



COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2001

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
ORANGE COUNTY, CALIFORNIA

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I. INTRODUCTORY SECTION



Executive Staff

From left, Keith Bozarth, James Buck, Tracy Ayres, Elizabeth Martyn, Toi Dang, and Diane Schumacher. Not pictured, Farouki Majeed.

LETTER OF TRANSMITTAL



RETIREMENT SYSTEM

May 24, 2002

*Serving the Active and
Retired Members of:*

ORANGE COUNTY
LAFCO

CITY OF SAN JUAN
CAPISTRANO

COUNTY OF ORANGE

ORANGE COUNTY
CHILDREN & FAMILY
COMMISSION

FOOTHILL/EASTSIDE/
SAN JOAQUIN HILLS
TRANSPORTATION
CORRIDOR AGENCY

ORANGE COUNTY
CLERK/DEPUTY CLERK

ORANGE COUNTY
EMPLOYEES
RETIREMENT SYSTEM

ORANGE COUNTY FIRE
AUTHORITY

ORANGE COUNTY LAW
LIBRARY

ORANGE COUNTY
TRANSPORTATION
AUTHORITY

ORANGE COUNTY VICTIM
CONTROL DISTRICT

SOUTHERN DISTRICT OF
ORANGE COUNTY

ORANGE COUNTY
DEPARTMENT OF
EDUCATION
(closed to new
members)

UCI MEDICAL CENTER
(closed to new
members)

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

Dear Board Members:

It is with great pleasure that we submit the Comprehensive Annual Financial Report (CAFR) of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2001, the System's 57th 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, Link, Murrell & Co., 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.

Certificate of Achievement

The Government 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, 2000. This was the seventh consecutive year that OCERS has achieved this prestigious award. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM • 2223 Wellington Avenue, Santa Ana, CA 92701
Telephone (714) 558-6200 Fax (714) 558-6236

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

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

Financial and Economic Summary

Growth in the economy has come mainly from the construction, whole trade, engineering, management services, biotechnology, business services, and entertainment industries. Tax revenues for the State of California have decreased as a result of the slump in the stock market that reduced taxes attributable to capital gains and stock options.

Major fluctuations in the domestic and international equity markets resulted in a record-setting volatility, especially during the second half of year 2001.

The rate of job growth declined in 2001 to 2.1% from 3.1% in 2000, but that is still higher than job growth in the U.S. (0.79%) and other California counties. Orange County added an estimated 32,400 jobs during 2001, as compared to 41,150 jobs added during 2000. Estimated gross county product for 2001 was \$133 billion as compared to \$125 billion for 2000. Orange County's housing demand continued to strengthen during 2001.

Major Initiative

OCERS continued on the installation of the new Membership Accounting Record System (MARS), commonly known as PensionGold, which is a product of Levy, Ray & Shoup, Inc.

Additional Retirees Benefit Account (ARBA)

Due to large realized losses occurring in year 2001, the ARBA account was not credited with interest earnings. In order to have sufficient funds to credit interest to the statutory reserve accounts, approximately \$13,311,000 was transferred from the ARBA account to the Unallocated Cash Account. The balance of the ARBA account at December 31, 2001, was approximately \$363,077,000.

Errors & Omission and Earthquake Reserve Accounts

In order to have sufficient funds to credit interest to the statutory reserve accounts, \$10,000,000 was transferred from the Errors & Omission and \$10,000,000 was transferred from the Earthquake Reserve accounts to the Unallocated Cash Account. The balance in each of the two reserves as of December 31, 2001, was zero.

Accounting System and Reports

This CAFR was prepared in conformity with generally accepted accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) in Statement No. 25, *Financial Reporting for Defined 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 employers and members are recognized in the period in which members provide services. Investment income is recognized as revenue when earned. Expenses are recorded when corresponding liabilities are incurred, regardless of when payment is due.

Link, Murrell & Co., 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.

Additions and Decreases to Plan Net Assets

Under normal market conditions, additions to plan net assets result in a positive increase. However, due to poor market conditions during year 2001, the total additions to plan net assets, including net depreciation in fair value of investments and net of investment management fees, were negative \$69,163,000. This amount includes member and employer contributions of \$80,695,000, net investment loss of \$151,438,000 and net security lending income of \$1,580,000. Net investment loss, excluding net security lending income, represented a decrease of \$177,252,000 over the prior year; this decrease was attributable mainly to \$289,021,000 net depreciation in fair value of investments. Details of the components of the additions to plan net assets are included in the Statements of Changes in Plan Net Assets on page 19.

Deductions to Plan Net Assets

Deductions for 2001, excluding investment management and security lending fees, were \$176,420,000, which represented an increase of \$10,808,000 over prior year. This increase was the result of higher retirement benefit payments that included COLA adjustments and the inclusion of Ventura pay elements, higher administrative expenses and an increase in the number of retirees. The components of the total deductions are payments of retirement benefits of \$163,378,000, refunds of contributions and interest to terminated members of \$5,896,000 and administrative expenses of \$7,146,000.

Changes in System Memberships

OCERS' membership increases (decreases) for the calendar year 2001 were as follows:

	2001	2000	Increase (Decrease)	Change
Active Members	22,329	20,987	1,342	6.39%
Retired Members	8,216	7,915	301	3.80%
Deferred Members	1,418	1,325	93	7.02%
Pending Status Members	454	960	(506)	(52.71%)

As of December 31, 2001, there were 454 members who terminated membership with OCERS but had not selected an option regarding the management of their balances. Subsequently, all of the Pending Status Members either withdrew their funds or left them on deposit with OCERS, thus becoming Deferred Members.

Investment Summary

For the 2001 year, OCERS' portfolio earned a negative return of 3.22%, which is 11.22% below the actuarial earnings assumption. Over longer term periods, the portfolio has earned total annualized returns of 4.96% over the past three years, 8.83% over the past five years, and 10.17% over the past nine and one-half years. On a fair value basis, the total plan net assets decreased from \$4,808,124,000 to \$4,562,541,000.

Funding

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2001, the funding ratio of the System was approximately at 94.69%; a six-year history of OCERS' funding progress is presented on page 34. For 2001, OCERS experienced a decrease of \$245,583,000 in plan net assets. Details of the components of this decrease are included in the Statement of Changes in Plan Net Assets on page 19.

Conclusion

We would like to take this opportunity to thank the members of the System for their confidence in OCERS during the past year. We also want to express our thanks to the Board of Retirement for its dedicated effort in supporting the System through this past year. Likewise, we 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,


Keith Bozarth
Chief Executive Officer


Toi Dang
Chief Financial Officer

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, 2000

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.



Timothy A. Howe
President

Jeffrey L. Esser
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT
AS OF DECEMBER 31, 2001

Regular Members:



Keith L. Concannon
Elected Member - Retired Employees
Term expires December 31, 2004



John M.W. Moorlach
Ex-Officio Member
County Treasurer-Tax Collector
Term expires December 31, 2002



Frank E. Eley, Vice-Chairman
Elected Member - General
Public Facilities &
Resources Department
Term expires December 31, 2004



Sharon Neebe
Elected Member - General
County Treasurer-Tax Collector
Term expires December 31, 2003



Thomas N. Fox
Elected Member - Safety
Sheriff-Coroner Department
Term expires June 30, 2003



Reed L. Royalty
Appointed Member
Appointed by Board of Supervisors
Term Expires April 15, 2005



George W. Jeffries, Chairman
Appointed Member
Appointed by Board of Supervisors
Term expires April 15, 2005



Charles H. Simons*
Appointed Member
Appointed by Board of Supervisors
Term expired January 12, 2001



Thomas J. Lightvoet
Appointed Member
Appointed by Board of Supervisors
Term expires April 15, 2005



Alternate Member:

David Thompson
Elected Member – Safety
(Alternate for Safety Members)
Alternate for all Elected Members
Orange County Fire Authority
Term expires June 30, 2003

*Retired from Board of Retirement on February 1, 2002

**SUMMARY OF PLAN PROVISIONS
AS OF DECEMBER 31, 2001**

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: $1/50 \times \text{Final One Year Average Monthly Compensation} \times \text{Years of Service Credit} \times \text{Factor Based on Age at Retirement} = \text{Monthly Allowance}$.

Tier II: $1/60 \times \text{Final Three Year Average Monthly Compensation} \times \text{Years of Service Credit} \times \text{Factor Based on Age at Retirement} = \text{Monthly Allowance}$.

4. **Non-Service Connected Disability**

A. Eligibility

Five years of service.

B. Benefit Formula per Year of Service

Tier I: $1.8\% \times \text{Years of Service Credit} \times \text{Final One Year Average Monthly Compensation}$. (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 Three Year 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. \$5,000 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.

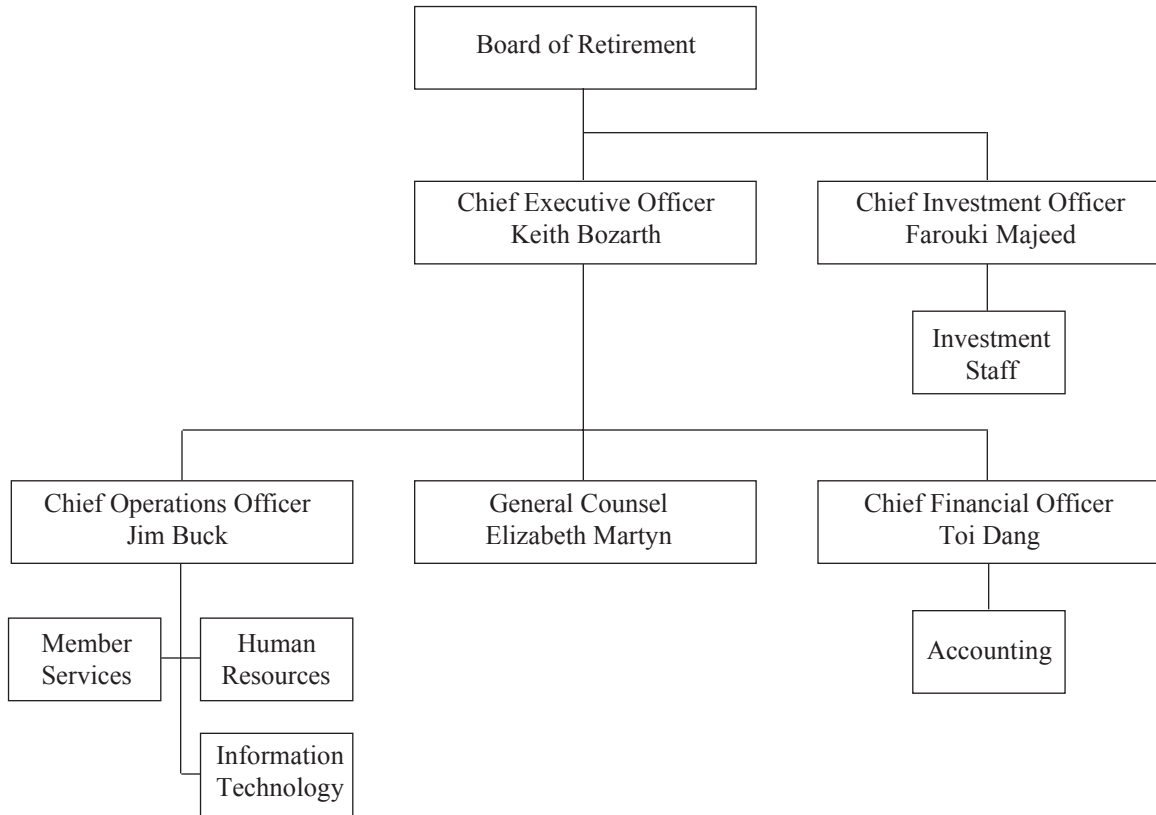
12. **County Contributions**

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: 47.63% (28.50%) for Non-OCTA General; 46.94% (32.15%) for OCTA General; 64.55% (33.39%) for Firefighters; 102.25% (51.75%) for Law Enforcement.

Orange County Employees Retirement System
ORGANIZATION CHART
As of December 31, 2001



Orange County Employees Retirement System
ORGANIZATION

BOARD OF RETIREMENT: The Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, making benefit determinations, establishing investment policy for the system and monitoring execution of its policies. The Board of Retirement consists of nine members and one alternate. Four members of the Board of Retirement are appointed by the Board of Supervisors of the County; three members are elected by active members of the system of which one is the alternate member; one member is elected by the retirees; and one ex-officio member, who is the Treasurer of the County.

EXECUTIVE: This division consists of the Chief Executive Officer (CEO) who implements and executes policies promulgated by the Board of Retirement. The Chief Operations Officer (COO), Chief Financial Officer (CFO), General Counsel and the Chief Investment Officer (CIO) assist the CEO in the daily operations of the system.

INVESTMENT DIVISION: This division is responsible for the administration and management of the investment program, in accordance with policies, regulations, and guidelines set forth by the Board of Retirement. It is responsible for the interface with investment managers, including monitoring investment performance objectives, adherence to investment guidelines, conducting due diligence visits to investment managers' sites, and interviewing prospective investment managers. The division is also responsible for the interface with outside investment consultants in reviewing and evaluating all investment managers' performance and quarterly investment manager fees.

OPERATIONS DIVISION: This division is comprised of the Member Services, Human Resources, Information Technology and Communications Sections. The Member Services Section is responsible for providing all benefit services to the members of the System. This includes benefit calculations, evaluation of claims for disability retirement, preparation of data to support applications for retirement, preparation of the retiree payroll, and membership counseling. The Human Resources Section is responsible for providing administrative and human resources services for OCERS. Specifically, the areas of responsibility include contract administration, purchasing, and personnel functions of OCERS. The Information Technology Section is responsible for OCERS' network systems, personal computers and Web site, while providing programming and technical support on our Benefits Administration System. In addition, this section is responsible for the production of retiree payroll and administering all audio/visual functions. The Communications Section is responsible to all active, retired, and deferred members through publications and newsletters.

FINANCE DIVISION: This division is comprised of the Accounting Section. The Accounting Section is responsible for all the financial records and reports of OCERS. This includes the preparation of the Comprehensive Annual Financial Report, monthly and quarterly financial statements and the annual operating budget. The Accounting Section also maintains OCERS' system of internal control; balances retirement payroll, refunds of contribution and interest to members; balances members' contributions, reconciles investment portfolios and processes all invoices for goods received and services rendered.

LEGAL DIVISION: The Legal Division provides legal advice and representation to the Board of Retirement and the Orange County Employees Retirement System on a wide variety of issues affecting OCERS. Among other things, this includes issues involving disability retirements, investments, legislation, vendor contracts, and family law.

PROFESSIONAL SERVICES

As of December 31, 2001

CONSULTING SERVICES

ACTUARY

Towers Perrin
Chicago, IL

INVESTMENT CONSULTANT

Callan Associates, Inc.
Denver, CO

REAL ESTATE CONSULTANT

The Townsend Group
San Francisco, CA

INDEPENDENT AUDITOR

Link, Murrel & Co.
Irvine, CA

INVESTMENT COUNSEL

Stradling, Yocca, Carlson & Rauth
Newport Beach, CA

FIDUCIARY COUNSEL

Steefel Levitt & Weiss
San Francisco, CA

TAX COUNSEL

Jeffer, Mangels, Butler & Marmaro
Los Angeles, CA

INVESTMENT MANAGERS

DOMESTIC EQUITY

Artisan Partners
Atlanta, GA

Barclays Global Investors
San Francisco, CA

Cadence Capital Management
Boston, MA

Capital Guardian Trust Company
Los Angeles, CA

Dodge & Cox
San Francisco, CA

Delaware Investment Advisers
Philadelphia, PA

Geewax, Terker & Company
Chadds Ford, PA

Peregrine Capital Management
Minneapolis, MN

DOMESTIC FIXED INCOME

Barclays Global Investors
San Francisco, CA

**Boston Partners Asset Management
Company, LP**
Boston, MA

Loomis, Sayles & Company
Boston, MA

**Pacific Investment Management Company
(PIMCO)**
Newport Beach, CA

INTERNATIONAL EQUITY

Capital Guardian Trust Company
Los Angeles, CA

Marvin & Palmer International
Wilmington, DE

Schroder Capital Management International
London, England

Sit/Kim International

Minneapolis, MN

INTERNATIONAL FIXED INCOME

Delaware International Advisers, Ltd.

