

**Kern County Employees'  
Retirement Association**

A Pension Trust Fund of the  
County of Kern, California

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**Comprehensive Annual  
Financial Report**

**2002 and 2001**

**Fiscal Years Ended June 30**

Issued by:

David J. Deutsch, CFA  
Executive Director

Sheryl Lawrence  
Retirement Accountant

# Table of Contents

## Introductory Section

Letter of transmittal .....	3
Board of Retirement .....	10
Organizational Chart .....	11
List of Professional Consultants .....	12
Report of the Chair .....	13

## Financial Section

Independent Auditor's Report .....	17
Management's Discussion and Analysis .....	19

### Financial Statements

Statement of Plan Net Assets .....	24
Statement of Changes in Plan Net Assets .....	25
Notes to Financial Statements .....	26

### Required Supplementary Information

Schedule of Funding Progress .....	40
Schedule of Employer Contributions .....	40
Notes to Required Supplementary Information .....	41

### Other Supplemental Information

Schedule of Administrative Expenses .....	42
Schedule of Investment Expenses .....	43
Schedule of Payments to Consultants .....	44

## Investment Section

Investment Consultant's Report .....	47
Outline of Investment Policies .....	49
Asset Allocation .....	50
Investment Summary .....	51

## *Table of Contents – Continued*

Schedule of Investment Fees and Services .....	55
Largest Stock and Bond Holdings .....	57
Schedule of Fees and Commissions .....	58

### **Actuarial Section**

Actuary’s Certification Letter .....	65
Summary of Actuarial Assumptions and Methods .....	67
Table 1: Assumed Rate of Salary Increase .....	68
Table 2: Probabilities of Separation from Active Service .....	69
Schedule of Active Member Valuation Data .....	70
Schedule of Retirants and Beneficiaries Added to and Removed from Payroll .....	71
Solvency Test .....	71
Actuarial Analysis of Financial Experience .....	72
Summary of Major Plan Provisions .....	73

### **Statistical Section**

Schedule of Revenues by Source .....	79
Schedule of Expenses by Type .....	79
Schedule of Benefit Expenses by Type .....	80
Schedule of Retired Members by Type of Benefit .....	81
Schedule of Average Benefit Payments .....	82
Participating Employers and Active Members .....	83



# ***INTRODUCTORY SECTION***

## ***THE KCERA MISSION***

*..... to prudently administer the retirement benefits and to provide quality membership services for eligible public employees, retirees, and their beneficiaries.*



Sharon Clark, Chairman  
Sharon E. Lesser, Vice Chairman  
John DeMario  
Brent M. Dezember  
Claude D. Fiddler  
Phil Franey  
Ethelyn L. Looy  
Barbara Patrick  
Tony Plante  
Michael Bradley, Alternate  
Lois B. Maujer, Alternate

David J. Deutsch, CFA  
Executive Director

October 29, 2002

Kern County Employees' Retirement Association  
Board of Retirement  
1115 Truxtun Ave., 1st Floor  
Bakersfield, CA 93301

Dear Board Members:

As Executive Director of the Kern County Employees' Retirement Association, I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2002 and 2001.

The KCERA is a public employee retirement system that was established on January 1, 1945 by the County of Kern. The KCERA plan is administered by the Board of Retirement and provides retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. For fiscal year ended June 30, 2002, the KCERA paid retirements to 4,485 members and continued supplemental benefits to 1,390 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA system added 211 service retirees, 11 non service-connected disability retirees, and 26 service-connected disability retirees in the fiscal year.

## STRUCTURE OF THE REPORT

The management of the KCERA is responsible for both the accuracy of the data, and the completeness and fairness of the presentation of the report. This report is presented in five sections:

- **The Introductory Section** includes this Letter of Transmittal, a list of the Board of Retirement members, a description of the KCERA's management and organizational structure, a list of Professional Consultants, and a Report of the Chair.
- **The Financial Section** includes the opinion of the independent auditor, Brown Armstrong, and general purpose financial statements of the KCERA and certain required supplementary information. The required financial statements have been prepared in accordance with generally accepted accounting principles, the appropriate guidelines for governmental entities, and the County Employees' Retirement Law of 1937 (CERL).

- **The Investment Section** includes a statement from the investment consultant, Wilshire Associates, Inc., investment policies, investment results, and various schedules and graphs.
- **The Actuarial Section** includes a certification letter provided by the independent actuary to the plan, Public Pension Professionals, Inc., along with supporting schedules and information.
- **The Statistical Section** presents comparative data related to expenses of administration, benefit disbursements and demographic data on membership, including active, deferred and retired members. This section also presents a list of employers participating in the KCERA.

## **THE KCERA AND ITS SERVICES**

The KCERA was established on January 1, 1945, to provide retirement allowances and other benefits to all permanent general and safety employees of the County of Kern and of participating special districts. As of June 30, 2002, twelve districts participated in the retirement plan including: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito & Vector Control District, North of the River Sanitation District, San Joaquin Valley Unified Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito Abatement District, and West Side Recreation and Park District.

The plan is administered by the Kern County Board of Retirement (Board) which consists of nine members and two alternate members. The Board is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investments of the system's assets. The Board oversees the Executive Director and the KCERA staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937 and the bylaws, procedures, and policies adopted by the KCERA Board.

