	438,949	1,201,057	993,878	2,434,406	100	100	92.43
12/31/96	484,451	1,295,334	1,072,109	2,675,632	100	100	93.82
12/31/97	523,770	1,554,017	1,255,180	3,128,132	100	100	93.85

Orange County Employees Retirement System

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. The unfunded actuarial accrued liability (UAAL) as of December 31, 1995, is amortized as a level dollar amount over 28 years. Actuarial gains and losses for each year are amortized over separate 15-year periods on a level dollar basis. Changes in the UAAL arising from assumption changes and plan amendments are amortized over periods determined by the Board.

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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V. STATISTICAL SECTION

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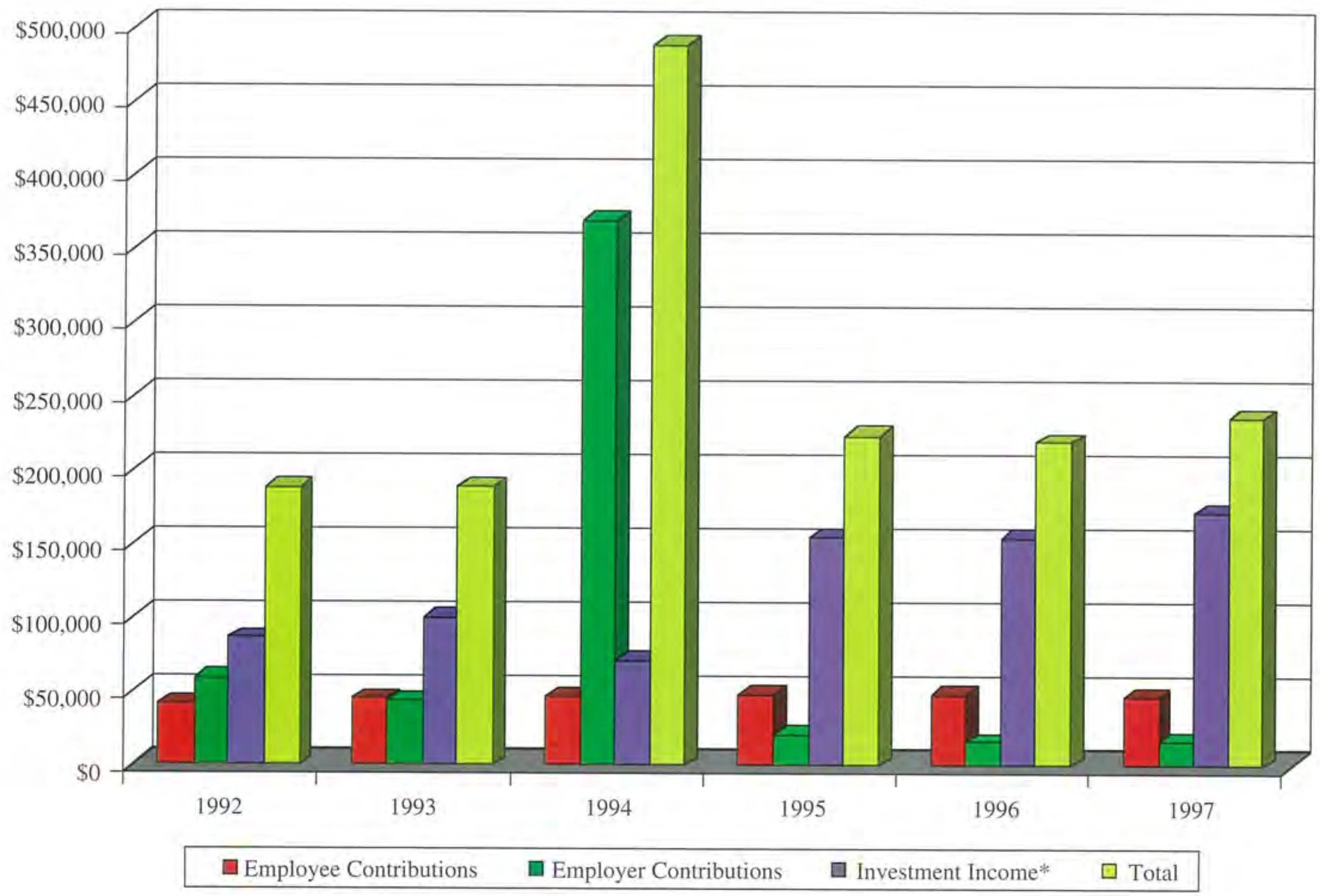
Schedule and Graph of Revenues by Source (in thousands) 1992 - 1997