London, England

REAL ESTATE

Domestic

American Realty Advisors

Glendale, CA

CB Richard Ellis

Los Angeles, CA

SSR Realty Advisors

San Francisco, CA

PMRealty Advisors

Newport Beach, CA

Sentinel Real Estate Corporation

New York, NY

International

**PRICOA Property Investment
Management, Ltd.**

London, England

NON-TRADITIONAL INVESTMENTS

Managers

Adams Street Partners

Chicago, IL

HarbourVest Partners, LLC

Boston, MA

Limited Partnerships

TCW Asset Management Company

Los Angeles, CA

Whippoorwill Associates, Inc.

White Plains, NY

Timber

Hancock Timber Resource Group

Boston, MA

Prudential Timber Investments, Inc.

Boston, MA

CUSTODIAN

State Street California

Alameda, CA

II. FINANCIAL SECTION



Finance Division

From left, John Wrye, Christine Dollar, Darlene Huynh, Nicole Sao, Cora Andaya, Diane Dillard, Teresa Panameno, Isaac Arhin, and Toi Dang

REPORT OF INDEPENDENT AUDITORS

Link, Murrel & Company

A MEMBER FIRM OF THE LINK, MURREL & COMPANY GROUP

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 December 31, 2001 and 2000, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2001 and 2000, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

Link, Murrel & Co.

April 24, 2002
Irvine, California

Certified Public Accountants

19700 Fairchild, Suite 300

Irvine, CA 92612-3515

949-261-1120 FAX 949-261-7014

GENERAL PURPOSE FINANCIAL STATEMENTS



From left, Isaac Arhin, John Wrye and Toi Dang, CFO

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS

(in thousands)

	December 31	
	2001	2000
Assets		
Cash and Short-Term Investments		
Cash and Cash Equivalents (Note E-3)	\$ 173,454	\$ 132,567
Collateral Held for Securities Lent (Note E-6)	207,503	344,380
Total Cash and Short-Term Investments	380,957	476,947
Receivables		
Forward Currency Contracts, Net (Note F-1)	872	759
Investment Income	21,587	24,150
Securities Sales	22,421	42,339
Employer/Employee Contributions	5,949	7,103
Total Receivables	50,829	74,351
Investments, at Fair Value (Notes B-2 and E)		
United States Government Debt		
Securities and Corporate Bonds	1,757,273	2,087,889
Foreign Bonds	196,692	194,616
Domestic Equity Securities	1,547,636	1,542,377
International Equity Securities	561,195	665,920
Real Estate	343,252	339,568
Venture Capital and Limited Partnership Interests	181,822	267,858
Total Investments	4,587,870	5,098,228
Fixed Assets, Net (Note B-3)	3,205	2,148
Total Assets	5,022,861	5,651,674
Liabilities		
Collateral Held for Securities Lent (Note E-6)	207,503	344,380
Securities Purchased	232,028	478,320
Other	20,789	20,850
Total Liabilities	460,320	843,550
Net Assets Held in Trust for Pension Plan Benefits	\$ 4,562,541	\$ 4,808,124
(A schedule of funding progress is presented on page 34.)		

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS

(in thousands)

	Years Ended December 31	
	2001	2000
Additions		
Contributions (Note C)		
Employer	\$ 12,060	\$ 15,561
Employee	68,635	61,179
Total Contributions	80,695	76,740
Investment Income:		
Net Depreciation in		
Fair Value of Investments (Note E-5)	(289,021)	(219,879)
Interest on:		
Domestic and International Securities	106,358	123,794
Cash with County Treasurer (Note E-3)	74	44
Domestic Dividends	12,876	13,887
Rental Income	28,493	34,088
International Dividends	11,621	7,409
Venture Capital and Limited Partnership	(2,910)	87,027
Total Investment Income (Losses)	(132,509)	46,370
Less Investment Expenses	(18,929)	(20,556)
Net Investment Income (Losses)	(151,438)	25,814
Securities Lending Revenue (Note E-6)	2,271	1,317
Less Securities Lending Fees (Note E-6)	(691)	(392)
Net Securities Lending Income	1,580	925
Settlement Proceeds on Orange County Treasurer		
Investment Pool (Note E-10)	-	18,545
Total Additions (Decreases)	(69,163)	122,024
Deductions		
Participants' Benefits	163,378	150,466
Member Withdrawals	5,896	8,515
Administrative Expenses (Note G)	7,146	6,631
Total Deductions	176,420	165,612
Net Decrease	(245,583)	(43,588)
Net Assets Held in Trust for Pension Plan Benefits		
Beginning of Year	4,808,124	4,851,712
End of Year	\$ 4,562,541	\$ 4,808,124

See accompanying notes to financial statements.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

DECEMBER 31, 2001

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/San Joaquin Hills Transportation Corridor Agency, Sanitation District of Orange County, Orange County Employees Retirement System, Orange County Cemetery District, Orange County Vector Control District, Orange County Fire Authority, Orange County Law Library, Orange County Children and Families Commission, and Orange County Local Agency Formation Commission.

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.

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 61½.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 \$5,000, 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, 2001 and 2000:

	Active Personnel (unaudited)	
	December 31	
	2001	2000
General Members		
County and Agencies Paid by County Payroll	16,854	15,778
Outside Agencies	<u>2,799</u>	<u>2,604</u>
Subtotal - General Members	19,653	18,382
Safety Members		
County and Agencies Paid by County Payroll	1,897	1,859
Outside Agencies	<u>779</u>	<u>746</u>
Subtotal - Safety Members	<u>2,676</u>	<u>2,605</u>
Total Active Members	<u>22,329</u>	<u>20,987</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

Active Personnel (cont.)

(unaudited)

	December 31	
	2001	2000
Deferred (General & Safety) Members		
Regular	698	660
Employment with Other Agencies (Reciprocity)	720	665
Subtotal - Deferred Members	1,418	1,325
Pending - Retirement or Withdrawal Members		
General	447	476
Safety	7	484
Subtotal - Pending Members	454	960
Total Active, Deferred, and Pending	24,201	23,272

At December 31, 2001 and 2000, 13,567 and 13,418 active members, respectively, had more than 5 years of service and were vested.

Retired Personnel Receiving Benefits

(unaudited)

	December 31, 2001			December 31, 2000		
	Gen.	Safety	Total	Gen.	Safety	Total
Service Retirements	5,628	464	6,092	5,404	444	5,848
Continuances	634	52	686	604	49	653
Subtotal-Service Retirements	6,262	516	6,778	6,008	493	6,501
Service Connected						
Disability	519	285	804	518	273	791
Continuances	46	18	64	45	17	62
Subtotal-Service Disability	565	303	868	563	290	853
Nonservice Connected						
Disability	453	15	468	448	13	461
Continuances	86	16	102	84	16	100
Subtotal-Nonservice Disability	539	31	570	532	29	561
Total Retired Personnel	7,366	850	8,216	7,103	812	7,915

NOTES TO FINANCIAL STATEMENTS (Continued)

- 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.** The Plan has received a determination letter from the Internal Revenue Service dated August 14, 1985, stating that the Plan is qualified, in form, under Section 401 (a) of the Internal Revenue Code (the "Code") and, therefore, the related trust is exempt from taxation. Once qualified, the Plan is required to operate in conformity with the Code to maintain its qualification. The Board of Retirement believes the Plan is being operated in compliance with the applicable requirements of the Code and, therefore, believes that the Plan is qualified and the related trust is tax exempt.

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 members 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.
- 2. Valuation of Investments.** Quoted market prices are used to value United States Government and agency securities, corporate and foreign bonds and debentures, and domestic and international common stocks. 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, and 5 to 15 years for equipment and furniture. The cost and accumulated depreciation of fixed assets at December 31, 2001 and 2000, were as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>2001</u>	<u>2000</u>
Furniture and Equipment	\$ 1,783,000	\$ 1,702,000
Computer Software	3,358,000	2,190,000
Total Fixed Assets (at cost)	5,141,000	3,892,000
Less Accumulated Depreciation	(1,936,000)	(1,744,000)
Total Fixed Assets - Net of Depreciation	<u>\$ 3,205,000</u>	<u>\$ 2,148,000</u>

C. Contributions Required and Contributions Made

As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members 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 members' accumulated contributions at December 31, 2001 and 2000, were \$785,920,000 and \$714,084,000, respectively, including interest credited at an interest rate of 8 percent per annum. Interest is credited at an interest rate of 5% per annum as of June 30, on the balance of the members' accounts as of the prior December 31 (2.5%), and as of December 31 on the balance of the members' accounts as of the prior June 30 (2.5%). The incremental difference of 3.0% is credited to the Employer Reserve account.

The County and participating agencies' funding policy is to make periodic contributions to OCERS in amounts such that, when combined with members' contributions and with investment income, will fully provide for all members' 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). The proceeds received were recorded as employer contributions in calendar year 1994.

For accounting purposes, OCERS maintains the proceeds for the POB's in the County Investment Account (Investment Account). County Counsel, OCERS prior legal counsel, had previously issued an opinion that 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. The offsetting credits for years 2001, 2000, 1999, 1998, 1997, and 1996 were \$41,319,000, \$48,555,000, \$47,129,000, \$42,020,000, \$40,807,000, and \$53,393,000 respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

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, 2001 and 2000, the County Investment Account had a remaining balance, including interest earnings, of \$221,643,000 and \$272,789,000, respectively.

Contributions for 2001 and 2000 were approximately \$80,695,000 (\$12,060,000 employer and \$68,635,000 member) and \$76,740,000 (\$15,561,000 employer and \$61,179,000 member), respectively, consisting of:

	<u>2001</u>	<u>2000</u>
Normal Cost	\$ 111,228,000	\$ 85,517,000
Amortization of Unfunded Actuarial Accrued Liability	<u>(30,533,000)</u>	<u>(8,777,000)</u>
Total	<u>\$ 80,695,000</u>	<u>\$ 76,740,000</u>

The contributions to OCERS for 2001 and 2000 were made in accordance with the actuarially determined requirements as follows:

	Percent of Members' Payroll					
	<u>Jul '01 -</u>	<u>Dec'01</u>	<u>Jul '00 -</u>	<u>Jun '01</u>	<u>Sep '99 -</u>	<u>Jun'00</u>
	<u>General</u>	<u>Safety</u>	<u>General</u>	<u>Safety</u>	<u>General</u>	<u>Safety</u>
Employer Contributions:						
Normal Cost	4.94%	8.57%	4.56%	8.27%	4.35%	8.00%
Amortization of Unfunded Actuarial Accrued Liability	<u>(3.98%)</u>	<u>0.16%</u>	<u>(3.60%)</u>	<u>13.95%</u>	<u>(2.35%)</u>	<u>16.41%</u>
Subtotal	0.96%	8.73%	0.96%	22.22%	2.00%	24.41%
Additional Contribution	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
Total	<u>0.96%</u>	<u>8.73%</u>	<u>0.96%</u>	<u>22.22%</u>	<u>2.00%</u>	<u>24.41%</u>

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' adjusted total assets. The balance of the UFB as of December 31, 2001 was zero; therefore, Employer Contributions for the fiscal year of July 1, 2002 will increase by .50% of pay to restore the UFB to the 3% of OCERS' adjusted total assets. Measurement of the 3% minimum will be performed on December 31, 2002.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.** Investments in securities are held by the plan's custodian, State Street California. 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, 2001 and 2000, OCERS had investments in Barclays Global Investors Russell 1000 Index and S&P 500 Index Fund which individually represented 14.18% and 16.97%, respectively; of OCERS' plan net assets. In addition, OCERS had investments in Barclays Global Investors Fixed Income Index that represented 7.70% and 7.02% respectively, of OCERS' plan net assets. No other investments exceeded 5% of the System's net assets.
- 3. Cash and Cash Equivalents.** OCERS' investment portfolios 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 including the Orange County Investment Pool. In addition OCERS maintains an operating cash balance at a local financial institution, Wells Fargo Bank, to be used for retirement payroll and other operational expenses. At December 31, 2001, OCERS had money market funds of \$154,048,000 invested with OCERS' master trust custodian bank, State Street California; \$17,494,000 invested with Wells Fargo Bank and \$1,912,000 invested with the Orange County Investment Pool. All of the cash invested is uninsured and uncollateralized; interests in the money market funds and in the Orange County Investment Pool are computed on an average daily balance. The total amount classified as Cash and Cash Equivalents as of December 31, 2001 was \$173,454,000.
- 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) at December 31, 2001 are summarized as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	<u>Cost</u>	<u>Fair Value</u>
Category 1 Classification		
U.S. Government Debt Securities	\$ 502,695	\$ 509,895
Corporate Debt Securities	856,731	826,549
U.S. Government Bonds	3,513	4,995
Foreign Bonds	192,610	177,599
Domestic Equity Securities	798,473	855,103
International Equity Securities	451,422	444,338
Subtotal	<u>2,805,444</u>	<u>2,818,479</u>
Amounts Not Subject to Classification		
Investments Held by Broker-Dealers Under Securities Loans with Cash Collateral:		
Corporate Debt Securities	17,358	15,538
U.S. Government Debt Securities and U.S. Government Bonds	47,622	48,826
Domestic Equity Securities	47,488	45,390
International Equity Securities	87,171	72,192
Foreign Bonds	19,441	19,093
Orange County Treasurer's Pooled Investment	1,912	1,912
Real Estate Investments	304,176	343,252
Domestic Equity Index Fund	821,540	647,141
International Pooled Equity Funds	47,410	44,665
Domestic Pooled Fixed Income	296,267	351,472
Alternative Investment in Venture Capital and Limited Partnership	187,150	181,822
Subtotal	<u>1,877,535</u>	<u>1,771,303</u>
Less: Orange County Treasurer's Pooled Investment	<u>(1,912)</u>	<u>(1,912)</u>
Total Investments	<u>\$ 4,681,067</u>	<u>\$ 4,587,870</u>

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

5. Net Depreciation. During 2001 and 2000, OCERS' investments (including investments bought and sold, as well as held during each year) depreciated in values by (\$289,021,000) and by (\$219,879,000), respectively, as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

	Years Ended December 31	
	2001	2000
	(in thousands)	
Net Depreciation in Fair Value as Determined by Quoted Market Prices:		
Domestic Equity Securities	\$ (116,235)	\$ (54,858)
United States Government Debt Securities, Corporate & Foreign Bonds & Debentures	30,970	42,527
International Equity Securities	<u>(145,366)</u>	<u>(163,777)</u>
Subtotal	(230,631)	(176,108)
Net Depreciation in Fair Value as Determined by Estimated Fair Value:		
Real Estate	(7,912)	(6,334)
Alternative	<u>(50,478)</u>	<u>(37,437)</u>
Total Net Depreciation	<u>\$ (289,021)</u>	<u>\$ (219,879)</u>

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, 2001 and 2000 were securities with fair values of \$201,039,000 and \$332,950,000, 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 fair 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 fair value of the securities lent. OCERS invests the cash collateral in short-term securities that 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 2001.

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 State Street California in separate collateral accounts. The contract with State Street California 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, 2001 and 2000.

NOTES TO FINANCIAL STATEMENTS (Continued)

Gross security lending revenues for 2001 and 2000 were \$2,271,000 and \$1,317,000, 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 fair value of the securities lent to ensure that the value of the collateral equals or exceeds 100 percent of the fair value of the securities lent as of the valuation date. At December 31, 2001 and 2000, OCERS held broker collateral with fair values totaling \$207,503,000 and \$344,380,000, respectively. At year end, the System has no credit risk exposure to borrowers because the amounts the System owes the borrowers exceed the amounts the borrowers owe the System.