## **MAJOR INITIATIVES**

Multi-Year Business Plan. The KCERA Board of Retirement and administration continue to pursue a multi-year business plan focused on three key areas, as follows:

1. **Governance Policies: Board Charters and Job Descriptions:** The Board completed charters and job descriptions for the Board, its committees and the executive director position. This work has improved the efficiency and effectiveness of the Board, streamlining the disability application process as well as the due diligence and selection of new investment managers.
2. **Human Resources Policies and Implementation.:** The Board plans increased attention to the development of a comprehensive policy in the areas of human resources policies and administration.
3. **Technology:** Plans have been adopted in administration to extend the automated benefits administration system to the administration of retiree payroll. In addition, administration has initiated a search for "knowledge-based" software aimed at integrating and distributing all retirement information across the organization.

Implementation of *Ventura* Litigation Settlement Agreement

Judgment was entered on the Settlement Agreement on January 24, 2002. Thereafter, the KCERA began the recalculation of benefits required and initiated retroactive lump sum payments to entitled retirees as well as corrected annuity amounts prospectively. The recalculation and payments project is expected to take an additional two years. The KCERA also applied the additional 0.5% COLA for retirees as of April 1, 2002, as required by the Agreement.

Rollovers for Purchase of Eligible Service

The Board and administration amended the by-laws of the KCERA to permit the member's use of the County Deferred Compensation program (IRC Section 457 Plan) and other California 403b funds for the purpose of purchasing eligible service credit in the KCERA plan, such purchases generally limited to eligible prior public service. A small group of members became entitled to utilize rollovers from a wider range of tax-qualified funds due to delays in the California legislature in aligning state statutes with the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA). The option to use such additional funds expires December 31, 2002.

The Board and administration continue to consider additional changes to the plan to permit the use by members of additional tax-qualified funds for such purchases, in accordance with the rollover options permitted, but not mandatory, under EGTRRA.

GC Section 31617 Activated by the County of Kern

In past practice, annual Cost of Living Adjustments (COLA) have been funded from employer contributions to the extent required through actuarial valuation of the benefit. GC Section 31617, however, provides that Cost of Living Adjustments (COLAs) shall be funded first from excess earnings, to the extent of such excess, and thereafter from employer contributions. As GC Section 31617 was activated by the County in this past year, the future funding of the COLA will proceed as described therein. The new funding regime will impact excess earnings available for the Supplemental Retirement Benefits Reserve to the extent of the cost of the COLA, assuming excess earnings.

**FUNDING**

The KCERA's funding objective is to meet long-term benefit obligations through approximately level contributions to the system and the accrual and compounding of investment income. As of December 31, 2001, the funded ratio of the system was approximately 94% using actuarial assets and actuarial liabilities of \$1,508,291,000 and \$1,611,960,000, respectively. The funded percentage decreased from 103% in 2000 to 94% in 2001. This decrease can be attributed to the improvement in benefits for Safety members, greater disability benefits, salary increases for active members, and investment losses.

Pursuant to provisions in the County Employees Retirement Law of 1937, the KCERA engages an independent actuarial consulting firm, Public Pension Professionals, Inc., to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. The last triennial analysis was performed as of December 31, 1999, and certain changes to economic and non-economic assumptions were adopted by the Board. A detailed discussion of funding is provided in the Financial Section of this report.



### ADDITIONS TO PLAN ASSETS

The total additions to plan net assets for June 30, 2002, including net depreciation in fair value of investments and net of investment expenses, totaled \$(23,078,811). This amount includes member and employer contributions of \$53,169,166 and net investment loss of \$(76,247,977). Member contributions increased by \$2,114,040 (23%) over prior year and employer contributions increased by \$814,082 (2%) over prior year. The increase in member and employer contributions is attributable to higher salaries and an increase in the number of active members due to a combination of new hires and less terminations. Net investment income increased by \$23,543,417 (23%) over prior year. The increase in investment income is primarily a result of an decrease in the net depreciation in fair value of investments.

For the fiscal years ended June 30, 2002 and 2001:

	<b>June 30, 2002</b>	<b>June 30, 2001</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) Amount</b>
Member Contributions	\$11,287,597	\$ 9,173,557	\$ 2,114,040	23%
Employer Contributions	41,881,569	41,067,487	814,082	2%
Net Investment Income	<u>(76,247,977)</u>	<u>(99,791,394)</u>	<u>23,543,417</u>	23%
Total	\$(23,078,811)	\$(49,550,350)	\$26,471,539	53%

### DEDUCTIONS TO PLAN NET ASSETS

The KCERA is created to provide for retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. The cost of such programs includes recurring benefit payments as designated by the plan, refund of contributions to terminated employees, and the cost of administering the plan. Deductions for fiscal year June 30, 2002, excluding investment expenses and security lending fees, were \$82,829,268, an increase of \$7,716,345 (10%) over prior year. This increase was the result of improved benefits for Safety members.

For the fiscal years ended June 30, 2002 and 2001:

	<b>June 30, 2002</b>	<b>June 30, 2001</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) Amount</b>
Benefits and Refunds	\$80,613,013	\$73,120,070	\$7,492,943	10%
Administrative Expenses	2,167,965	1,903,426	264,539	14%
Benefits System Expenses	<u>48,290</u>	<u>89,427</u>	<u>41,137</u>	(46)%
Total	\$82,829,268	\$75,112,923	\$7,716,345	10%

## **INVESTMENTS**

The Board of Retirement (Board) has exclusive control of all investments of the KCERA and is responsible for establishing investment policies, objectives and strategies. The Board is authorized to invest in any form or type of investment deemed “prudent” in the informed opinion of the Board. The members of the Board serve as fiduciaries for the members and beneficiaries of the retirement system and are held to a high standard of care in all transactions.