	1992	1993	1994	1995	1996	1997
Employee Contributions	$42,349	$45,170	$47,442	$47,953	$48,461	$47,011
Employer Contributions	$59,664	$43,922	†$369,382	†$20,814	†$16,463	†$17,570
Investment Income*	$85,837	$99,797	$71,555	$154,753	$153,822	$171,623
Total	$187,850	$188,889	$488,379	$223,520	$218,746	$236,204



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

† Employer contribution for 1994 include $318,300,000 of County's funding of its portion of the Unfunded Actuarial Accrued Liability. In subsequent years, agreements between OCERS and the County provided that the 1994 contribution would reduce subsequent required employer cash contributions.

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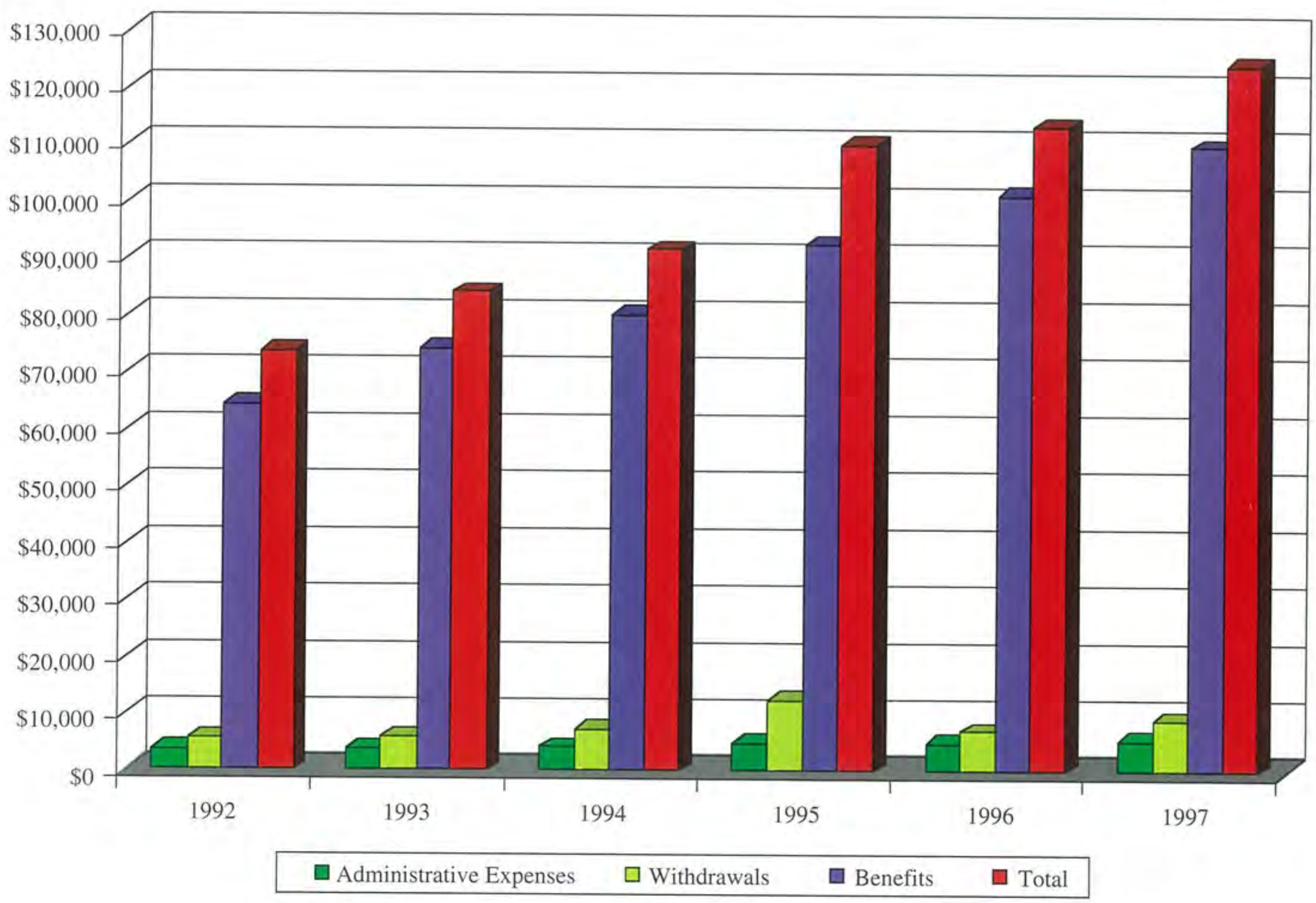
Schedule and Graph of Expenses by Type (in thousands) 1992 - 1997