- 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. Alternative Investments.** OCERS' alternative 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. The second method of investment is OCERS' participation as a limited partner in limited partnership funds. As of December 31, 2001, OCERS has approximately \$105,613,000 of open commitments in six alternative investments. These investments 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 \$1,757,273,000 as of December 31, 2001, approximately \$664,971,000 are classified as derivative securities in accordance with the GASB definition (see note F for other derivative investments). These holdings include asset-backed securities, mortgage-backed securities, zero coupon bonds, variable rate securities, fixed income options, and interest rate caps. 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:

<u>Securities</u>	<u>Fair Value</u> <u>2001</u>	<u>Fair Value</u> <u>2000</u>
FHA	\$ 19,958,000	\$ 22,662,000
FHLMC	29,314,000	74,199,000
FNMA	136,649,000	74,918,000
GNMA	379,555,000	589,325,000
CMO	55,369,000	48,138,000
Others	<u>44,126,000</u>	<u>37,199,000</u>
Total Derivative Securities	<u>\$ 664,971,000</u>	<u>\$ 846,441,000</u>

- 10.** As a result of the County's successful litigation against certain brokerage firms relating to the 1994 bankruptcy matters, in the calendar year 2000 the System received \$18,545,000 in settlement proceeds from the County of Orange. The System does not expect to receive additional settlement proceeds in the future.

NOTES TO FINANCIAL STATEMENTS (Continued)

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, 2001 and 2000. 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, 2001 and 2000, OCERS had net forward currency contract receivables of \$872,000 and \$759,000, 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 (\$2,933,300) and (\$2,000,000) of net depreciation during 2001 and 2000, respectively. As of December 31, 2001 and 2000, OCERS had open contracts of \$195,871,000 and \$95,026,000, respectively, for the purchase of U.S. Treasury notes and Financial Future Euro Dollars 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, 2001 and 2000, OCERS had collateral deposits of \$2,895,000 and \$3,717,000, respectively, in cash equivalents, U.S. Treasury bills and notes.

G. Administrative Expenses

Section 31580.2 of the Government Code limits the annual administrative expenses of the retirement system to eighteen-hundredths of 1 percent (18 basis points) of the total assets of the retirement system. Total administrative expenses for the year ended December 31, 2001 were \$6,209,000 or approximately 12.4 basis points. As of December 31, 2000, 18 basis points of the total assets of the System was approximately \$9,041,000. Additionally, Section 31596.1 of the Government Code allows certain costs to be excluded from administrative expenses that 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.

	<u>Years Ended December 31</u>	
	<u>2001</u>	<u>2000</u>
	(in thousands)	
Expenses Subject to Statutory Limitation:		
Personnel Services:		
Board Members' Allowance	\$ 14	\$ 16
Employee Salaries and Benefits	3,555	2,949
Total Personnel Services	3,569	2,965
Office Operating Expenses:		
Operating Expenses	731	659
Professional Services	969	1,397
Rent/Leased Real Property	747	663
Depreciation/Amortization	193	185
Total Office Operating Expenses	2,640	2,904
Total Expenses Subject to Statutory Limitation	6,209	5,869

NOTES TO FINANCIAL STATEMENTS (Continued)

Expenses Not Subject to Statutory Limitation:

Commingled Interest Cost	2	1
Actuarial/Fund Evaluation Costs	488	345
Custodian Services	309	309
Legal Costs	36	14
Additional Death Benefit Costs	102	93
Total Expenses Not Subject to Statutory Limitation	<u>937</u>	<u>762</u>
Total Administrative Expenses	<u>\$ 7,146</u>	<u>\$ 6,631</u>

H. Reserve Accounts

The plan net assets of \$4,562,541,000 as of December 31, 2001 includes reserves of \$4,434,094,000 and unreserved net assets of \$128,447,000. The unreserved net assets include the Investment Account.

The reserve balances as of December 31, 2001 are as follows (in thousands):

Active Members	Retired Members	Employer Advanced	ARBA	Death Benefits	Total
<u>Reserves</u>	<u>Reserves</u>	<u>Reserves</u>	<u>Reserves</u>	<u>Reserves</u>	<u>Reserves</u>
<u>\$ 785,920</u>	<u>\$1,880,464</u>	<u>\$1,403,701</u>	<u>\$ 363,077</u>	<u>\$ 932</u>	<u>\$4,434,094</u>

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. In 2000, OCERS transferred from the UFB \$319,629,000 and \$245,006,000 to the Employer Advanced Reserves and ARBA reserves, respectively. The amounts maintained in the ARBA are to be applied to health insurance or other supplemental benefits for OCERS' retirees. There are no transfers to the ARBA account made in year 2001 because the UFB was zero.

I. 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. On May 4, 1998 the Board of Retirement adopted Resolution No. 98-009 to

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

After the Board of Retirement implemented the Supreme Court decision, litigation arose in Orange County and in most other counties with retirement systems governed by the County Employees Retirement Law of 1937, challenging the various retirement boards' actions to implement the decision. In December 1998, the cases were coordinated into a single proceeding in the San Francisco County Superior Court, to resolve the many disputes that have arisen. The proceedings are pending and no final decision of the Court has been issued. In a series of interim rulings, the Court has determined that the Board of Retirement acted properly in implementing the Supreme Court decision. There are remaining issues to be determined before final judgment can be entered. The ultimate outcome of these proceedings and the financial impact on OCERS cannot be determined.

REQUIRED SUPPLEMENTARY INFORMATION



Legal Division

From left, Fred Messerer, Elizabeth Martyn, and Julie Wyne.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION - TREND INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE YEARS ENDED DECEMBER 31

(in thousands)

	Valuation Year					
	2001	2000	1999	1998	1997	1996
Actuarial Value of Assets ¹ (a)	\$4,586,844	\$4,497,362	\$3,931,744	\$3,504,708	\$3,128,132	\$2,675,632
Actuarial Accrued Liability (b)	\$4,843,899	\$4,335,025	\$4,017,279	\$3,682,686	\$3,332,967	\$2,851,894
Total Unfunded Actuarial Accrued Liability (UAAL) (b-a=c)	\$257,055	(\$162,337)	\$85,535	\$177,978	\$204,835	\$176,262
Funded Ratio (a/b)	94.69%	103.74%	97.87%	95.17%	93.85%	93.82%
Covered Payroll (d)	\$1,122,763	\$994,669	\$912,490	\$863,199	\$781,890	\$758,897
UAAL as a Percentage of Covered Payroll (c/d)	22.89%	(16.32%)	9.37%	20.62%	26.20%	23.23%

Notes:

1. The 12/31/96, 12/31/97, 12/31/98, 12/31/99, 12/31/00, and 12/31/01 actuarial value of assets exclude \$313,250,000, \$322,333,000, \$302,909,000, \$286,139,000, \$272,789,000, and \$221,643,000 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 28-year period beginning July 1, 1996.

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

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
 REQUIRED SUPPLEMENTARY INFORMATION - TREND INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS FOR THE YEARS ENDED DECEMBER 31**

(in thousands)

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u>	<u>1996</u>
Annual Required Contribution ⁽²⁾	\$ 12,060	\$ 15,561	\$ 17,591	\$ 17,977	\$ 17,570	\$ 16,463
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, which was recorded as employer contribution in 1994. 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 1996, and 1997, the Investment Account funded approximately 90% of the County's employer contribution. In 1998 and 1999 the Investment Account funded approximately 85% and 80% of the County's employer contribution, respectively. In years 2000 and 2001 the amortization of the UAAL was negative and, on a percentage basis, exceeded the required normal cost funding requirement. Therefore, the County contribution is absorbed 100% by the County Investment Account.
2. Employer contributions for 2001, 2000, 1999, 1998, 1997 and 1996 excluded \$41,319,000, \$48,555,000, \$47,129,000, \$42,020,000, \$40,807,000 and \$53,393,000, respectively, of funds transferred 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
REQUIRED SUPPLEMENTARY INFORMATION - TREND INFORMATION**

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 for paying 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	12/31/2001.
Actuarial cost method	Projected Unit Credit.
Amortization method	Level dollar (closed)
Remaining amortization period	22 years (closed)
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

2001 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

2000 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

1999 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

1998 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

Reduced termination rates.

Moved retirement age slightly older.

Changed Pre-retirement Mortality Table from 1971 GAM to 1983 GAM.

1997 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

1996 Changes in Plan Provisions and Actuarial Assumptions 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 and Actuarial Assumptions Since Prior Year

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

1994 Changes in Plan Provisions and Actuarial Assumptions Since Prior Year

No significant changes in Plan provisions.

1993 Changes in Plan Provisions and Actuarial Assumptions 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%.

OTHER SUPPLEMENTARY INFORMATION

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

(in thousands)

	2001	2000
Expenses Subject to Statutory Limitation		
Personnel Services:		
Board Members' Allowance	\$ 14	\$ 16
Employee Salaries and Benefits	3,555	2,949
Total Personnel Services	3,569	2,965
Professional Services:		
Legal Fees	356	611
Financial Audit	86	79
Internal Audit	45	8
Mortality Verification	5	0
Tax Filing	0	5
Information Technology Consultant	11	30
Team Building Consultant	0	2
Hearing Officers/Medical Consultants	245	244
Pre-retirement Seminars	16	14
Miscellaneous	205	404
Total Professional Services	969	1,397
Other Operating Expenses:		
Telephone and Communication	48	48
Maintenance	103	126
Printing and Duplicating	113	141
Building and Equipment Leases	747	663
Transportation, Travel and Training	244	173
Postage Expense	119	81
Office Supplies and Expenses	104	90
Depreciation Expenses	193	185
Total Other Operating Expenses	1,671	1,507
Total Expenses Subject to Statutory Limitation	6,209	5,869
Expenses Not Subject to Statutory Limitation		
Fund Evaluation Cost	265	150
Custodian Services	309	309
Commingled Interest Cost	2	1
Actuarial Cost	223	195
Legal Costs	36	14
Additional Death Benefits Cost	102	93
Total Expenses Not Subject to Statutory Limitation	937	762
Total Administrative Expenses	7,146	\$ 6,631

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

(in thousands)

<u>Name of Firms</u>	<u>Type of Services</u>	<u>2001</u>	<u>2000</u>
Professional Expenses Subject to Statutory Limitation			
County of Orange	Board Election	\$ 12	\$ 42
County of Orange	Cost Allocation (CWCAP)	-	37
PMW Associates	Team Building Workshop	-	2
DMG Maximus, Inc.	Recruitment Costs	12	12
Keith Bozarth	Relocation Cost	45	-
Epoch Internet	Internet Access	18	17
Manpower, Inc.	Temporary Personnel	37	107
Lexis-Nexis	Legal On-line Access	17	16
E-Partners	System Consulting	14	-
The Ponzi Group	Membership Survey	-	19
Carolyn Ford and Associates	System Implementation	11	30
Haynie and Company	Tax Filing	-	5
Barbara Evans	Legal Services	6	68
Buchalter, Nemer, Fields & Younger	Legal Services	-	2
County Counsel	Legal Services	-	18
Foley & Lardner	Legal Services	20	20
Phillip Eaton & Associates	Legal Services	1	-
Steeffel, Levitt & Weiss	Legal Services	314	521
William B. Gibson, esq.	Legal Services	15	-
Link, Murrel & Company	Financial Audit	79	0
Link, Murrel & Company	Internal Audit	45	8
The Berwyn Group	Mortality Verification	5	-
Various Firms	Disability/Medical Hearings	245	244
Financial Management Group	Pre-retirement Seminars	16	14
Various Professional Firms	Other Services	205	404
Total Professional Expense Subject to Limitation		\$ 969	\$ 1,397
Professional Expenses Not Subject to Statutory Limitation			
Callan Associates, Inc.	Performance Evaluation	265	150
State Street California	Master Trust Custody	309	309
County of Orange	Commingled Interest Cost	2	1
Towers Perrin	Actuarial Services	223	195
Stradling, Yocca, Carlson, & Rauth	Legal Counsel	36	14
Additional Death Benefits Cost	Member Benefits	102	93
Total Professional Expenses Not Subject to Limitation		937	762
Total All Professional Fees		\$ 1,906	\$ 2,159

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF FEES AND OTHER INVESTMENT EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000

(in thousands)

	<u>2001</u>	<u>2000</u>
Domestic Equity	\$ 3,583	\$ 4,691
International Equity	3,557	3,789
Global Fixed Income	2,949	2,994
Real Estate	2,489	3,120
Venture Capital	2,616	3,158
Other Alternative Investments	3,735	2,804
Total Fees & Other Investment Expenses	<u>18,929</u>	<u>\$ 20,556</u>

III. INVESTMENT SECTION



Investment Division

From left, Tracy Ayres and Shanta Chary. (Not pictured, Farouki Majeed, CIO)

CALLAN ASSOCIATES.

May 10, 2002

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



SAN FRANCISCO
NEW YORK
CHICAGO
ATLANTA
DENVER

Board of Retirement
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, California 92701-3101

Dear Board Members:

This letter reviews the investment performance of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2001.

The System's custodian during the calendar year, State Street Bank and Trust Company, independently prepared the underlying performance data. The performance calculations were made in compliance with AIMR Performance Presentation Standards. Callan Associates Inc. serves as OCERS' independent investment consultant and evaluates the System's performance in relation to market benchmarks, appropriate manager peer groups and other public pension funds.

OCERS' primary investment objective is to prudently and expertly invest the System's assets, in accordance with governing law and industry practices, in a manner that will ensure the System's ability to pay promised benefits to participants and their beneficiaries. In pursuit of this objective, OCERS' Board periodically evaluates the System's liabilities, expected contributions and potential earnings. This analysis is used to evaluate alternative investment policies. The Board selects a strategic investment policy that balances growth potential and acceptable risk. A policy benchmark index is constructed that mirrors the System's strategic asset allocation policy. This policy benchmark is a custom market index comprised of stock, bond and real estate indices weighted in the same proportions as the System's investment policy.

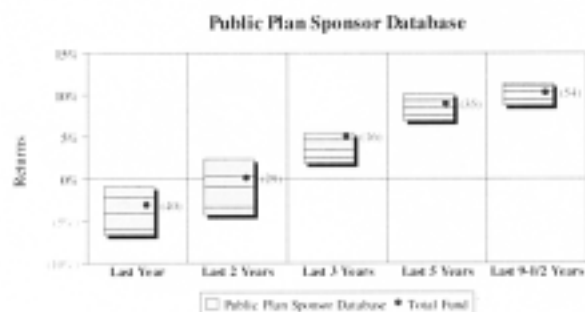
The stock market, as measured by the Russell 3000 Stock Index, registered a substantial decline of 11.46% in calendar 2001. In combination with the losses registered in 2000, the two-year period was the worst for equity investors since the 1973-74 bear market. Stocks, particularly those of growth-oriented companies fell substantially in the first calendar quarter, recovered some by mid-year, but then collapsed in response to the terrorist attacks and continued weak economic environment. Fortunately, markets and the economy showed signs of recovery in the fourth quarter of the year. International stocks, on balance, mirrored domestic stocks. Developed markets behaved similarly to the U.S. market while emerging markets experienced much smaller declines. Interest

550 EAST 8TH AVENUE, DENVER, COLORADO 80203 TELEPHONE 303.861.1900 FACSIMILE 303.832.8230

rates declined substantially through the first nine months of the year causing bond market values to increase; rates headed higher, however, in the fourth quarter. For the full year, short-term rates declined markedly while long-term rates were only slightly lower than at the start of the year. Nonetheless, high quality bonds clearly provided the strongest overall returns.

For the calendar year, OCERS' total fund had a time-weighted total return of negative 3.22%. When compared to Callan's Public Fund Database, OCERS ranked in the 40th percentile; this ranking is largely attributable to the System having a more conservative than average asset policy. On an asset allocation adjusted basis, OCERS ranked in the 29th percentile. The return also exceeded the System's strategic policy benchmark target return of negative 3.91%. The policy benchmark is comprised of the following indices in the percentages as indicated: Russell 3000 (33%); MSCI-All Countries World ex-U.S. (14%); Lehman Brothers U.S. Universal Bond Index (34%); NCREIF Total Index (9%); Non-traditional assets (5%) and Salomon Non-S Bond Index Hedged (5%). Over longer-term periods, the System's total return now exceeds the policy index. For example, the nine and one-half year return of 10.17% was 4 basis points above the policy benchmark's 10.13% annualized return.