The Board operates under a standard of care in California commonly known as the “prudent expert rule” which requires that investment decisions be informed by expert opinion. In addition, the rule requires the Board to diversify the investments of the fund, unless it is clearly prudent not to do so under the circumstances. The Board therefore makes basic policy decisions with respect to the fund, including, but not limited to, the allocation of assets to various investment classes. The Board delegates much discretion to professional investment advisors to execute investment policy subject only to policy and guidelines provided by the Board.

The KCERA’s assets are managed exclusively by external, professional investment managers. The KCERA staff monitors the activity of these managers and assists the Board with the development and implementation of investment policies and long-term investment strategies. These policies and guidelines are outlined in the KCERA Investment Policy and Guidelines which state the goals of the program, the asset allocation of the plan, and specific objectives and guidelines for each investment strategy or managed portfolio. The Board employs the services of an independent investment consultant, Wilshire Associates, Inc., to assist the Board in formulating policies, setting goals and manager guidelines, and monitoring the performance of the external money managers.

For fiscal year 2002, the investments of the plan provided a loss of -5.97% (net of fees). The KCERA’s annualized rate of return, net of fees, over the past three years was -0.83%, and 4.27% in the past five years. The investment expenses of the fund are linked to the performance of the investment portfolio and other factors, and therefore vary year to year.

## **PROFESSIONAL SERVICES**

The Board retains professional consultants and investment managers to provide professional services essential to the effective and efficient operation of the KCERA.

An opinion from the certified public accountant and the actuary for the plan are included in this report. The consultants and investment managers retained by the Board are listed on page 54 of this report.

## **CERTIFICATE OF ACHIEVEMENT**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the KCERA for its comprehensive annual financial report for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This 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 that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will again submit it to GFOA for appraisal.

#### **ACKNOWLEDGMENTS**

The compilation of this report reflects the combined effort of the KCERA staff. This report is intended to provide complete information as a basis for management decisions, as a means for establishing compliance with legal requirements, and as a means for determining the responsible stewardship of the KCERA fund.

I wish to take this opportunity to thank the members of the KCERA for their confidence in KCERA and express my gratitude to the Board of Retirement for dedicated support of the KCERA administration and the best interests of the beneficiaries of the system throughout the fiscal year. Likewise, I wish to thank the consultants and staff for continued commitment to the KCERA and for their diligent work to assure the successful administration of the system.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David J. Deutsch". The signature is fluid and cursive, written in a professional style.

David J. Deutsch, CFA  
Executive Director

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

Kern County Employees  
Retirement Association,  
California

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 2001

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.



*Smith Arue*  
President

*Jeffrey L. Esser*  
Executive Director

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## Members of the Board of Retirement As of June 30, 2002



**Chairman**

**Sharon Clark**

Recorder Department. Elected by general members.  
Present term expires 12/31/2003.



**Trustee**

**Tony Plante**

Fire Department. Elected by safety members.  
Present term expires 12/31/2003.



**Vice-Chairman**

**Sharon Lesser**

Personnel Department. Elected by general members.  
Present term expires 12/31/2004.



**Trustee**

**Claude D. Fiddler**

Appointed by the Board of Supervisors.  
Present term expires 12/31/2004.



**Trustee**

**Phil Franey**

County Treasurer-Tax Collector  
Ex-Officio Member



**Trustee**

**John J. DeMario**

Elected by retired members.  
Present term expires 12/31/2004.



**Trustee**

**Brent M. Dezember**

Appointed by the Board of Supervisors.  
Present term expires 12/31/2003.



**Trustee**

**Michael Bradley**

Sheriff Department. Alternate for all elected members.  
Present term expires 12/31/2003.



**Trustee**

**Ethelyn L. Looy**

Appointed by the Board of Supervisors.  
Present term expires 12/31/2004.



**Trustee**

**Lois B. Maujer**

Elected by retired members.  
Alternate for all retired members.  
Present term expires 12/31/2004.



