



## RETIREMENT SYSTEM

June 24, 2008

*Serving the Active and  
Retired Members of:*

CITY OF SAN JUAN  
CAPISTRANO  
(includes Capistrano  
Valley Water District)

COUNTY OF ORANGE

CYPRESS RECREATION  
AND PARK DISTRICT

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)

Board of Supervisors  
County of Orange  
333 W. Santa Ana Blvd, Room 465  
Santa Ana, CA 92702

Dear Supervisors:

It is with great pleasure that we submit the Annual Financial Report of the Orange County Employees Retirement System (OCERS) for the calendar year ended December 31, 2007, the System's 63<sup>rd</sup> year of operation. Information contained in this report is designed to provide a complete and accurate review of the year's operations and is the responsibility of the OCERS' management.

The Annual Financial Report was prepared in conformity with accounting principles generally accepted in the United States of America and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB) and the County Employees Retirement Law of 1937.

Brown Armstrong Accountancy Corp., independent auditors, have audited the basic financial statements. Management believes that internal control is adequate and that the accompanying statements, schedules and tables are fairly presented.

### **Profile of OCERS:**

The Orange County Employees Retirement System (OCERS) provides retirement benefits for employees of the County and certain districts. The role of the Orange County Employees Retirement System is to provide secure retirement and disability benefits, quality information concerning those benefits, and prompt, professional and courteous service that meets the highest standards of excellence. In carrying out that role, the Board of Retirement and staff are committed to act for the exclusive benefit of the plan and its participants, manage assets of the plan prudently, and administer benefits with impartiality.

### **OCERS Economic Condition:**

OCERS' funding objective is to meet long-term benefit obligations through contributions and investment income. For the year of 2007 the funding ratio of the System was 72.90%. A history of OCERS' funding progress is presented on page 17.

For year 2007, OCERS experienced an increase of \$906,930,981 in plan net assets. Details of the components of this increase are included in the Statement of Changes in Plan Net Assets on page 2.

**Funding Goal:**

One of the goals of OCERS' funding policies is to establish contributions which fully fund the System's liabilities and which, as a percentage of payroll, remain as level as possible for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

Following the negative investment markets from early in the decade, major revisions in OCERS' actuarial regimen and various benefit changes, OCERS funded ratio declined requiring an increase in contributions. In the four years since those changes occurred the actuary's valuations have shown stable contribution requirements and gradually improving funding. The 2007 funded ratio did decline slightly as a result of new actuarial assumptions adopted by the OCERS Board to better reflect recent and expected experience. . These assumptions should produce more stable contributions going forward, consistent with this basic financial goal.

Due to improved market conditions during 2007, the total additions to plan net assets, including net appreciation in fair value of investments, were \$1,271,173,102. This amount includes member and employer contributions of \$486,211,978, net investment income of \$779,736,069, net security lending income of \$3,451,533 and net commission recapture income and other of \$1,773,522. Net investment income, excluding net security lending income and net commission recapture income, was \$48,411,119 less than the prior year. This difference was attributable mainly to a \$140,940,727 decrease in net appreciation in fair value of investments over the prior year. Details of the additions to plan net assets are included in the Statement of Changes in Plan Net Assets on page 2.

Deductions for 2007, excluding investment management and security lending fees, were \$364,242,121 which represented an increase of \$35,976,351 over the prior year. This increase was the result of higher retirement benefit payments, an increase in the number of retirees and an increase in refunds/withdrawals to terminated members.

**Internal Controls:**

OCERS maintains a system of internal controls designed to provide reasonable assurance that assets are properly protected from loss, theft, misuse and financial statements are reliable. Responsibility for the accuracy and completeness rests with OCERS. Our independent external auditors, Brown Armstrong Accountancy Corp. have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Board. Our internal auditor provides a continuing review of the internal controls and operations of OCERS, and regularly reports to the Audit Committee of the OCERS Board.

**Major Initiatives:**

During 2007 OCERS continued to make modest modifications in its investment program to enhance diversification and the prospects for incremental return. The system diversified its real estate portfolio, absolute return strategies and made additional commitments to private equity.

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In 2007 OCERS completed the installation of an image system for all member records. The ability of members to access personal account information on-line was enhanced as were opportunities to conduct transactions, including the retirement application, on-line. At the same time OCERS conducted a record number of retirement planning and other seminars for members, maintaining our dual focus on quality 'in-person' service, along with better electronic capabilities.

In an effort to assist plan sponsors and members to address the need to fund other post employment benefit (OPEB) obligations, OCERS began providing investment services for OPEB funds. This service provides higher returns and lower costs for the plan sponsors. OCERS provides this service as a third-party administrator. OPEB reporting will remain the responsibility of the individual plan sponsor.

**Awards and Acknowledgements:**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to OCERS for its Comprehensive Annual Financial Report for the fiscal year ended December 31, 2006 (page 5).

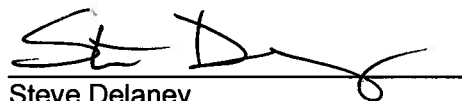
This was the thirteenth consecutive year that OCERS has achieved this prestigious award. The Certificate of Achievement is a national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such basic financial statements must satisfy both accounting principles generally accepted in the United States of America 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.

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,



Steve Delaney  
Chief Executive Officer



Michelle Williamson  
Finance Director