	1992	1993	1994	1995	1996	1997
Administrative Expenses	$3,681	$3,854	$4,132	$4,971	$4,987	$5,392
Withdrawals	$5,681	$5,928	$7,426	$12,523	$7,166	$9,048
Benefits	$64,130	$74,238	$79,932	$92,582	$101,125	$109,660
Total	$73,492	$84,020	$91,490	$110,076	$113,278	$124,100



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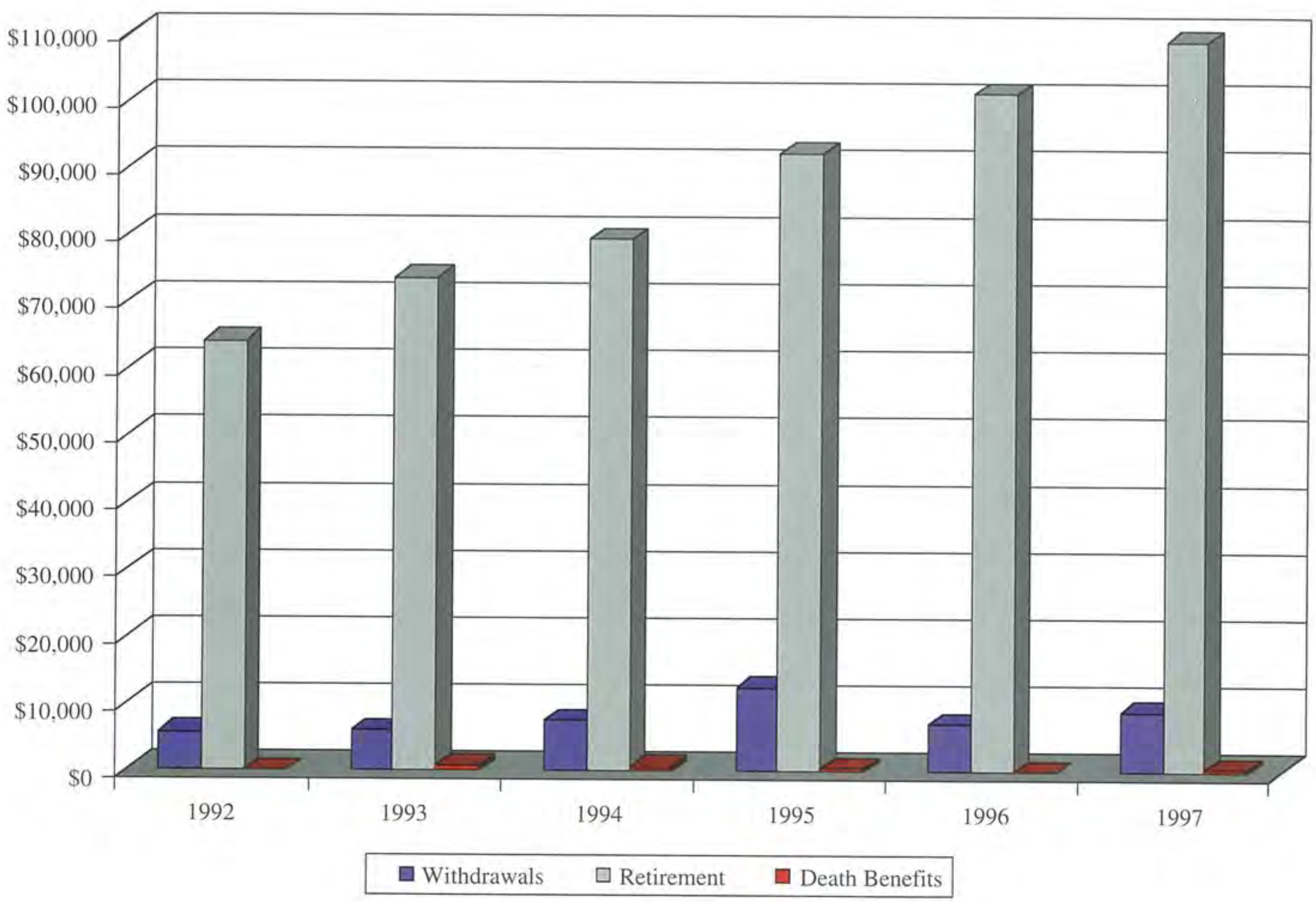
Schedule and Graph of Benefit Expenses by Type (in thousands) 1992 - 1997