**Trustee**

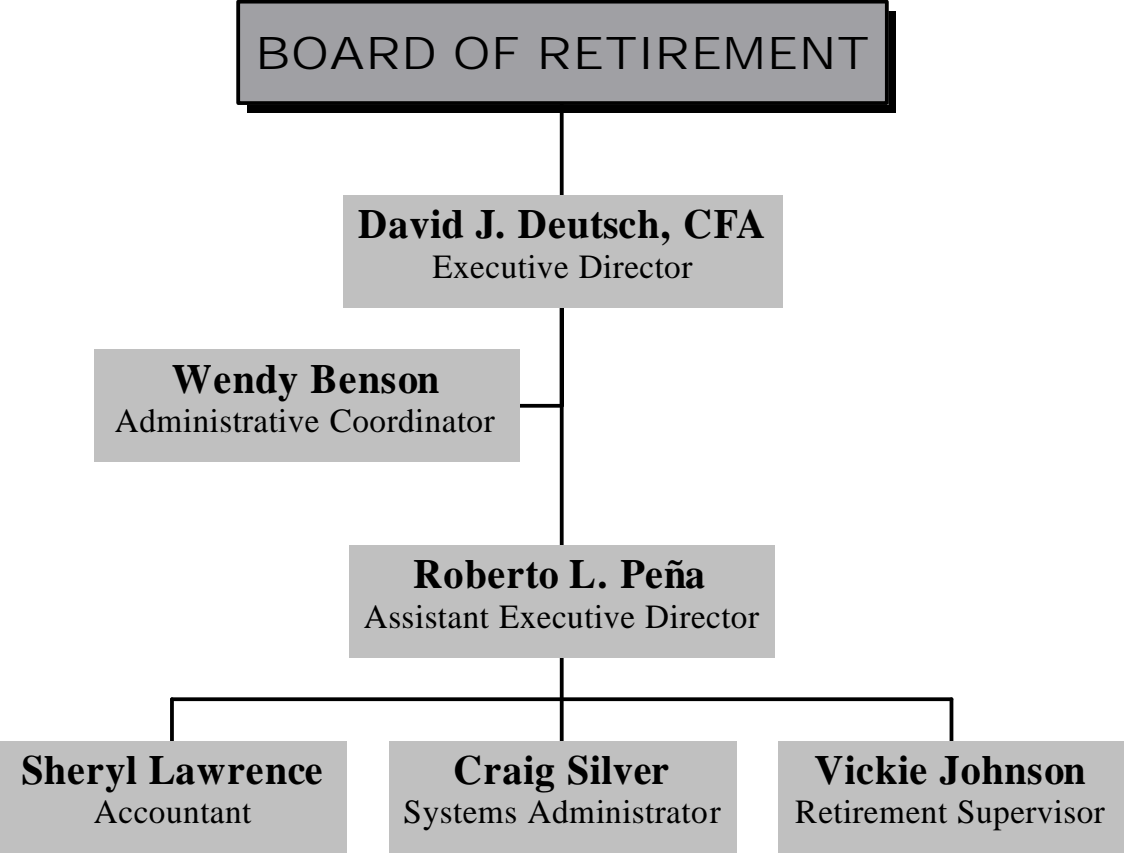
**In Memoriam  
Ken Peterson**

Appointed by the Board of Supervisors.  
Served on the Board of Retirement through June 23, 2002.

**Alternate Members:**

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**Administrative Organization Chart  
As of June 30, 2002**



# **KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

## **List of Professional Consultants As of June 30, 2002**

### **ACTUARY**

Public Pension Professionals, Inc.  
Oakland, CA

### **AUDITOR**

Brown Armstrong  
Bakersfield, CA

### **CUSTODIAN**

The Northern Trust Company  
Chicago, IL

### **LEGAL**

Kern County Counsel  
Bakersfield, CA

Morrison & Foerster, LLP  
Los Angeles, CA

Hanson Bridgett  
San Francisco, CA

### **INVESTMENT CONSULTANT**

Wilshire Associates, Inc.  
Santa Monica, CA

### **OTHER SPECIALIZED SERVICES**

Cortex Applied Research, Inc.  
Toronto, Ontario  
Canada

Note: A list of Investment Professionals is located on page 54 of the Investment Section of this report.



Sharon Clark, Chairman  
Sharon E. Lesser, Vice Chairman  
John DeMario  
Brent M. Dezember  
Claude D. Fiddler  
Phil Franey  
Ethelyn L. Looy  
Barbara Patrick  
Tony Plante  
Michael Bradley, Alternate  
Lois B. Maujer, Alternate

David J. Deutsch, CFA  
Executive Director

October 30, 2002

Dear Members:

On behalf of the KCERA Board of Retirement (Board), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2002. The preparation of the CAFR reflects the Board's ongoing commitment to a high standard of excellence in serving KCERA members and interested parties. The Board is proud that its CAFR continues to merit the Award for Excellence in Financial Reporting sponsored by the Government Finance Officers Association, as last year's CAFR earned the award this past year.

The terrible events of September 11<sup>th</sup> cast a grave shadow over the past year. A slowdown in business activity was exacerbated by the attacks leading to a deepening downturn in the U. S. economy and continuing declining capital markets. The downturn in the U. S. markets spread to much of the world throughout the year. The KCERA investment fund reflects the continuing softness in capital markets, buoyed only by the smoothing of returns overall, consistent with Governmental GAAP (Generally Accepted Accounting Principles), and a 30%+ allocation to fixed income securities and cash. The Board implemented new private equity fund-of-funds partnerships, increasing the effective allocation of assets to this asset class, and hired an additional index enhancement manager in the year. The fund returned -5.97% versus a broad policy benchmark of -5.94%. Despite negative results for two years, the investment program is expected to earn 8% over the longer term.

This past year, the Settlement Agreement in the matter of Kern Law Enforcement Association et al., Petitioners, vs. Board of Retirement, Kern County Employees' Retirement Association, Respondent; County of Kern, Real Party in Interest, was finally approved by the court and the KCERA began to implement the provisions of the Agreement, requiring, among other stipulations, the recalculation of retirement benefits of all retirees of the KCERA. Consistent with the Economic Growth and Tax Relief Reconciliation Act of 2001, the Board implemented initial bylaws allowing members to rollover tax-qualified funds from the County's Section 457 Deferred Compensation Plan or from eligible other 403(b) plans for the purpose of purchasing eligible prior public service credit with the KCERA. In addition, the Board instructed the Actuary for the plan to implement a resolution of the Kern County Board of Supervisors adopting a new funding procedure for COLA benefits. Henceforth, the COLA provision of the plan will be funded first from excess earnings of the plan, to the extent that such funds are available, rather than directly from employer contributions, as in prior practice.

I wish to commend KCERA staff for their good work in producing this Comprehensive Annual Financial Report.