The graph below depicts the Total Fund relative to Callan's Total Public Fund Database for cumulative periods ended December 31, 2001.



OCERS' U.S. equity composite declined 6.89% in 2001. This was significantly better than the equity market target return of negative 11.46%. It also was well above the median domestic equity return in the Callan Public Fund Sponsor database (it placed in the 13th percentile). The continued improvement in domestic equity performance relative to the stock market resulted in the trailing three-year return exceeding the Russell 3000 Stock Index (a positive 1.36% annualized return versus a negative 0.31% for the index). The trailing five-year return now exceeds the market return (10.82% vs.

10.14%). The System's disciplined rebalancing program contributed importantly to the strong relative performance.

OCERS' international equity composite registered comparatively weak results in 2001. In aggregate, the System's international equity investments lost 20.37%. This trailed the MSCI-All Countries ex-U.S. Index return of negative 19.50% and the median manager return of negative 19.00%. Over longer-term periods, the System's international composite has posted significantly better than market-index returns and better than median results when compared with peers. For example, the composite's 5- and 10-year returns rank in the 36th and 19th percentiles, respectively, of Callan's Public Fund Sponsor International Equity database.

OCERS' domestic bond managers in aggregate have achieved excellent long-term returns. In calendar 2001, results slightly exceeded the System's bond market target (8.17% vs. 8.10%). Over the trailing five years, the domestic bond composite's compound annual return of 7.64% was well above the market index return of 7.17% and the median public fund's 7.39% result. OCERS' international bond portfolio did well relative to peers in 2001. This component of the portfolio enjoyed a positive return of 1.30% while the median International Non-Dollar bond manager returned a negative 2.69%.

In summary, calendar 2001 was a difficult but comparatively positive year for the fund. Minimizing losses in negative market environments is a major accomplishment. OCERS, by maintaining its comparatively conservative but balanced investment program, successfully weathered the worst bear market since 1973-74. Importantly, results in all major asset categories were consistent with longer-term expectations. Better than market domestic equity returns combined with a lower than average total equity allocation contributed importantly to the System's very competitive overall return. Similarly, the System's broad diversification including meaningful exposure to real estate helped smooth total fund returns in a very difficult market environment. Finally, the System's adherence to a disciplined rebalancing program designed to ensure that actual asset allocations are close to target enhanced overall results. OCERS' investment program, in our judgement, is well diversified and prudently structured.

Sincerely,



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

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

INVESTMENT RETURNS

The table below details the annualized rates of return for the different asset categories over various time periods ended December 31, 2001. The returns for each asset class represents the composite returns of all the manager portfolios within that asset class. All returns are gross of fees except for alternative assets and real estate, where some of the fees are deducted at source.

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
Domestic Equity	-6.89%	1.36%	10.82%
<i>Russell 3000 Index</i>	-11.46%	-0.31%	10.14%
International Equity	-20.37%	0.62%	3.97%
<i>MSCI AC World Ex US Index</i>	-19.50%	-3.64%	0.89%
<i>MSCI Eafe Index</i>	-21.44%	-5.05%	0.89%
Domestic Fixed	8.17%	6.66%	7.64%
<i>Lehman Bros Universal Index</i>	8.10%	6.27%	7.17%
International Fixed Income	1.30%	2.96%	5.14%
<i>S/B Non-US Hedged Govt. Index</i>	6.12%	6.17%	8.20%
Cash & Equivalents	4.98%	6.08%	6.59%
Real Estate	5.88%	8.51%	9.74%
<i>NCREIF Property Index</i>	10.17%	11.34%	12.61%
Alternative Investments	-26.92%	14.04%	12.79%
Total Fund	-3.22%	4.96%	8.83%
<i>Composite Policy Benchmark</i>	-3.91%	3.89%	8.95%

* Policy Benchmark = 33% Russell 3000 + 34% LB US Universal Index + 9% NCREIF Property Index + 5% OCERS Non-Traditional + 14% MSCI All Country World Ex USA + 5% Salomon Non-US Hedged Government Index.

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES

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

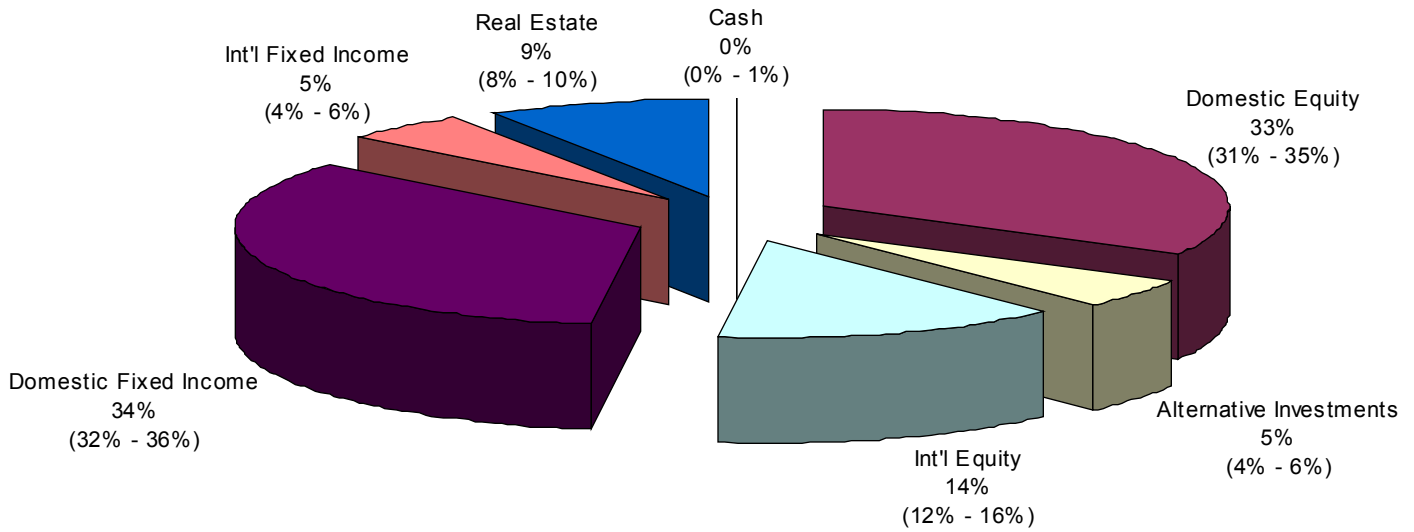
For each major asset class, the System shall diversify assets by employing managers with demonstrated skill in their particular areas of expertise. The System will retain managers who utilize varied investment approaches and allocate assets in a manner that is consistent with the overall strategic plan. 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.

Orange County Employees Retirement System

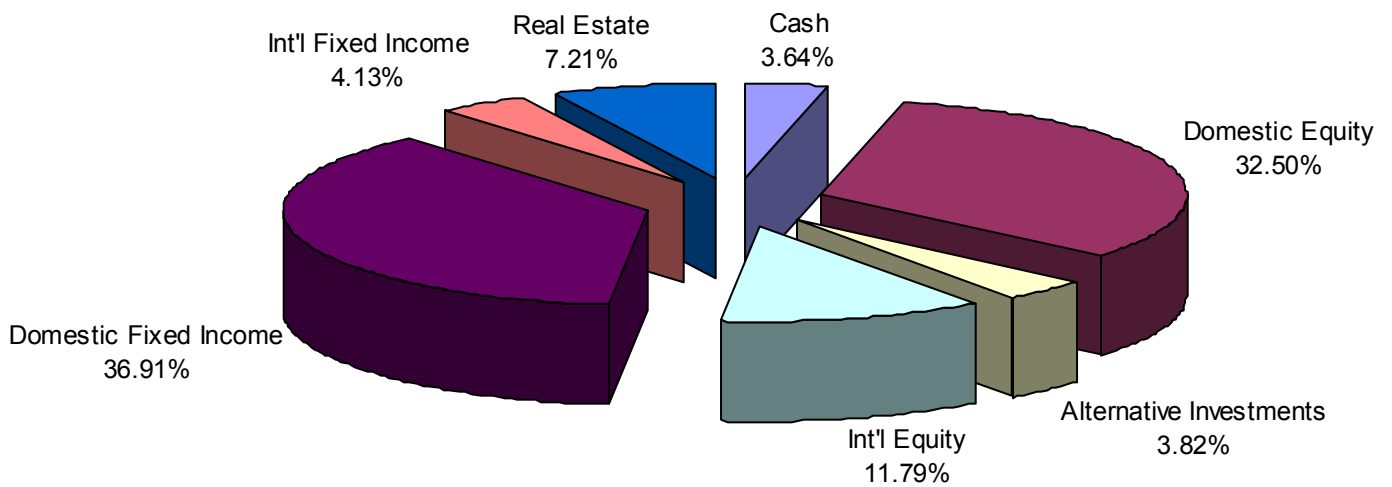
Asset Diversification

December 31, 2001

Policy

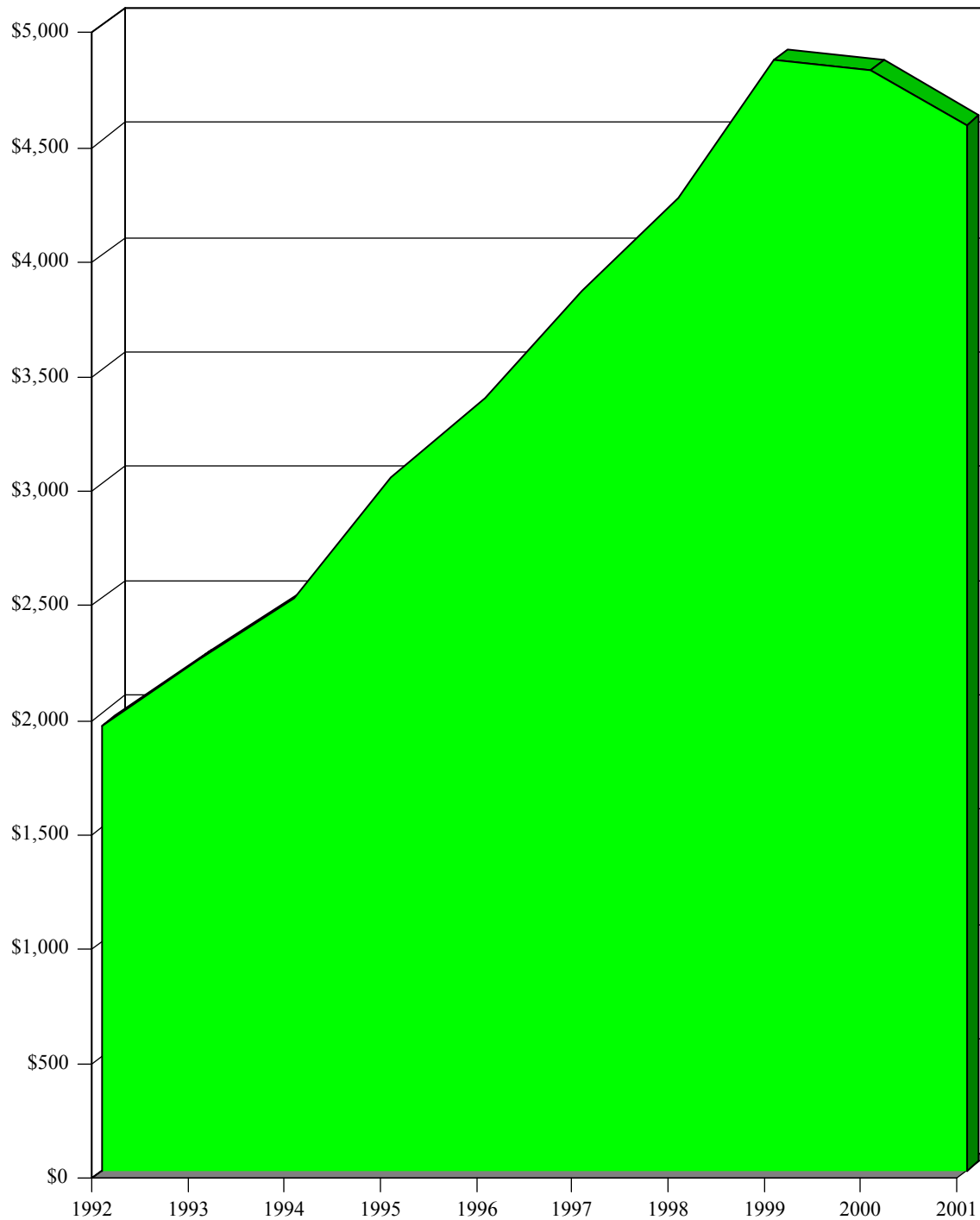


Actual

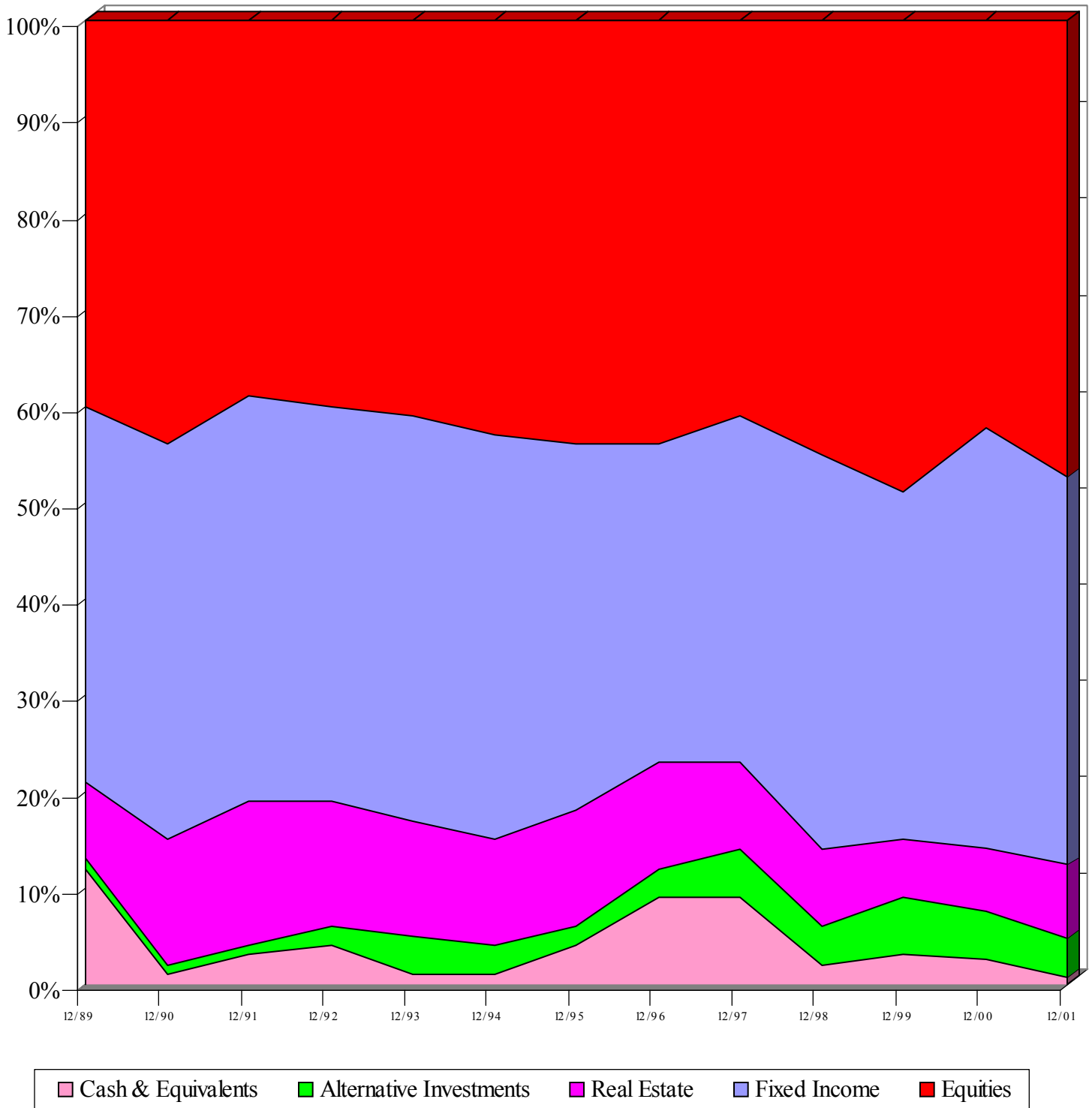


* Includes cash equivalents held by investment managers.