	1992	1993	1994	1995	1996	1997
Withdrawals	$5,681	$5,928	$7,426	$12,523	$7,166	$9,048
Retirement	$64,035	$73,544	$79,280	$92,335	$101,074	$109,206
Death Benefits	$95	$694	$652	$247	$51	$454



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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF PARTICIPATING EMPLOYERS

Capistrano Beach Sanitation District

Capistrano Valley Water District

City of San Juan Capistrano

County of Orange

Cypress Recreation and Park District

Foothill/Eastern Transportation Corridor Agency

Orange County Cemetery District

Orange County Employees Retirement System

Orange County Fire Authority

Orange County Law Library

Orange County Transportation Authority

Orange County Vector Control District

San Joaquin Hills Transportation Corridor Agency

Sanitation Districts of Orange County

Santiago Library System

Orange County Department of Education (closed to new members)

UCI Medical Center (closed to new members)

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

As of December 31, 1997

Amount of Monthly Benefit	No. of Retirants	Type of Retirement 1	2	3	4	5	6	7	Option Selected Unmodified	Option 1	Option 2	Option 3	Option 4	Total
$1-250	1,065	723	208	-	2	34	52	46	1,026	19	12	3	5	1,065
$251-500	1,282	903	193	3	27	59	38	59	1,265	6	11	-	-	1,282
$501-750	1,124	849	92	2	70	57	15	39	1,114	3	6	1	-	1,124
$751-1,000	827	612	38	1	95	58	10	13	817	4	5	1	-	827
$1,001-1,250	654	464	19	-	138	14	9	10	645	1	7	1	-	654
$1,251-1,500	475	331	12	2	110	8	9	3	465	3	7	-	-	475
$1,501-1,750	346	260	11	-	61	9	-	5	338	-	6	1	1	346
$1,751-2,000	225	178	5	1	39	1	-	1	216	-	6	3	-	225
Over $2,000	914	788	12	1	98	8	3	4	893	1	15	4	1	914
Total	6,912	5,108	590	10	640	248	136	180	6,779	37	75	14	7	6,912

Definition of Terms:

Eligible Spouse - A member's spouse is considered eligible if the member has been married for at least one year at the time of retirement and remains married throughout the member's retirement.

Eligible Child - An eligible child is an unmarried child under the age of 18, or under the age of 22 if a full-time student.

Type of Retirement

1 - Normal Retirement for age and service.

2 - Survivor Payment - normal retirement.

3 - Survivor Payment - death in the line of duty.

4 - Service Connected Disability Retirement.

5 - Non-service Connected Disability Retirement.

6 - Survivor Payment - disability retirement.

7 - Survivor Payment - active member who died and was eligible to retire.

Option Selected

Unmodified Option:

This option provides the member with the maximum allowance available to the member. It also provides a continuation of 60 percent of the member's allowance to the member's eligible spouse or eligible children upon the member's death. If the member retired under the Service Connected Disability status, the continuance percentage is 100 percent instead of the normal 60 percent. If the member does not have an eligible spouse or any eligible child at the time of death, the member's designated beneficiary will receive a refund of the member contributions with interest, less the sum of the monthly allowances paid to the member during the member's lifetime.

Option 1 - Cash Refund Annuity:

This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive the member's remaining contributions, if any.

Option 2 - 100 Percent Joint and Survivor Annuity:

This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive the same monthly allowance for the rest of his or her lifetime.

Option 3 - 50 Percent Joint and Survivor Annuity:

This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive half of the member's monthly allowance for the rest of his or her lifetime.

Option 4 - Other Options:

Other options allow members to designate multiple beneficiaries and other survivor percentages. The member must obtain approval from the Retirement Board.