Sincerely,

Sharon Clark, Chairman  
Board of Retirement

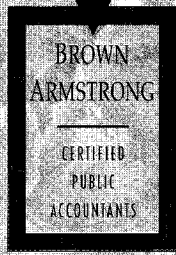
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In California 800.548.0738 TTYRelay 800.735.2929





# ***FINANCIAL SECTION***





**BROWN ARMSTRONG  
PAULDEN McCOWN HILL STARBUCK & KEETER**  
CERTIFIED PUBLIC ACCOUNTANTS

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■ **Shafter Office**  
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Tel 661-746-7145 Fax 661-746-1

Peter C. Brown, CPA  
Burton H. Armstrong, CPA, MST  
Andrew J. Paulden, CPA  
Harvey J. McCown, CPA  
Andrea R. Hill, CPA  
Steven R. Starbuck, CPA  
Aileen K. Keeter, CPA

**INDEPENDENT AUDITOR'S REPORT**

Chris M. Thornburgh, CPA  
Lynn R. Krausse, CPA, MST  
Joan M. Anderson, CPA  
Bradley M. Hankins, CPA  
Eric H. Xin, CPA  
Melinda A. McDaniels, CPA  
Thomas M. Young, CPA  
Amanda E. Wilson, CPA  
Sharon Jones, CPA, MST  
Michelle L. Gonzales, CPA  
Rebecca Thomas, CPA  
Wendy Yuan-Sway, CPA  
Rosalba Flores, CPA  
Bryan J. Lewis, CPA  
Debbie A. Rapp, CPA  
Julie A. Auvil, CPA

To the Members of the  
Kern County Board of Retirement

We have audited the accompanying statement of plan net assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2002 and 2001 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of KCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kern County Employees' Retirement Association as of June 30, 2002 and 2001 and its changes in plan net assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 19 through 23 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules on pages 40 through 44, and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of KCERA. The supporting schedules on pages 40 through 44 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

BROWN ARMSTRONG PAULDEN  
McCOWN HILL STARBUCK & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
October 11, 2002

See Accompanying Independent Auditor's Report.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Kern County Employees' Retirement Association's (KCERA) financial statements and the significant events and conditions which affected the operations and performance during the years ended June 30, 2002 and 2001. It is presented as a narrative overview and analysis in conjunction with the Executive Director's Letter of Transmittal included in the Introductory Section of this Comprehensive Annual Financial Report.

### Financial Highlights

- The net assets of the KCERA decreased approximately \$105.9 million during the year ended June 30, 2002. The decrease was primarily due to declining equity markets and from improved benefits to Safety members.
- As of December 31, 2001, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 94%, which is less than December 31, 2000 funded ratio of 103%. This decrease can be attributed to the improvement in benefits for Safety members, greater disability benefits, salary increases for active members, and investment losses.
- During the fiscal year ended June 30, 2002, the KCERA's total fund returned -5.97% which was slightly less than last fiscal year's return of -5.23%.

### Overview of the Financial Statements and Accompanying Information

- 1) **The Statement of Plan Net Assets** is the basic statement of position for a defined benefit pension plan under the Governmental Accounting Standard Board (GASB) Statement No. 25. This statement reflects the net assets available for future payments to retirees and their beneficiaries. All assets and current liabilities of the plan are reported by using the full accrual basis of accounting. Investments are reported at their fair value and only accounting (rather than actuarial) liabilities are reported.
- 2) **The Statement of Changes in Plan Net Assets** is the basic operating statement for a defined benefit pension plan under GASB Statement No. 25. Changes in plan net assets are recorded as additions or deductions from the plan. All additions and deductions are reported by using the full accrual basis of accounting.
- 3) **Notes to the Financial Statements** are an integral part of the financial statements and provide additional information to provide a better understanding of the financial statements. Information available in the notes to the financial statements is described below.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### Overview of the Financial Statements and Accompanying Information (Continued)

- *Note 1* provides a general description of the plan including the type of plan, current membership information, and a brief description of provisions and the authority for establishing those provisions.
  - *Note 2* provides a summary of significant accounting policies including the basis of accounting, methods of valuing investments, fixed assets, management's use of estimates, and new accounting pronouncements.
  - *Note 3* describes cash and investments, including investment risk categorizations and securities out on loan from the KCERA's securities lending program.
  - *Note 4* reports the concentration of 5% or more of the plan's net investments in securities of a single organization (other than the U.S. government).
  - *Note 5* provides a general description of the securities lending program.
  - *Note 6* describes the nature and purpose of investments in derivatives and similar debt investments and a description of the plan's exposure to credit risk.
  - *Note 7* describes the KCERA's funding policy and contributions.
  - *Note 8* provides the plan's reserves and designations of plan assets. Reserve balances are provided using the five-year smoothed market value.
  - *Note 9* describes the commitments and contingencies of the KCERA.
  - *Note 10* provides required supplementary information (RSI) regarding actuarial data.
- 3) **Required Supplementary Information** consists of two schedules and related notes of long-term actuarial data. The two schedules include the funded status of the KCERA and the annual required employer contributions.
- 4) **Other Supplemental Information** includes schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants.

## **KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

### **Financial Analysis**

The KCERA provides pension benefits to the employees and their beneficiaries of the County of Kern and other public agencies. The KCERA's benefits are funded by member and employer contributions, and investment income. The KCERA's net assets held in trust for pension benefits at June 30, 2002 was \$1.4 billion, a decrease of approximately \$106 million (7%) from June 30, 2001. Key elements of the decrease are described below and are shown in Tables 1 and 2 on Page 22.