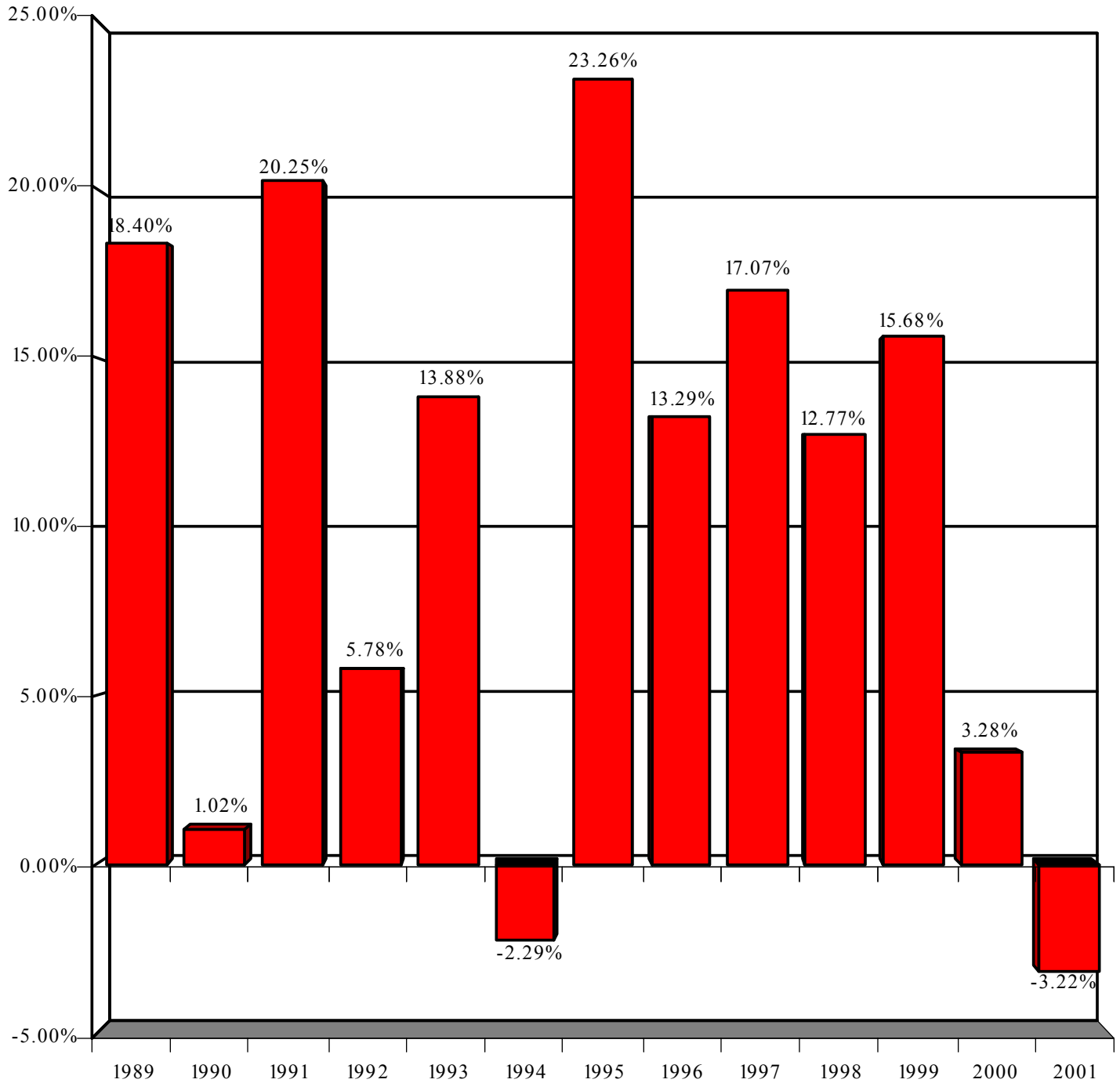
Orange County Employees Retirement System Growth of System Net Assets at Fair Value For Ten Years Ended December 31, 2001 (in Millions of Dollars)



Orange County Employees Retirement System Historical Asset Allocation (Actual) December 1989 - December 2001



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



**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2001**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Abel Noser Corporation	83,000	4,150	0.0500
ABN AMRO Securities	3,272,344	89,151	0.0272
Adams Harkness & Hill, Inc.	2,600	130	0.0500
Advest, Inc.	8,000	400	0.0500
Albert E Sharp	12,580	166	0.0132
Alfred Berg - London	83,030	6,150	0.0741
Autranet, Inc.	10,000	500	0.0500
Baird, Robert W & Co.	3,400	204	0.0600
Bank of NY/James Capel and Co.	14,000	710	0.0507
BancAmerica Security LLC Montgomery Div.	14,900	757	0.0508
BancBoston Robertson Stephens	228,300	13,567	0.0594
Banco Santander	9,740	570	0.0585
Bank America Bellevue Zurich	541	1,610	2.9760
Bank J. Vontobel Und Co, AG	490	458	0.9349
Bank Julius Baer Frankfurt	8,700	4,265	0.4902
Bank of America Security LLC	174,500	10,465	0.0600
Bankers Trust International, Ltd.	132,544	2,822	0.0213
Banque National De Paris	2,192	1,551	0.7077
Banque Paribas	36,300	1,366	0.0376
Baring Securities (Hong Kong)	117,000	1,466	0.0125
Baum George K. & Company	400	20	0.0500
Bear, Stearns Securities Corp.	722,647	40,502	0.0560
Bernstein Sanford C & Co., Inc.	385,080	21,937	0.0570
Blair, William and Company	4,300	215	0.0500
BNY ESI & Co. - Alpha Division	163,400	9,804	0.0600
Boston Institutional Services	1,100	66	0.0600
Bradfor, J.C. & Co.	70,000	4,200	0.0600
Bridge Trading	1,171,314	42,358	0.0362
Broadcort Capital (Thru ML)	46,200	2,772	0.0600
Brown Brothers Harriman & Co.	30,400	1,803	0.0593
BT Alex Brown	193,000	11,457	0.0594
B-Trade Services LLC	8,200	167	0.0204
Buckingham Research Group	72,900	4,115	0.0564
C.L. King & Associates	13,500	810	0.0600
Canadian Imperial Bank of Commerce	23,040	939	0.0407
Cantor Fitzgerald & Co., Inc.	1,057,500	52,841	0.0500
Capel, James HSBC Securities Inc.	64,000	3,810	0.0595
Capital Institutional Services	1,808,228	108,494	0.0600
Carnegie Bank	6,540	880	0.1345
Cazenove & Co.	426,786	8,603	0.0202
CCF Securities	2,320	1,319	0.5686
Charles Schwab & Co., Inc.	12,200	610	0.0500
Charles, Akar & Associates Inc.	26,200	1,572	0.0600

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2001

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
Charterhouse Tilney Securities Ltd.	72,033	1,233	0.0171
Chevreus De Virieu	127,760	5,617	0.0440
CIBC Openheimer & Co.	40,500	2,307	0.0570
CIBC World Markets Corp.	167,800	9,937	0.0592
CIS Client Directed	20,000	1,200	0.0600
Citation Group	54,500	3,270	0.0600
Collins Stewart	41,300	566	0.0137
Commerzbank AG	180,510	1,828	0.0101
Conning & Co.	8,900	445	0.0500
Correspondent Services, Inc.	124,103	4,027	0.0324
County Natwest Securities Ltd.	100,700	3,433	0.0341
Credit Agricole Indoduez Cheuvreux	7,400	2,823	0.3815
Credit Lyonnais Securities	1,645,300	11,734	0.0071
Credit Research & Trading LLC	32,750	983	0.0300
CS First Boston Corporation	3,737,788	162,078	0.0434
D E Shaw Securities	479,310	9,586	0.0200
Dain Rauchser Inc.	86,600	4,554	0.0526
Daiwa SB Capital	7,000	31	0.0045
Davy (J & E)	21,800	496	0.0228
DB Clearing Services	845,200	30,165	0.0357
Deutsche Morgan Grenfell (London)	323,885	14,672	0.0453
Deutsche Securities Australia	12,300	329	0.0268
Donaldson, Lufkin & Jenrette Securities	1,294,120	60,595	0.0468
Doyle Paterson Brown	281,200	2,612	0.0093
Dresdner Kleinwort Besnon	349,223	3,334	0.0095
Edwards AG & Sons Inc.	3,000	150	0.0500
Enskilda Securities	25,000	907	0.0363
Ernst & Co.	35,000	2,070	0.0591
ESI Securities Company	258,007	9,666	0.0375
Euromobiliare	60,200	402	0.0067
Everen Securities	852	43	0.0500
Exane S.A.	139,804	21,170	0.1514
Factset Data Systems	48,500	2,850	0.0588
Fidelity Capital Markets	598,105	35,295	0.0590
First Albany Corp.	72,100	4,141	0.0574
First Analysis Securities Corp.	3,000	150	0.0500
First Union Capital Markets	694,000	41,287	0.0595
Fiserv Correspondent Services Inc.	1,600	80	0.0500
Fox Pitt Kelton Inc.	57,600	3,386	0.0588
Freimark Blair & Company, Inc.	26,300	1,578	0.0600
Furman, Selz, Magerditz & Birney	492,300	28,665	0.0582
G.K. Goh Stockbrokers PTE LTT.	50,000	2,563	0.0513

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2001**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
Genesis Merchant Group Securities	5,200	260	0.0500
Goldman Sachs & Company	5,145,369	132,447	0.0257
Gruntal & Co.	3,600	180	0.0500
Hoare Govett Securities Ltd.	870,280	25,789	0.0296
Hoeffler & Arnett	66,700	4,002	0.0600
Hoening & Co.	16,400	968	0.0590
HSBC Investment Bank PLC	5,144,564	91,671	0.0178
Illinois Securities Co.	2,600	156	0.0600
Indosuez Capital Securities	211,000	4,968	0.0235
ING Barings Securities Ltd.	272,651	4,256	0.0156
Instinet Corp.	2,814,461	77,683	0.0276
Interstate/Johnson Lane Corp.	83,591	4,952	0.0592
Invesment Technology Group, Inc.	2,576,153	59,536	0.0231
ISI Group, Inc.	2,400	120	0.0500
ITG Posit	56,000	1,120	0.0200
J B and Son	240,409	3,532	0.0147
J Chevreux	9,900	2,401	0.2426
James Capel Pacific Ltd., Tokyo	72,204	4,518	0.0626
Janey Montgomery, Scott	223,380	12,576	0.0563
Jardine Fleming Securities Ltd..	983,143	10,440	0.0106
JB Were Capital Markets	94,800	2,825	0.0298
Jefferies & Co.	1,499,056	62,948	0.0420
Jones & Associates	65,600	3,294	0.0502
JP Morgan Securities Limited	346,023	25,179	0.0728
Keefe Bruyette & Woods, Inc.	183,000	10,910	0.0596
Kinnard John G. & Co.	1,600	80	0.0500
Kleinwort Benson Securities Limited	2,275,278	64,859	0.0285
Knight Securities L.P.	13,300	798	0.0600
Ladenburg Tahalman & Co.	2,400	120	0.0500
Lakeview Securities Corp.	25,000	1,500	0.0600
Lazard Freres & Co.	41,000	2,081	0.0508
Legg Mason Wood Walkers Inc.	338,969	19,965	0.0589
Lehman Brothers, Inc.	2,009,943	88,399	0.0440
Levesque Beaubien Geoffrion	7,800	318	0.0408
Lewco Securities Agent/Hambrecht & Quist	90,000	5,185	0.0576
Lewco Securities Agent/Wertheim & Schroder	330,400	18,157	0.0550
Lynch Jones and Ryan, Inc.	1,288,000	74,996	0.0582
MacQuarie Investment	95,000	1,790	0.0188
Maxus Corp.	3,900	195	0.0500
McDonald & Co.	16,600	830	0.0500
Merrill Lynch Pierce Fenner & Smith	5,120,253	195,958	0.0383
Miller Tabak Hirsch	402,650	26,797	0.0666

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2001

Brokerage Firms	Number of Shares Traded	Total Commission	Commission Per Share
Montgomery Correspondent Services	122,000	7,305	0.0599
Monument Derivatives	344,066	2,067	0.0060
Morgan Grefell and Co., Limited	1,278,631	40,716	0.0318
Morgan Keegan & Co., Inc.	5,700	342	0.0600
Morgan Stanley & Co., Inc.	4,265,812	178,478	0.0418
Morgan J.P., Securites, Inc.	814,291	32,010	0.0393
Mutual Service Corp.	93,700	5,622	0.0600
NationsBanc Montgomery Securites	200,400	11,816	0.0590
Natwest Securites Corp.	383,100	25,399	0.0663
Nesbitt Burns	338,827	13,596	0.0401
Neuberger & Berman	452,500	26,912	0.0595
Nomura Securites Co., Ltd.	631,252	11,710	0.0186
Nutmeg Securities	29,900	1,495	0.0500
O'Neil, Willian and Co.	49,700	2,982	0.0600
Ord Minnett, Ltd..	94,100	4,091	0.0435
Pacific Crest Securities	1,100	55	0.0500
Paine Webber Incorporated	519,976	28,443	0.0547
Panmure Gordon & Co., Ltd.	15,294	189	0.0124
Paribas Corp.	255,380	8,759	0.0343
Parker/Hunter Incorp.	5,400	270	0.0500
Paulsen, Downing Securities, Inc.	25,900	1,464	0.0565
PSC Securities, Inc.	26,250	1,469	0.0559
Phileo Allied Securities	262,000	3,653	0.0139
Piper Jaffray, Inc.	70,800	4,142	0.0585
Prudential Securities Incorporated	251,450	14,623	0.0582
Ragen MacKenzie Incorporated	1,400	70	0.0500
Raida Stockbrokers	3,190	172	0.0538
Raymond James and Associates, Inc.	24,700	1,306	0.0529
RBC Dominion Securities, Inc.	58,845	3,501	0.0595
Realty Securities	4,300	258	0.0600
Reuschel and Co.	2,630	434	0.1649
Reynders, Gray & Company, Inc.	64,500	2,900	0.0450
Robert Fleming & Co., Ltd.	377,105	8,947	0.0237
Robert W. Baird & Co., Incorporated	372,800	22,253	0.0597
Robinson Humphrey	293,350	16,975	0.0579
Robotti & Company	87,700	5,262	0.0600
Rochdale Securities Corp. (CLS Thru 443)	8,545,768	273,680	0.0320
Russell Frank Securities, Inc.	25,715	1,424	0.0554
Ryan Beck & Co.	7,300	365	0.0500
S G Warburg Securities Corporation	575,572	10,047	0.0175
Salomon Smith Barney, Inc.	7,288,599	219,278	0.0301
Santaderin Investment Securities, Inc.	8,140	470	0.0578