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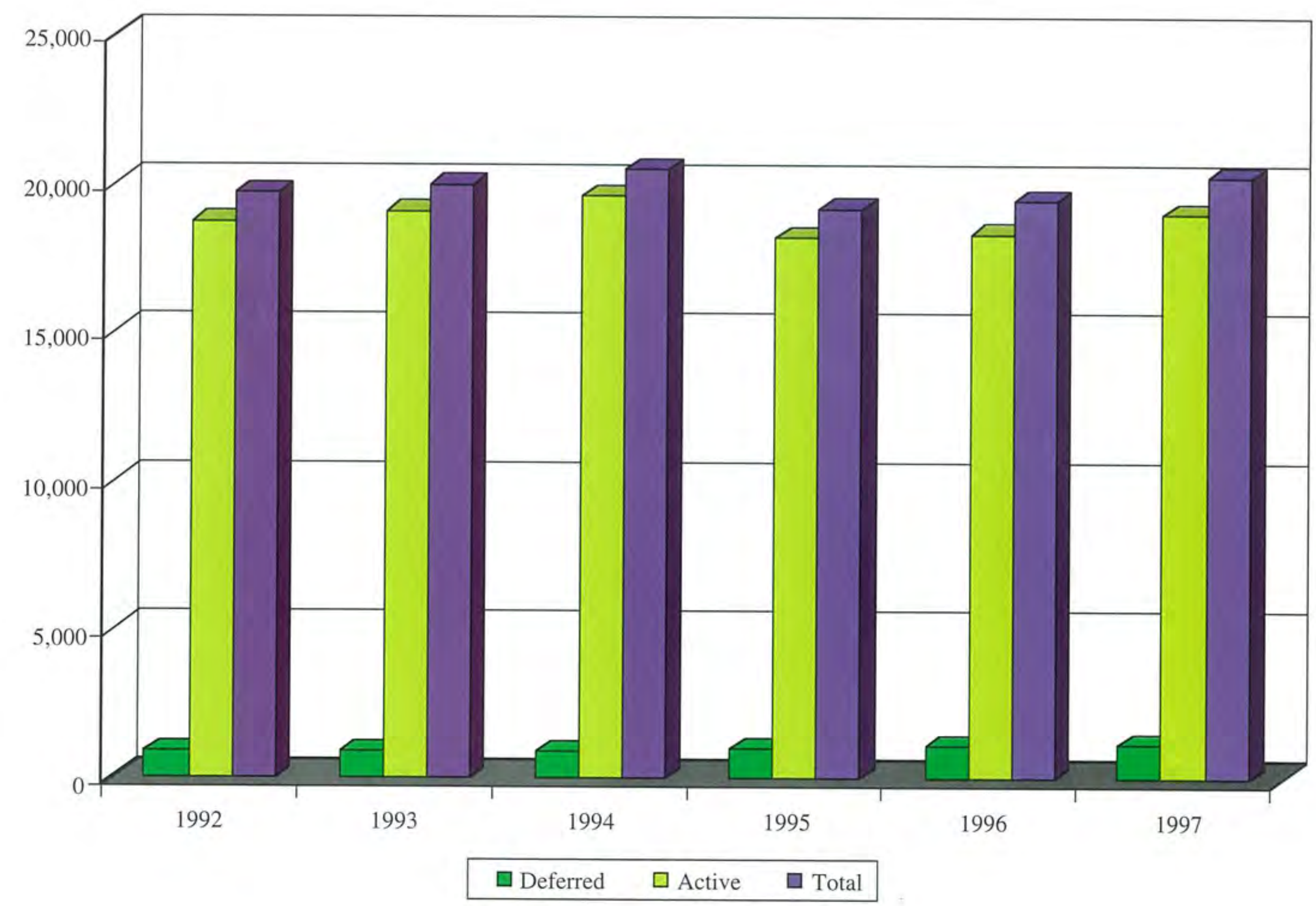
Schedule and Graph of Active and Deferred Members 1992 - 1997

	1992	1993	1994	1995	1996	1997
Deferred	932	903	908	979	1,087	1,184
Active	18,735	19,073	19,589	18,200	18,315	19,005
Total	19,667	19,976	20,497	19,179	19,402	20,189