Additions to plan net assets include member and employer contributions, and investment income. Member contributions were \$11.3 million and \$9.2 million for the years ended June 30, 2002 and 2001, respectively. Employer contributions were \$41.8 million and \$41.1 million for the years ended June 30, 2002 and 2001, respectively. At June 30, 2002, employer contributions remained consistent with fiscal year June 30, 2001, while member contributions increased by approximately \$2.1 million. The increase in member contributions can be attributed to an increase in active membership from new hires and fewer terminations. Net investment losses were \$76.2 million and \$99.8 million for the years ended June 30, 2002 and 2001, respectively. The net investment losses were mainly due from the declining equity markets.

Deductions to plan net assets include pension benefits, refunds of member contributions, and administrative expenses. The pension benefits (annuity, pension, and cost of living allowances) were \$72.0 million and \$65.3 million for the years ended June 30, 2002 and 2001, respectively. This 10% increase in pension benefits was mainly due to an increase in Safety retirees and improved benefits for Safety members. The KCERA adopted California Government Code Section 31618 which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides for 80% purchasing power protection and a \$1,000 death benefit. The supplemental retirement benefits paid were \$7.2 million and \$6.6 million for years ended June 30, 2002 and 2001, respectively. At June 30, 2002, refunds of member contributions were \$213 thousand more than fiscal year June 30, 2001, and administrative expenses increased by \$265 thousand from June 30, 2001.

The KCERA's investments were \$1.5 billion and \$1.6 billion for the years ended June 30, 2002 and 2001, respectively. The \$100 million decrease in investments is a result of the KCERA's total fund return of -5.97%. The KCERA's equity composite returned -14.54%, fixed income composite returned 5.12%, and the international equity composite returned -6.56%. (See Investment Section)

### **Reserves**

The KCERA's reserves are established in accordance with the County Employees Retirement Law of 1937 and under GASB 25. Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. The unrealized gains and losses are held in the Market Stabilization Reserve with a portion allocated to all other reserves. The KCERA uses a five-year smoothing methodology to recognize unrealized gains and losses. The five-year smoothing is calculated by subtracting the expected return of 8.0% (actuarial rate) from the total fund's actual return on net assets. At June 30, 2002, the Market Stabilization Reserve was \$(250) million versus a \$(100) million balance at June 30, 2001. (See Note 8)

Interest at the actuarial rate of 8.0%, or at the highest rate possible if net earnings are not sufficient to credit the full actuarial rate is credited semiannually on December 31 and June 30. Interest is credited to all reserves except a contingency reserve. For the fiscal year 2002, the KCERA credited the reserves 3.4%, below the actuarial rate of 8.0%.



**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**Net Assets  
(In thousands)**

**Table 1**

	<b>2002</b>	<b>2001</b>	<b>Increase (Decrease) Amount</b>	<b>Total Percentage Change</b>
<b>Assets</b>				
Current Assets	\$ 212,390	\$ 134,454	\$ 77,935	58%
Investments	1,428,903	1,529,469	(100,566)	-6%
Securites Lending Collateral	66,605	57,825	8,780	15%
Fixed Assets and Other Assets	258	354	(96)	27%
<b>Total Assets</b>	<b>\$1,708,156</b>	<b>\$1,722,103</b>	<b>\$ (13,947)</b>	<b>-1%</b>
<b>Liabilities</b>				
Current Liabilities	\$ 205,378	\$ 122,196	\$ 83,181	68%
Liabilities for Security Lending	66,605	57,825	8,780	15%
<b>Total Liabilities</b>	<b>\$ 271,983</b>	<b>\$ 180,022</b>	<b>\$ 91,961</b>	<b>51%</b>
<b>Total Net Assets</b>	<b>\$1,436,172</b>	<b>\$1,542,081</b>	<b>\$(105,908)</b>	<b>-7%</b>

**Changes in Net Assets  
(In thousands)**

**Table 2**

	<b>2002</b>	<b>2001</b>	<b>Increase (Decrease) Amount</b>	<b>Total Percentage Change</b>
<b>Additions</b>				
Member Contributions	\$ 11,287	\$ 9,174	\$ 2,113	23%
Employer Contributions	41,882	41,067	814	2%
Investment Income (Loss)	(76,247)	(99,791)	23,544	23%
<b>Total Additions</b>	<b>\$(23,079)</b>	<b>\$ (49,550)</b>	<b>\$26,471</b>	<b>53%</b>
<b>Deductions</b>				
Pension Benefits	\$ 71,970	\$ 65,268	\$ 6,702	10%
Supplemental Retirement Benefits	7,207	6,629	578	9%
Refunds of Member Contributions	1,436	1,223	213	17%
Administrative Expenses	2,168	1,903	265	14%
Benefits Administration System Expenses	48	89	(42)	47%
<b>Total Deductions</b>	<b>\$ 82,829</b>	<b>\$ 75,113</b>	<b>\$ 7,716</b>	<b>10%</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$(105,908)</b>	<b>\$(124,663)</b>	<b>\$18,755</b>	<b>15%</b>

## **KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

### **Settlement Agreement and Judgment**

A Petition for Writ of Mandamus entitled “*Kern Law Enforcement Association, et al., Petitioners v. Board of Retirement, Kern County Employees’ Retirement Association, Respondent; County of Kern, Real Party in Interest,*” Case No. 236460-NFT (hereafter “KLEA”) was filed on June 9, 1998. The KLEA case arises from the California Supreme Court decision entitled “*Ventura County Deputy Sheriffs’ Assn. v. Board of Retirement of Ventura County Employees’ Retirement Assn* (hereafter “Ventura”). The proceeding has been coordinated with other cases in California raising similar issues before Judge Stuart Pollak in San Francisco Superior Court as Judicial Council Coordination Proceeding No. 4049 (Retirement Cases) and certified as a class action involving all past present and future members of the KCERA, and their beneficiaries and survivors.