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM
SCHEDULE OF COMMISSIONS
FOR THE YEAR ENDED DECEMBER 31, 2001**

<u>Brokerage Firms</u>	<u>Number of Shares Traded</u>	<u>Total Commission</u>	<u>Commission Per Share</u>
SBC Warburg	3,030,229	54,557	0.0180
Schroder Securities	198,600	4,473	0.0225
Scotia Capital Markets	4,300	174	0.0405
SG Cowen Securities Corp.	339,900	13,687	0.0403
Skandinaviska Enskilda Banken London	2,520	883	0.3504
Societe General Securities Corporation	321,978	12,465	0.0387
Soundview Financial Group	16,900	845	0.0500
Soundview Technology Group	2,800	140	0.0500
Southcoast Capital LLC	9,900	495	0.0500
Spear, Leeds & Kellogg	302,600	18,156	0.0600
Standard & Poors Securities	220,800	13,248	0.0600
State Street Brokerage Services	2,800	140	0.0500
Status Securities	5,200	218	0.0419
Stephens, Inc.	10,408	543	0.0522
Suntrust Equitable Securities Corp.	3,000	150	0.0500
Svenska Handelsbanken	16,260	770	0.0474
Thomas Weisel Partners	60,100	3,595	0.0598
Thomson Institutional Service	28,900	1,734	0.0600
Toronto Dominion Securities, Inc.	2,000	79	0.0393
Troster Singer Stevens Rothchild , Corp.	800	40	0.0500
Tucker, Anthony Clear Gull	213,100	12,128	0.0569
U.S. Clearing Corporation	113,147	6,005	0.0531
UBS Securities, Inc.	196,329	3,432	0.0175
Wachovia Securites, Ins.	38,500	2,157	0.0560
Warburg Dillon Read LLC	2,400,924	52,196	0.0217
Weeden & Co.	434,700	24,355	0.0560
Weiss Peck and Greer	118,600	5,437	0.0458
West LB Securities	68,000	1,661	0.0244
Westminster Research Associates	134,600	8,076	0.0600
Wheat, First Securities, Inc.	126,500	7,590	0.0600
Wilshire Associates	7,500	450	0.0600

ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM

INVESTMENT SUMMARY

DECEMBER 31, 2001

(in thousands)

<u>Investment</u>	<u>Fair Value</u>	<u>Percentage</u>
Domestic Equity	\$ 1,547,636	32.50%
Domestic Fixed Income	1,757,273	36.91%
International Equity	561,195	11.79%
International Fixed Income	196,692	4.13%
Alternative Investments	181,822	3.82%
Real Estate	343,252	7.21%
Cash and Cash Equivalents	173,454	3.64%
Total	\$ 4,761,324	100.00%

**SCHEDULE OF LARGEST STOCK HOLDINGS (By Fair Value)*
DECEMBER 31, 2001**

<u>Stock</u>	<u>Security Description</u>	<u>Fair Value</u>
Vodafone Group	Common Stock	\$ 13,784,320.58
Home Depot, Inc.	Common Stock	12,400,531.00
Microsoft Corporation	Common Stock	12,276,125.00
Medtronic, Inc.	Common Stock	11,189,385.00
Nokia AB OY	Common Stock	11,108,233.43
Intel Corporation	Common Stock	10,586,070.00
Goldman Sachs Group, Inc.	Common Stock	10,202,500.00
Pfizer, Inc.	Common Stock	9,982,425.00
American International Group, Inc.	Common Stock	8,622,840.00
First Data Corporation	Common Stock	8,425,530.00

**SCHEDULE OF LARGEST BOND HOLDINGS (By Fair Value)*
DECEMBER 31, 2001**

<u>Bonds</u>	<u>Moody's Quality Rating</u>	<u>Fair Value</u>
GNMA I TBA Jan 30 Single Family 6.500% due 12/15/2099	Rating AAA	\$ 104,357,760.00
GNMA I TBA Jan 30 Single Family 7.000% due 12/15/2099	Rating AAA	68,423,750.00
Ford Motor Credit Company 4.185% due 02/13/2003	Rating A2	21,403,623.00
Tele Communications, Inc. 8.250% due 01/15/2003	Rating BAA2	20,775,800.00
FNMA 6.000% due 12/15/2005	Rating AAA	17,025,228.00
Germany (Federal Republic of) 4.000% due 07/04/2009	Rating AAA	16,917,038.84
Rheinische Hypothekenbank AG 5.750% due 07/05/2010	Rating AAA	14,704,646.31
PIMCO FDS INTL FD INSTL CL	Rating NA	14,402,659.61
FNMA TBA February 15 Single Family 6.000% due 12/31/2099	Rating AAA	13,978,160.00
Spain (Kingdom of) 5.150% due 07/30/2009	Rating AA2	13,282,101.42

* A complete listing of portfolio holdings is available for review at the OCERS' office.

IV. ACTUARIAL SECTION



Member Services

Top row, from left, Dewey Wiles, Andre Kujawski, Debra Velick, Elena Rosales, Ann Golden, Helen Nemeth, Ricki Parker, Stephen Cadena, and Mike Kulzer. Bottom row, from left, Irene Rojas, Eunice Lopez, Isabel Linares, Carmen Garcia, Sandy Guevara, Kim Otto, Fe Mallari, Kim Scaife, Debbie Villa, Susan Parrino, and Suzanne Jenike.

ACTUARY CERTIFICATION LETTER

Timothy J. Marnell, ASA
Principal

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

Towers Perrin

May 16, 2002

Retirement Board
Orange County Employees Retirement System
2223 Wellington Avenue
Santa Ana, CA 92701-3101

Members of the Board:

The financing objective of the system 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, 2001 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. A regularly scheduled investigation was performed as of December 31, 2001, at which time changes to certain demographic assumptions were recommended to, and adopted by, the Board. 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). Exhibit VII provides a summary of plan provisions.

The actuarial assumptions used in the December 31, 2001 valuation are summarized in the attachments. All assumptions were determined by the actuary and were adopted by the Board. The actuarial assumptions and methods used for funding purposes satisfy the disclosure requirements of GASB 25.

Beginning with the December 31, 2001 valuation, actuarial experience was analyzed by employer. Using the results of this analysis, separate employer and member contribution rates were developed for certain groups of employees.

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Retirement Board
May 16, 2002
Page 2.

Towers Perrin _____

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.

All of the schedules in the Actuarial Section were prepared under my direction, including:

- History of Unfunded Actuarial Accrued Liability
- History of Employer Contribution Rates
- Summary of Active Membership
- Summary of Retired Membership
- Development of Actuarial Value of Assets
- Short-Term Solvency Test
- Actuarial Methods and Assumptions, including the attached Tables
- Summary of Major Plan Provisions
- Analysis of Financial Experience

We did not prepare any of the schedules presented in the Financial Section. It is our understanding, however, that OCERS staff used information contained in our actuarial valuation reports to prepare the trend schedules presented in that section.

On the basis of the December 31, 2001 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, A.S.A., M.A.A.A.

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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
12/31/92	\$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%
12/31/98	3,682,686	3,504,708*	177,978	95.17%	863,199	20.62%
12/31/99	4,017,279	3,931,744*	85,535	97.87%	912,490	9.37%
12/31/00	4,335,025	4,497,362*	(162,337)	103.74%	994,669	(16.32%)
12/31/01	4,843,899	4,586,844*	257,055	94.69%	1,122,763	22.89%

Notes:

- 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 12/31/97 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 12/31/98 valuation included changes to the assumed withdrawal rates, the assumed preretirement mortality and the assumed retirement rates. These changes increased both member and employer contribution rates.
- The 12/31/01 valuation included changes to the assumed withdrawal rates, the assumed termination rates, the assumed service connected disability rates and the assumed retirement rates. These changes increased both member and employer contribution rates. The retirement benefit for Law Enforcement was changed to a 3% per year of service benefit payable at age 50.

* The 12/31/94, 12/31/95, 12/31/96, 12/31/97, 12/31/98, 12/31/99, 12/31/00 and 12/31/01 assets exclude \$311,022,000, \$329,064,000, \$313,250,000, \$322,333,000, \$302,909,000, \$286,139,000, \$272,789,000 and \$221,643,000 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 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	General		Safety	
December 31, 1992	Normal	3.56	Normal	6.42
	UAAL	<u>1.30</u>	UAAL	<u>17.92</u>
	Total	4.86	Total	24.34
December 31, 1993	Normal	3.38	Normal	6.20
	UAAL	<u>0.53</u>	UAAL	<u>18.56</u>
	Total	3.91	Total	24.76
December 31, 1994	Normal	3.68	Normal	6.58
	UAAL	1.71*	UAAL	21.85*
	Total	5.39	Total	28.43
December 31, 1995	Normal	3.33	Normal	5.59
	UAAL	<u>(0.47)*</u>	UAAL	<u>18.84*</u>
	Total	2.86	Total	24.43
December 31, 1996	Normal	3.38	Normal	5.77
	UAAL	<u>(1.06)</u>	UAAL	<u>17.77</u>
	Total	2.32	Total	23.54
December 31, 1997	Normal	3.77	Normal	6.79
	UAAL	<u>(1.91)</u>	UAAL	<u>19.65</u>
	Total	1.86	Total	26.44
December 31, 1998	Normal	4.35	Normal	8.00
	UAAL	<u>(2.35)</u>	UAAL	<u>16.41</u>
	Total	2.00	Total	24.41
December 31, 1999	Normal	4.56	Normal	8.27
	UAAL	<u>(3.60)</u>	UAAL	<u>13.95</u>
	Total	0.96	Total	22.22
December 31, 2000	Normal	4.94	Normal	8.57
	UAAL	<u>(3.98)</u>	UAAL	<u>0.16</u>
	Total	0.96	Total	8.73
	<i>Non-OCTA</i>	<i>OCTA</i>	<i>Law Enforcement</i>	<i>Fire Authority</i>
December 31, 2001	Normal	5.04	Normal	4.20
	UAAL	<u>0.62*</u>	UAAL	<u>0.77*</u>
	Total	5.66	Total	4.97
			Normal	15.87
			UAAL	<u>9.15*</u>
			Total	25.02
			Normal	10.30
			UAAL	<u>1.89*</u>
			Total	12.19

* Includes an additional 0.50% of pay as required under an agreement between OCERS and the County.

Orange County Employees Retirement System
SUMMARY OF ACTIVE MEMBERSHIP

Valuation Date	Number	Annual Salary	Annual Average Salary	% Increase in Average Salary
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)
12/31/98				
General	16,976	\$706,507,935	\$41,618	5.26%
Safety	2,456	156,691,236	63,799	11.58
Total	19,432	\$863,199,171	\$44,422	6.20
12/31/99				
General	17,801	\$738,956,477	\$41,512	(0.25%)
Safety	2,556	173,533,473	67,893	6.42
Total	20,357	\$912,489,950	\$44,824	0.90
12/31/00				
General	18,382	\$809,054,612	\$44,016	6.04%
Safety	2,605	185,614,420	71,256	4.95
Total	20,987	\$994,669,032	\$47,400	5.76
12/31/01				
General	19,653	\$921,057,200	\$46,860	6.46%
Safety	2,676	201,705,606	75,372	5.78
Total	22,329	\$1,122,762,806	\$50,280	6.08

Excludes Deferred and Pending members.

Orange County Employees Retirement System
SUMMARY OF RETIRED MEMBERSHIP

Year	Number of Members				Annual Allowance	% Increase in Annual Allowance	Average Monthly Allowance
	At Beginning of Year	Added During Year	Removed During Year	At End of Year			
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
1/98 to 12/98	6,912	547	(215)	7,244	125,439,610	14.39	1,443
1/99 to 12/99	7,244	549	(256)	7,537	137,542,880	9.65	1,521
1/00 to 12/00	7,537	618	(240)	7,915	149,002,518	8.33	1,569
1/01 to 12/01	7,915	606	(305)	8,216	162,552,549	9.09	1,649

Orange County Employees Retirement System
DEVELOPMENT OF ACTUARIAL VALUE OF ASSETS
As of December 31, 2001

Plan Year Ending	Fair Value	Book Value	Ratio of Fair Value to Book Value
2001	\$3,793,056,765	\$4,071,017,323	0.931722
2000	4,015,261,166	3,826,675,630	1.049282
1999	4,183,305,471	3,277,313,800	1.276443
1998	3,643,078,679	3,045,622,732	1.196169
1997	3,263,314,979	2,765,715,751	1.179917

(1) Average ratio in five years preceding December 31, 2001	1.126707
(2) Book value on December 31, 2001	\$4,071,017,323
(3) Actuarial value of assets: (1) x (2)	\$4,586,843,715

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

Valuation Date	(1) Active Member Contributions	(2) Liability for Inactive Participants	(3) Liability for Active Members (Employer Financed Portion)	Valuation Assets	Portion of Accrued Liability Covered by Valuation Assets		
					(1)	(2)	(3)
12/31/92	\$327,402	\$807,213	\$1,005,467	\$1,807,319	100%	100%	66.90%
12/31/93	369,199	899,240	1,036,580	2,024,447	100	100	72.93
12/31/94	413,058	1,002,300	1,134,701	2,177,673	100	100	67.18
12/31/95	438,949	1,201,057	993,878	2,434,406	100	100	79.93
12/31/96	484,451	1,295,334	1,072,109	2,675,632	100	100	83.56
12/31/97	523,770	1,554,017	1,255,180	3,128,132	100	100	83.68
12/31/98	567,932	1,632,708	1,482,047	3,504,708	100	100	87.99
12/31/99	618,463	1,782,432	1,616,383	3,931,744	100	100	94.71
12/31/00	671,152	1,911,328	1,752,545	4,497,362	100	100	100
12/31/01	739,084	2,085,697	2,019,118	4,586,844	100	100	87.27

Orange County Employees Retirement System
ACTUARIAL METHODS AND ASSUMPTIONS

The Projected Unit Credit method was used with gains and losses being amortized over a 15-year period from the date first identified. The following actuarial assumptions were also used:

1. Interest: 8% per annum.
2. Salary scale: 5.5% per annum; the aggregate salary increase assumed for the entire system is 4.5% 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 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. All amortization periods are considered closed (i.e., level dollar amortization with a fixed end date).

Certain of the rates of termination of employment were changed effective December 31, 2001. The interest rate has been used since December 31, 1990. The salary increase assumption was last changed December 31, 1995.

Orange County Employees Retirement System
PROBABILITY OF OCCURRENCE
(Includes Eligibility)

Age Nearest	Ordinary Withdrawal	Vested Withdrawal	Pre-retirement Death	Ordinary Disability	Service Retirement	Service Disability
Non-OCTA General Members Male						
20	0.1700	0.0000	0.0004	0.0000	0.0000	0.0000
30	0.0890	0.0090	0.0006	0.0001	0.0000	0.0004
40	0.0430	0.0110	0.0012	0.0004	0.0000	0.0010
50	0.0260	0.0040	0.0039	0.0011	0.0200	0.0016
60	0.0000	0.0000	0.0092	0.0052	0.0632	0.0019
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
Non-OCTA General Members Female						
20	0.1250	0.0000	0.0002	0.0000	0.0000	0.0000
30	0.0720	0.0080	0.0003	0.0001	0.0000	0.0004
40	0.0440	0.0100	0.0007	0.0006	0.0000	0.0006
50	0.0250	0.0060	0.0016	0.0015	0.0293	0.0016
60	0.0000	0.0000	0.0042	0.0026	0.0721	0.0019
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
OCTA General Members Male						
20	0.2200	0.0000	0.0004	0.0000	0.0000	0.0000
30	0.1070	0.0090	0.0006	0.0001	0.0000	0.0002
40	0.0520	0.0110	0.0012	0.0004	0.0000	0.0005
50	0.0320	0.0040	0.0039	0.0011	0.0200	0.0022
60	0.0000	0.0000	0.0092	0.0052	0.0632	0.0063
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
OCTA General Members Female						
20	0.2200	0.0000	0.0002	0.0000	0.0000	0.0000
30	0.1510	0.0080	0.0003	0.0001	0.0000	0.0004
40	0.0750	0.0100	0.0007	0.0006	0.0000	0.0010
50	0.0340	0.0060	0.0016	0.0015	0.0293	0.0100
60	0.0000	0.0000	0.0042	0.0026	0.0721	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
Safety Members Fire Authority						
20	0.0360	0.0000	0.0004	0.0000	0.0000	0.0003
30	0.0120	0.0029	0.0006	0.0001	0.0000	0.0004
40	0.0030	0.0026	0.0012	0.0004	0.0000	0.0009
50	0.0000	0.0015	0.0039	0.0023	0.0300	0.0120
60	0.0000	0.0000	0.0092	0.0000	0.4000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	0.0000
Safety Members Law Enforcement						
20	0.0360	0.0000	0.0004	0.0000	0.0000	0.0011
30	0.0120	0.0029	0.0006	0.0001	0.0000	0.0013
40	0.0030	0.0026	0.0012	0.0004	0.0000	0.0066
50	0.0000	0.0015	0.0039	0.0023	0.2660	0.0066
60	0.0000	0.0000	0.0092	0.0000	1.0000	0.0000
70	0.0000	0.0000	0.0000	0.0000	1.0000	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

Orange County Employees Retirement System
**ASSUMPTIONS SPECIFIC TO THE
VENTURA COUNTY RULING**

The Ventura County Ruling changed the definition of compensation earnable, a key variable in the determination of benefits payable from the Orange County Employees Retirement System. Because many of the elements of compensation and certain information about member contribution account balances were unavailable, assumptions needed to be made to complete the December 31, 2001 actuarial valuation. The following describes the key assumptions that were made and the rationale behind the assumptions. Overall, the assumptions used in the actuarial valuation are conservative but not overly conservative. As more information becomes available, changes to these assumptions will be considered.