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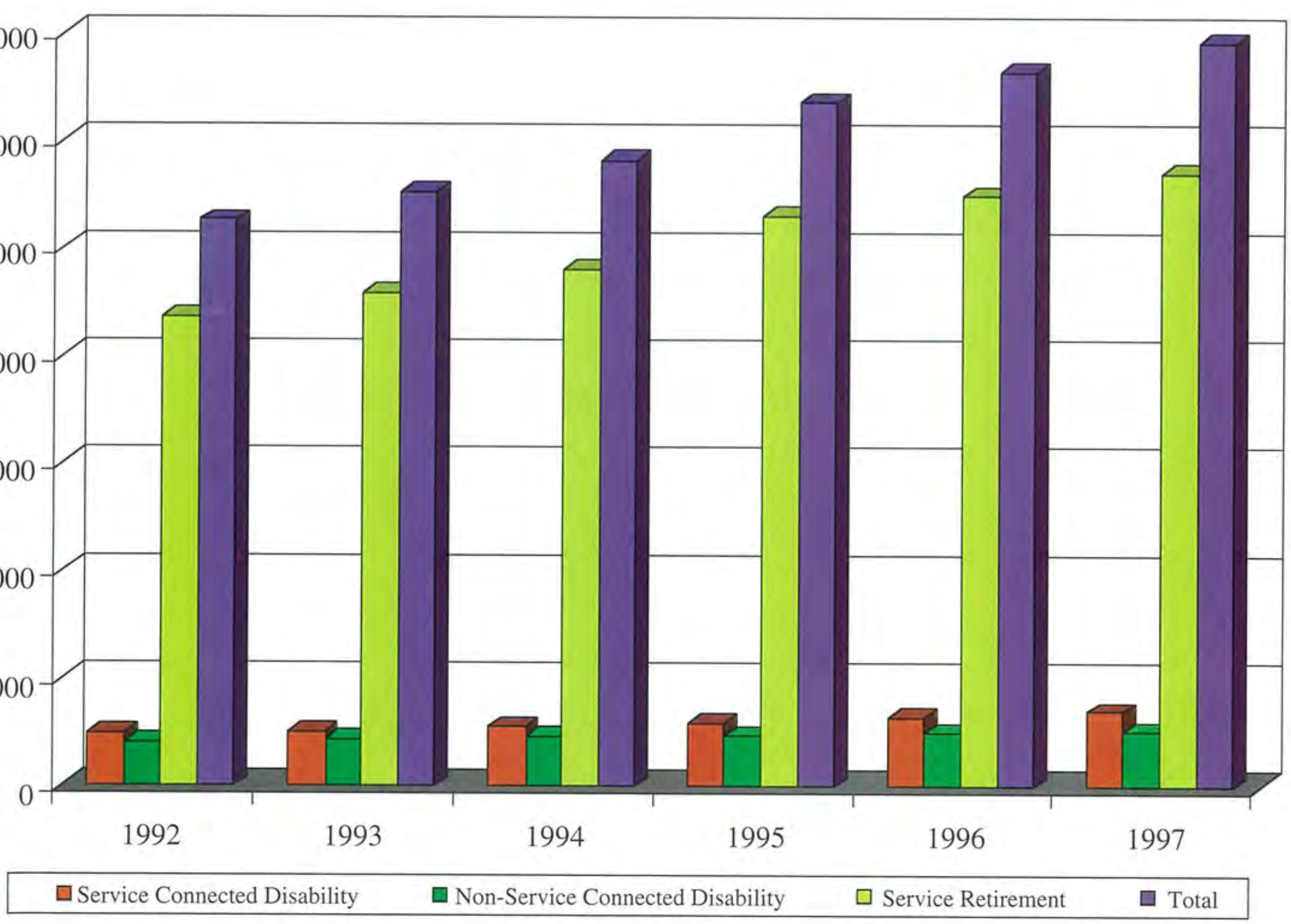
Schedule and Graph of
Retired Members
1992 - 1997

	1992	1993	1994	1995	1996	1997
Service Connected Disability	487	508	548	588	644	696
Non-Service Connected Disability	411	437	461	468	497	518
Service Retirement	4,354	4,579	4,807	5,303	5,490	5,698
Total	5,252	5,524	5,816	6,359	6,631	6,912