Judgment in the action was entered on January 24, 2002 to implement the provisions of a Settlement Agreement that had been approved by the Court after notice to the class. Notice of the Entry of Judgment was given to all parties on January 28, 2002, no appeal was filed within the statutory time period, and the Judgment has now become final. The significant provisions of the settlement are: 1) inclusion of some additional pay items in “compensation earnable”, 2) retroactive payments back to April 1, 1996 and going forward, and 3) a permanent increase in the annual cost of living allowance from 2% to 2.5% effective April 1, 2002.

The KCERA is in the process of evaluating past service records in order to recalculate benefit levels in accordance with the Settlement Agreement and Judgment. As of October 11, 2002, 79 retirees or their beneficiaries have received their retroactive payments and their monthly pension benefit has been recalculated to include the additional pay items. (See Note 9)

### **Fiduciary Responsibilities**

The KCERA’s Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Pension Protection Act of 1992, the Board of Retirement has plenary authority and fiduciary responsibility for investment monies and administration of the KCERA. The Board of Retirement has the sole and exclusive fiduciary responsibility over the assets. The assets shall be held for the exclusive purpose of providing benefits to the KCERA members and their survivors.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**STATEMENT OF PLAN NET ASSETS**  
**AS OF JUNE 30, 2002 AND 2001**

	<b>2002</b>	<b>2001</b>
<b>Assets</b>		
Cash in County Pool	\$ 3,077,452	\$ 5,715,922
Short-Term Investment Funds	<u>62,883,067</u>	<u>39,816,171</u>
Total Cash and Short-Term Investment Funds	<u>65,960,519</u>	<u>45,532,093</u>
Receivables:		
Investments Sold	140,239,662	79,676,937
Interest and Dividends	5,363,305	6,227,385
Receivable for Index Futures	0	334,875
Contributions and Other Receivables	<u>826,736</u>	<u>2,682,506</u>
Total Receivables	<u>146,429,703</u>	<u>88,921,703</u>
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	520,055,546	555,733,361
International Bonds	17,099,345	16,995,110
Domestic Stocks	536,458,812	602,365,727
International Stocks	291,545,536	269,857,020
Real Estate Investments	48,083,409	64,963,174
Private Equity Funds	15,660,037	19,555,075
Collateral Held for Securities Lending	<u>66,604,775</u>	<u>57,825,469</u>
Total Investments	<u>1,495,507,460</u>	<u>1,587,294,936</u>
Prepaid Insurance	63,847	111,733
Property, Fixtures and Equipment, net of accumulated depreciation of \$70,253 and \$62,930, respectively	<u>194,182</u>	<u>242,345</u>
Total Assets	<u>1,708,155,711</u>	<u>1,722,102,810</u>
<b>Liabilities</b>		
Securities Purchased	203,379,365	120,891,972
Payable for Index Futures	171,950	0
Collateral Held for Securities Lent	66,604,775	57,825,469
Other Liabilities	<u>1,826,657</u>	<u>1,304,326</u>
Total Liabilities	<u>271,982,747</u>	<u>180,021,767</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<u>\$ 1,436,172,964</u>	<u>\$ 1,542,081,043</u>

(A schedule of funding progress is presented on page 40.)

See accompanying notes to the financial statements.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

	2002	2001
<b>Additions</b>		
Contributions		
Employer	\$ 41,881,569	\$ 41,067,487
Member	<u>11,287,597</u>	<u>9,173,557</u>
Total Contributions	<u>53,169,166</u>	<u>50,241,044</u>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	(117,408,356)	(143,430,832)
Interest	31,051,163	31,647,293
Dividends	6,177,114	5,622,317
Real Estate Investments	7,949,161	9,883,331
Other Investment Income	<u>15,719</u>	<u>46,091</u>
Total Investment Income (Loss)	(72,215,199)	(96,231,800)
Less: Investment Expenses	<u>4,226,773</u>	<u>3,607,441</u>
Net Investment Income (Loss)	<u>(76,441,972)</u>	<u>(99,839,241)</u>
Securities Lending Income		
Earnings	1,712,844	911,090
Less: Rebates & Bank Fees	<u>1,518,849</u>	<u>863,243</u>
Net Securities Lending Income	<u>193,995</u>	<u>47,847</u>
Total Additions	<u>(23,078,811)</u>	<u>(49,550,350)</u>
<b>Deductions</b>		
Retirement and Survivor Benefits	71,970,669	65,268,084
Supplemental Retirement Benefits	7,206,580	6,629,279
Refunds of Member Contributions	1,435,764	1,222,707
Administrative Expenses	2,167,965	1,903,426
Benefits Administration System Expenses	<u>48,290</u>	<u>89,427</u>
Total Deductions	<u>82,829,268</u>	<u>75,112,923</u>
<b>Net Increase (Decrease)</b>	(105,908,079)	(124,663,273)
<b>Net Assets Held in Trust for Pension Benefits</b>		
Beginning of Year	<u>1,542,081,043</u>	<u>1,666,744,316</u>
End of Year	<u>\$ 1,436,172,964</u>	<u>\$ 1,542,081,043</u>

See accompanying notes to the financial statements.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**JUNE 30, 2002 AND 2001**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – DESCRIPTION OF PLAN**

The Kern County Employees' Retirement Association (KCERA) was established on January 1, 1945 by the County of Kern Board of Supervisors under the provisions of the County Employees Retirement Law of 1937. KCERA is a cost-sharing multiple-employer defined benefit plan (the plan) covering all permanent employees of the County of Kern and of the following agencies: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito & Vector Control District, North of the River Sanitation District, San Joaquin Valley Unified Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito Abatement District, and West Side Recreation and Park District. The plan is administered by the Kern County Board of Retirement which consists of nine members and two alternate members.