Compensation Earnable

Compensation earnable includes vacation, sick time and compensatory time that is earned and can be cashed out in the measurement period. The amount of these items that are included in final compensation will change over time as members learn the impact that these items can have on their retirement benefits. For the purpose of this valuation, it was assumed that members would cash out the maximum amount available.

Percent of Retired Members Electing a Recalculation of Retirement Benefits

Benefits for the vast majority of retirees have already been adjusted for the Ventura County Ruling. No further adjustments were assumed.

Orange County Employees Retirement System
SUMMARY OF MAJOR PLAN PROVISIONS

1. **Membership Requirements**

Date of employment.

2. **Monthly Salary Base for Benefits**

Highest one-year average (three-year average for Tier II members).

3. **Service Retirement**

A. Eligibility

10 years of service and age 50, or 30 years of service.

B. Benefit Formula per Year of Service

2% for General Tier I; 1.667% for General Tier II; 2% for Firefighters and 3% for Law Enforcement.

Reduced for retirement before age 57 (50 for Safety Members) and increased for retirement after age 57 (50 for Safety Members). Tier II General Plan Factors are found in Section 31676.1.

4. **Ordinary Disability**

A. Eligibility

Five years of service.

B. Benefit Formula per Year of Service

For Tier I members, 1.8% per year of service (in most cases a minimum of one-third salary). Tier II members receive 1.5% per year of service. Members eligible for service retirement receive the greater of this benefit or their service retirement benefit.

5. **Line-of-Duty Disability**

A. Eligibility

No age or service requirement.

B. Benefit

The greater of 50% of salary or the service retirement benefit, if larger and the member otherwise satisfies the service retirement eligibility.

6. **Ordinary Death Before Eligible to Retire**

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

7. **Ordinary Death After Eligible to Retire for Service or Ordinary Disability**

60% of earned benefit payable to surviving eligible spouse.

8. **Line-of-Duty Death**

50% of salary payable to spouse.

9. **Death After Retirement**

- A. Service or Ordinary Disability Retirement
60% of member's unmodified allowance continued to eligible spouse.
- B. Line-of-Duty Disability
100% of member's allowance continued to spouse.
- C. \$750 Lump Sum

10. **Withdrawal Benefits**

- A. Fewer than Five Years of Service
Refund of accumulated employee contributions with interest.
- B. Five or More Years of Service
If contributions left on deposit, entitled to earned benefits commencing at any time after member would have been eligible to retire.

11. **Postretirement Cost-of-Living Benefits**

Based on changes in Consumer Price Index to maximum of 3% per year; excess "banked."

12. **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: 47.63% (28.50%) for Non-OCTA General; 46.94% (32.15%) for OCTA General; 64.55% (33.39%) for Firefighters; 102.25% (51.75%) for Law Enforcement.

Orange County Employees Retirement System
ANALYSIS OF FINANCIAL EXPERIENCE
(in thousands)

Gains & Losses in Accrued Liabilities During Years Ended December 31, Resulting from Differences Between Assumed Experience & Actual Experience					
Type of Activity	Gains (or Losses) Per Year				
	1997	1998	1999	2000	2001
Retirements	\$(31,804)	\$(34,552)	\$(60,138)	\$(29,367)	\$(48,490)
Disabilities	13,706	18,431	13,197	16,780	17,696
Withdrawal From Employment	(25,076)	(7,697)	(23,003)	(4,633)	(13,932)
Pay Increases	41,129	(21,705)	(1,890)	(24,585)	(40,448)
Investment Income	204,470	141,642	163,736	286,267	(221,192)
Mortality	(12,124)	23,996	24,804	28,836	(3,021)
Other	<u>(10,742)</u>	<u>(15,635)</u>	<u>(17,803)</u>	<u>(20,775)</u>	<u>(20,534)</u>
Gain (or Loss) During Year From Experience	\$179,559	\$104,480	\$98,903	\$252,523	\$(329,921)
Non Recurring Items. Adjustment for Plan Amendments, Assumption Changes, etc.	<u>(208,767)</u>	<u>(71,574)</u>	<u>0</u>	<u>0</u>	<u>(85,395)</u>
Composite Gain (or Loss) During Year	\$(29,208)	\$32,906	\$98,903	\$252,523	\$(415,316)



Communications Section

From left, Jayne Ritchey and Robert Kinsler



Information Technology Section

From left, Stephen Cadena, Ian Mai, Joseph Bui, Sunny Donn, Cuong Nguyen, Brian Hoang, Javier Lara, and Anthony Beltran

V. STATISTICAL SECTION



Administration/Human Resources Section

Top row, from left, Tiberina Ugarcovici, Alicia Cavazos, Clara Martiniuc and Michele Guidi. Bottom row, from left, Barbara Hull, Eric Danielsen and Lisa D'Aiello.

Schedule and Graph of Revenues by Source (in thousands) 1996 - 2001

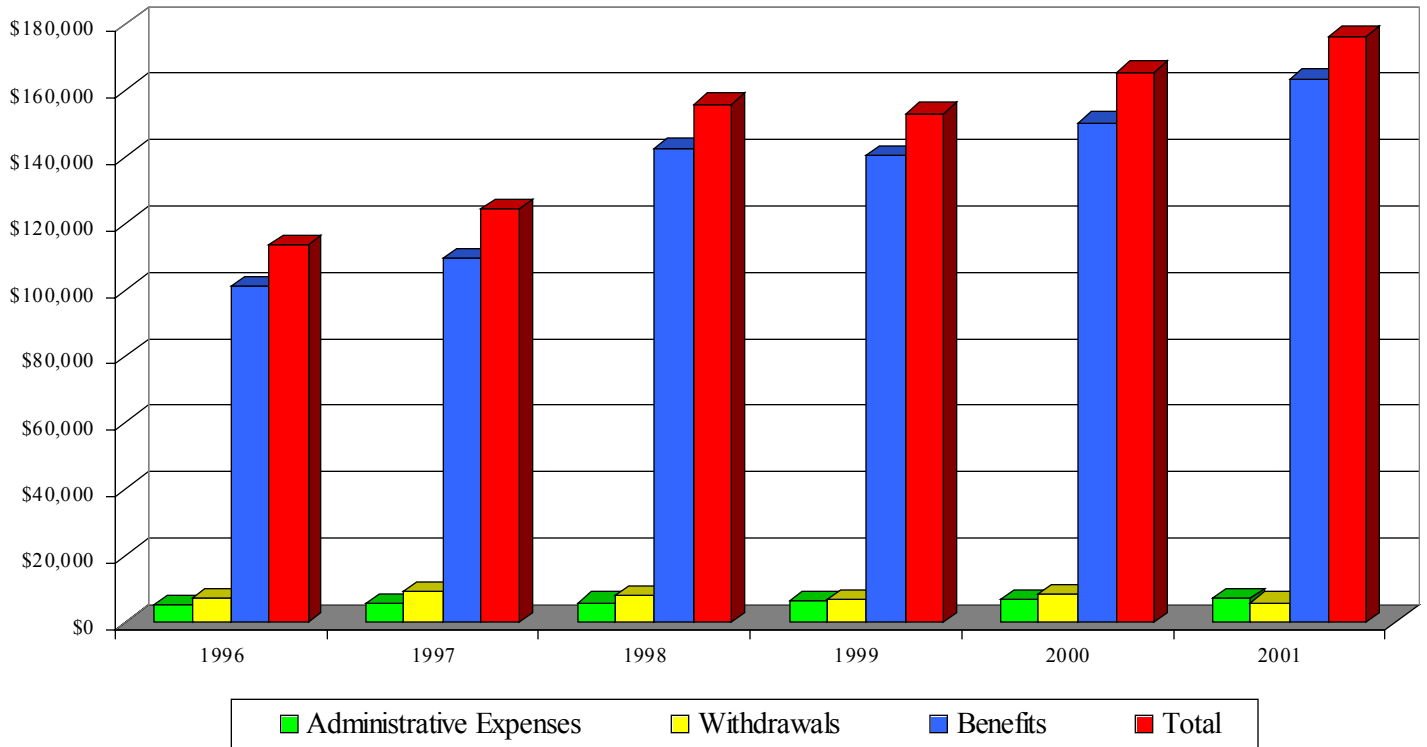
	1996	1997	1998	1999	2000	2001
Employee Contributions	\$48,461	\$47,011	\$50,557	\$55,693	\$61,179	\$68,635
Employer Contributions	\$16,463	\$17,570	\$17,977	\$17,591	\$15,561	\$12,060
Investment Income*	\$394,497	\$527,609	\$493,491	\$685,718	\$45,284	(\$149,858)
Total	\$459,421	\$592,190	\$562,025	\$759,002	\$122,024	(\$69,163)



* Net of investment manager fees and security lending fees.

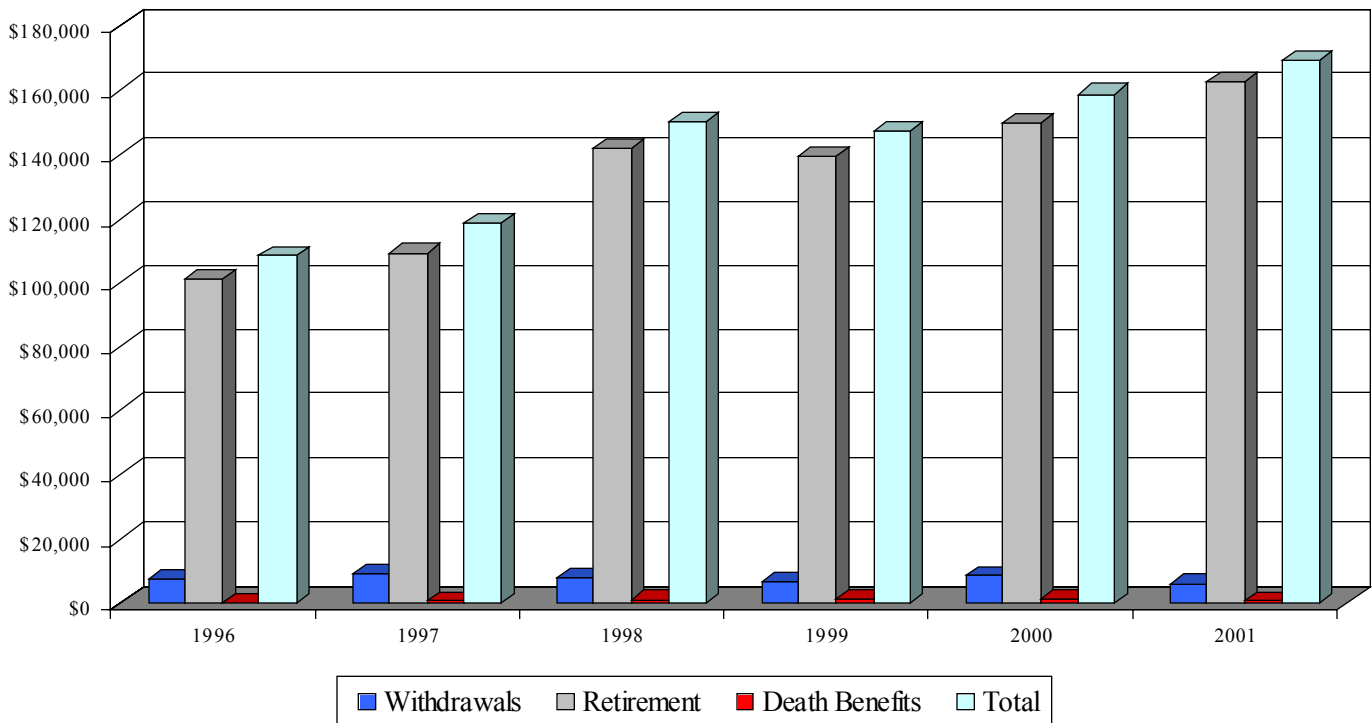
Schedule and Graph of Expenses by Type (in thousands) 1996 - 2001

	1996	1997	1998	1999	2000	2001
Administrative Expenses	\$4,987	\$5,392	\$5,850	\$6,094	\$6,631	\$7,146
Withdrawals	\$7,166	\$9,048	\$7,848	\$6,513	\$8,515	\$5,896
Benefits	\$101,125	\$109,660	\$142,457	\$140,736	\$150,466	\$163,378
Total	\$113,278	\$124,100	\$156,155	\$153,343	\$165,612	\$176,420



Schedule and Graph of Benefit Expenses by Type (in thousands) 1996 - 2001

	1996	1997	1998	1999	2000	2001
Withdrawals	\$7,166	\$9,048	\$7,848	\$6,513	\$8,515	\$5,896
Retirement	\$101,074	\$109,206	\$141,629	\$139,611	\$149,555	\$162,732
Death Benefits	\$51	\$454	\$828	\$1,125	\$911	\$646
Total	\$108,291	\$118,708	\$150,305	\$147,249	\$158,981	\$169,274



Orange County Employees Retirement System
SCHEDULE OF PARTICIPATING EMPLOYERS

City of San Juan Capistrano (includes Capistrano Valley Water District)

County of Orange

Foothill/Eastern/San Joaquin Hills 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

Sanitation District of Orange County

Orange County Department of Education (closed to new members)

UCI Medical Center (closed to new members)

Orange County Children and Families Commission

Local Agency Formation Commission

Orange County Employees Retirement System
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
As of December 31, 2001

Amount of Monthly Benefit	No. of Retirants	Type of Retirement										Option Selected				
		1	2	3	4	5	6	7	8	9	Unmodified	Option 1	Option 2	Option 3	Option 4	Total
\$1-250	1,019	311	227	-	5	29	46	38	211	152	991	6	12	5	5	1,019
\$251-500	1,321	634	228	2	27	55	40	62	217	56	1,290	4	25	2	-	1,321
\$501-750	1,229	765	127	1	58	58	19	46	124	31	1,211	3	14	1	-	1,229
\$751-990	931	601	67	2	92	57	18	21	54	19	912	4	11	4	-	931
\$991-1,250	779	512	31	-	127	38	11	15	34	11	763	3	12	1	-	779
1,500	601	373	32	-	134	13	11	5	19	14	587	5	9	-	-	601
1,750	485	311	18	2	110	14	7	9	7	7	472	1	10	2	-	485
2,000	318	230	10	1	53	6	-	4	5	9	309	1	4	3	1	318
Over \$2,000	1,533	1,244	33	2	212	10	7	6	8	11	1,490	4	29	7	3	1,533
Total	8,216	4,981	773	10	818	280	159	206	679	310	8,025	31	126	25	9	8,216

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.
- 8** - Deferred Regular Retirement
- 9** - Deferred Other Retirement

Orange County Employees Retirement System
SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT (continued)

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:

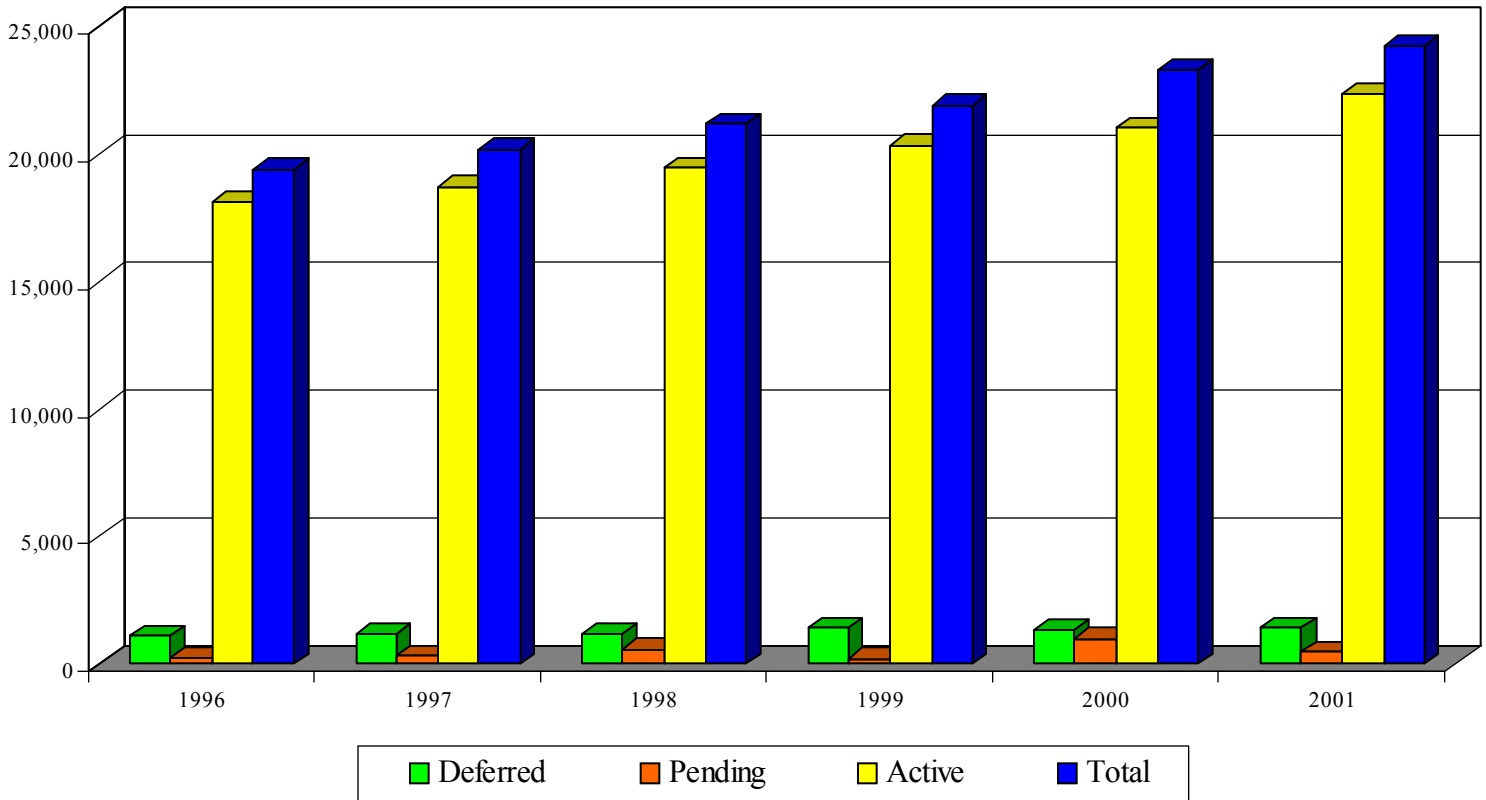
This option provides the member with a reduced monthly allowance for the member's lifetime. At the member's death, the member's designated beneficiary will receive half of the member's monthly allowance for the rest of his or her lifetime.

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.

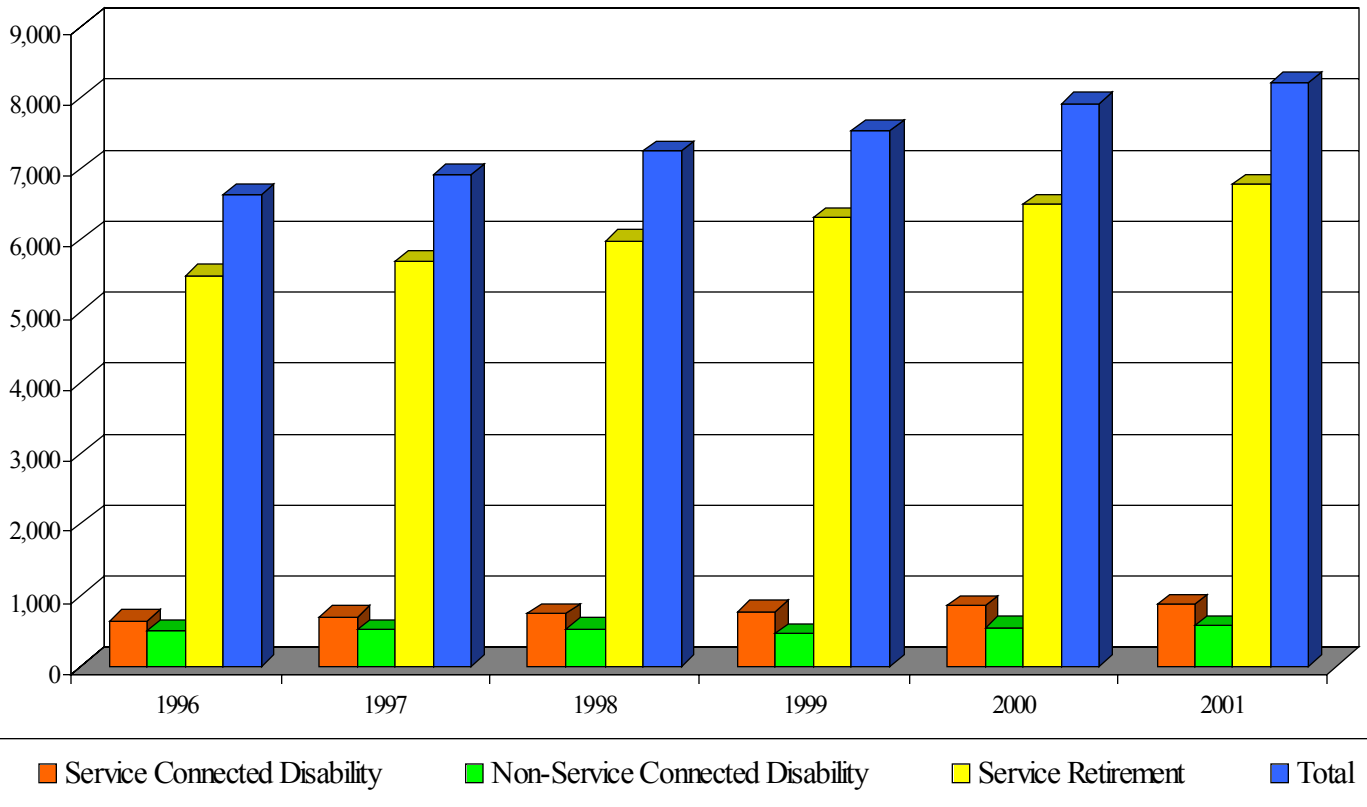
Schedule and Graph of Active, Pending, and Deferred Members 1996 - 2001

	1996	1997	1998	1999	2000	2001
Deferred	1,087	1,184	1,179	1,376	1,325	1,418
Pending	225	312	571	177	960	454
Active	18,090	18,693	19,432	20,357	20,987	22,329
Total	19,402	20,189	21,182	21,910	23,272	24,201



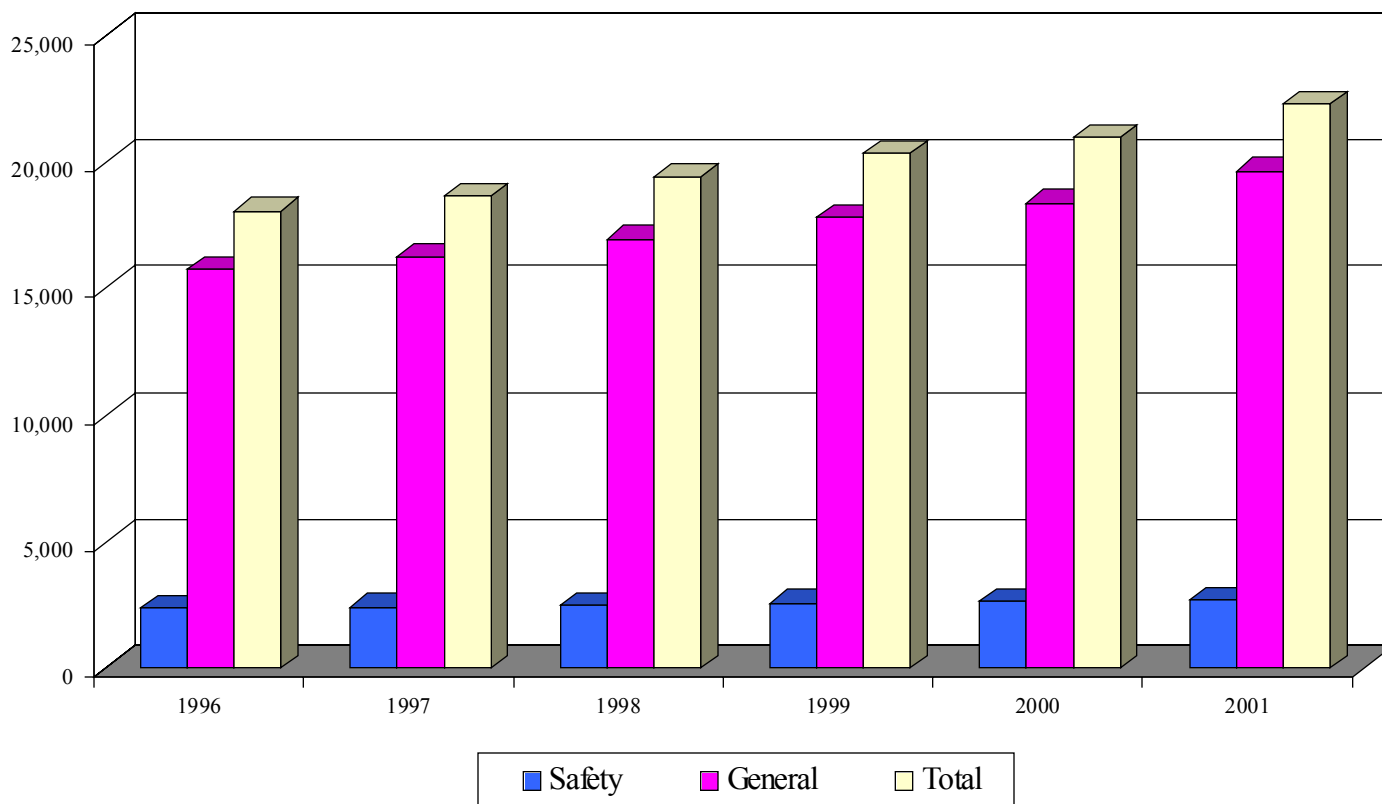
Schedule and Graph of Retired Members 1996 - 2001

	1996	1997	1998	1999	2000	2001
Service Connected Disability	644	696	729	775	853	868
Non-Service Connected Disability	497	518	524	453	561	570
Service Retirement	5,490	5,698	5,991	6,309	6,501	6,778
Total	6,631	6,912	7,244	7,537	7,915	8,216



Schedule and Graph of Active Members by Membership Classification* 1996 - 2001

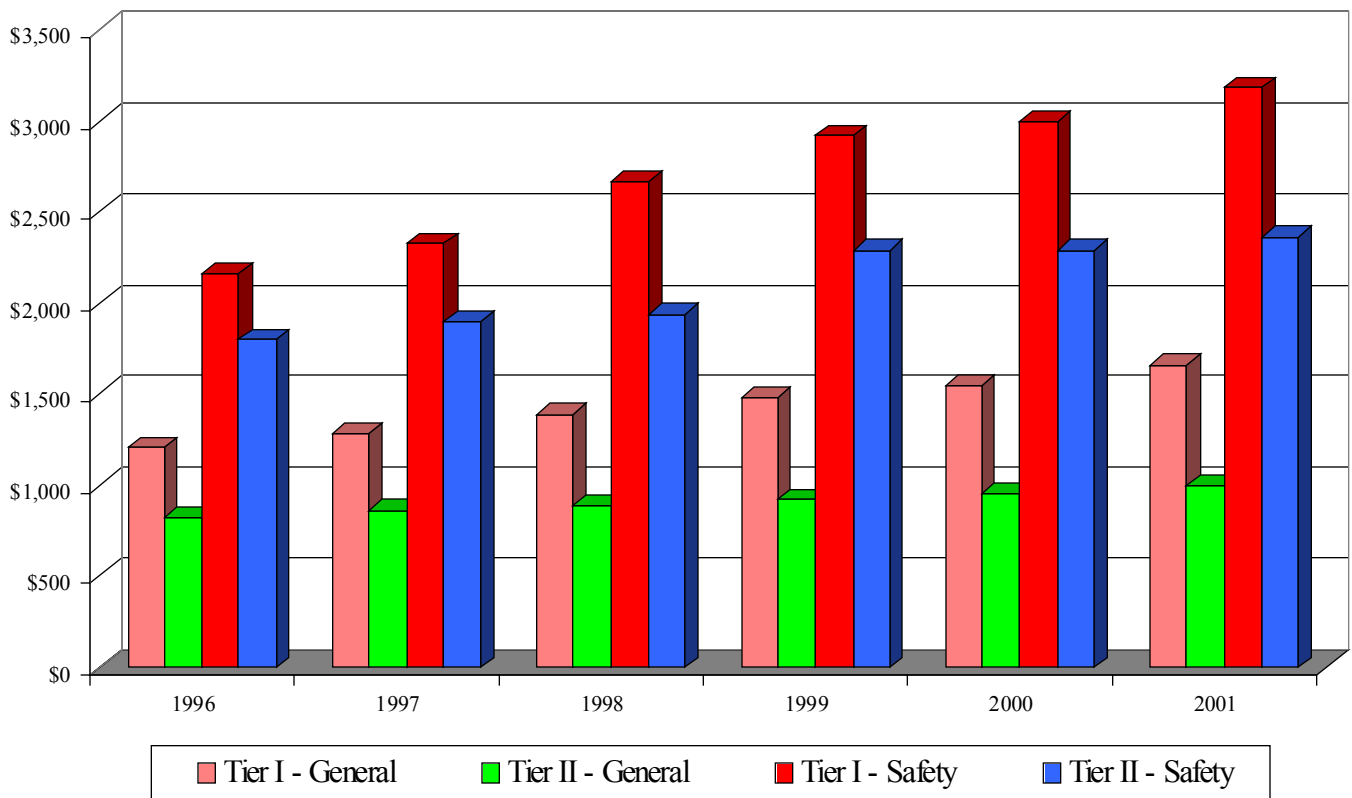
	1996	1997	1998	1999	2000	2001
Safety	2,354	2,427	2,456	2,556	2,605	2,676
General	15,736	16,266	16,976	17,801	18,382	19,653
Total	18,090	18,693	19,432	20,357	20,987	22,329



* Excludes members with Pending Status.

Schedule and Graph of Average Monthly Retirement Benefits (by Tier and Membership Classification) 1996 - 2001

	1996	1997	1998	1999	2000	2001
Tier I - General	\$1,210	\$1,281	\$1,388	\$1,484	\$1,549	\$1,661
Tier II - General	\$824	\$859	\$891	\$919	\$951	\$1,001
Tier I - Safety	\$2,163	\$2,328	\$2,666	\$2,917	\$3,000	\$3,182
Tier II - Safety	\$1,801	\$1,901	\$1,937	\$2,287	\$2,289	\$2,366



Orange County Employees Retirement System
HISTORY OF ACTUARIAL ASSUMPTION RATES
 FOR THE PERIOD JANUARY, 1945 - DECEMBER, 2001

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%