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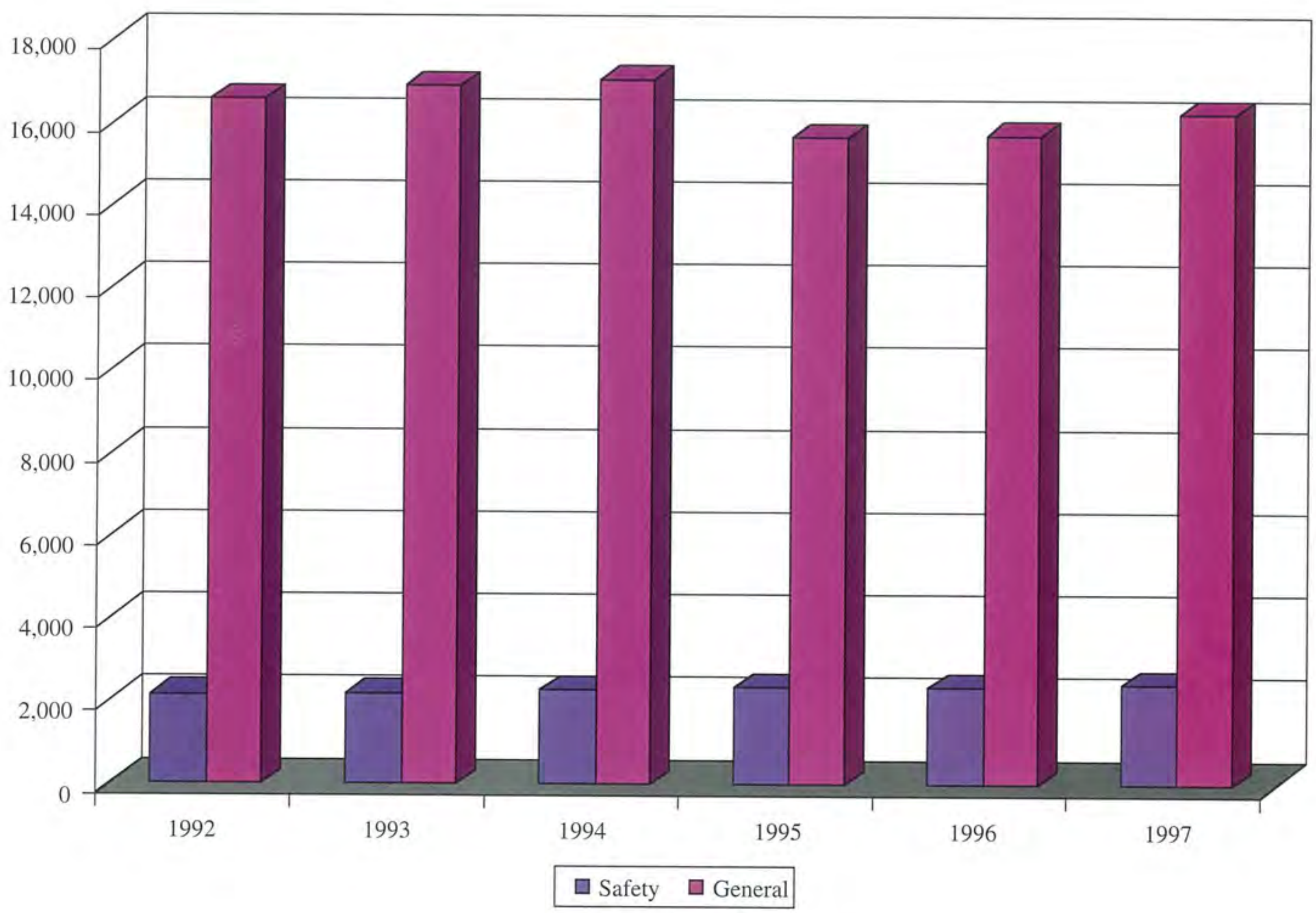
Schedule and Graph of Active Members by Membership Classification* 1992 - 1997

	1992	1993	1994	1995	1996	1997
Safety	2,153	2,196	2,288	2,351	2,354	2,427
General	16,582	16,877	17,085	15,658	15,736	16,266



* Excludes members with Pending Status.

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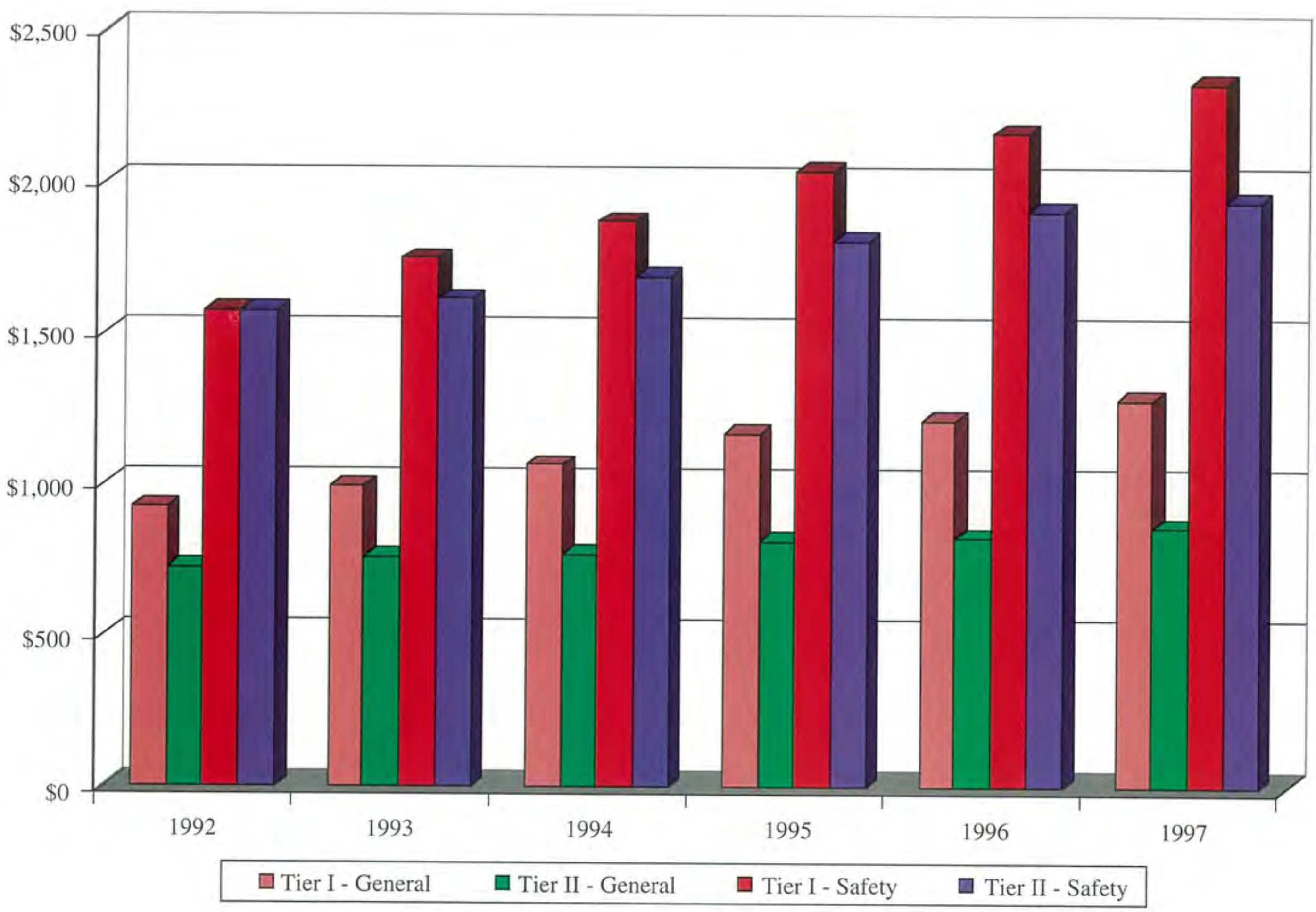
Schedule and Graph of Average Monthly Retirement Benefits (by Tier and Membership Classification) 1992 - 1997

	1992	1993	1994	1995	1996	1997
Tier I - General	$923	$994	$1,061	$1,164	$1,210	$1,281
Tier II - General	$720	$756	$764	$807	$824	$859
Tier I - Safety	$1,574	$1,744	$1,869	$2,039	$2,163	$2,330
Tier II - Safety	$1,574	$1,612	$1,688	$1,801	$1,901	$1,937



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ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
HISTORY OF ACTUARIAL ASSUMPTION RATES
FOR THE PERIOD JANUARY, 1945 - DECEMBER, 1997

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%
7/1/96	8.00%	3.50%

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RETIREMENT
SYSTEM

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