As of June 30, 2002, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	6,491	1,630	8,121
Terminated employees – vested	744	91	835
Retirees and beneficiaries currently receiving benefits	3,476	1,009	4,485
	10,711	2,730	13,441

**Benefit Provisions**

The KCERA Plan provides for retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. On July 1, 1968 the Board of Supervisors adopted a provision of the Government Code providing for a fixed benefit formula plan.

**SERVICE RETIREMENT BENEFIT**

- All eligible employees must participate in the Kern County Employees' Retirement Association. A member may retire after reaching the age of 50 with 10 years of service; or general members may retire with 30 years of service and safety members may retire with 20 years of service, regardless of age. Members who retire at or after age 50 with 10 or more years of service are entitled to pension benefits for the remainder of their lives. The amount of such monthly benefit is determined as a percentage of their final monthly compensation and is based on age at retirement and the number of years of service. The final monthly compensation is the monthly average of the final 12 months compensation, or, if the member so elects, any other continuous 12 month period in the member's work history.
- Retiring members may choose from four optional beneficiary retirement allowances. Most retirees elect to receive the unmodified allowance which includes 60% of the allowance continued to the retirees' surviving spouse.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 – DESCRIPTION OF PLAN (Continued)**

- Pension provisions include deferred allowances whereby a member may terminate his or her employment with the County after five or more years of County service. If the member does not withdraw his or her accumulated contributions, the member is entitled to all pension benefits after being vested five years, and upon reaching the age of 50 with ten or more years of participation in the retirement system.
- A member that terminates his or her employment with the County of Kern and within 180 days enters another retirement system that has a reciprocal agreement with KCERA, may elect to leave their contributions on deposit with KCERA and establish reciprocity, regardless of their length of service with KCERA. Reciprocal retirement systems include any other county under the County Employees' Retirement Law of 1937, the Public Employees' Retirement System or CalPERS, and any other public agency within the State of California that has a reciprocal agreement with CalPERS.

**DEATH BENEFIT**

Death Before Retirement

- An active member's beneficiary is entitled to receive death benefits which consist of accumulated contributions plus interest, and one month's salary for each full year of service up to a maximum of six month's salary.
- If a member is vested and their death is not the result of job-caused injury or disease, their spouse will be entitled to receive for life, a monthly allowance equal to 60% of the retirement allowance in which they would have been entitled to receive if they had retired for non-service connected disability on the date of their death. This same choice is given to their minor children under the age of 18, or under 22 if in school.
- If a member dies in the performance of duty, their spouse receives for life a monthly allowance equal to at least 50% of the member's final average salary. This will apply to minor children under the age of 18, or under 22 if in school.

Death After Retirement

- If a member dies after retirement, a death benefit of \$1,000 is payable to their designated beneficiary or to their estate.
- If the retirement was for service or non-service connected disability and the member chose the unmodified plan, their surviving spouse or minor children will receive a monthly allowance equal to 60% of the retirement allowance.
- If the retirement was for service connected disability, their spouse or minor children will receive a 100% continuance of their retirement allowance.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 1 – DESCRIPTION OF PLAN (Continued)**

**DISABILITY BENEFIT**

- A member with five years of service, regardless of age, who becomes permanently incapacitated for the performance of duty will be eligible for a non-service connected disability retirement. Any member who becomes permanently incapacitated for the performance of duty as a result of injury or disease arising out of and in the course of employment, is eligible for a service connected disability regardless of length of service or age.

**COST-OF-LIVING ADJUSTMENT**

- An annual cost-of-living adjustment (COLA) of up to 2.5% for all retirees and continuance beneficiaries was adopted as of April 1, 2002.

**SUPPLEMENTAL BENEFIT**

- The Board of Retirement adopted Government Code Section 31618 on April 23, 1984 which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). The SRBR is used only for the benefit of future and current retired members and their beneficiaries. The supplemental benefit is not a guaranteed benefit. The distribution of the SRBR is determined by the Board of Retirement. SRBR currently provides for 80% purchasing power protection and a \$1,000 death benefit.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The KCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of Kern. The KCERA's annual financial statements are referenced by footnote in the County of Kern's Annual Financial Report as a pension trust fund.

**Basis of Accounting**

The KCERA follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the KCERA. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds of prior contributions are recognized when due and payable in accordance with the terms of the plan.

**Administrative Expenses**

The KCERA's Board of Retirement annually adopts the operating budget for the administration of KCERA. The administrative expenses are charged against the plan's earnings and are limited to eighteen hundredths of one percent of total assets as set forth under Government Code Section 31580.2

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Fair Valuation of Investments**

Fair value for investments are derived by various methods as indicated in the following table:

Stocks, publicly trade bonds, issues of the Government and its agencies	Most recent sales price as of the fiscal year U.S. end; international securities reflect currency exchange rates in effect at June 30, 2002 and 2001.
Real estate investments and alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.

**Fixed Assets**

Fixed assets and leasehold improvements are reported at historical cost less accumulated depreciation. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the depreciable assets and the term of the lease, respectively. Computers and equipment have a useful life of five years and furniture has a useful life of seven years.

**Income Taxes**

The plan qualifies under Section 401(a) of the Internal Revenue Code and is therefore not subject to tax under present income tax laws. No provision for income taxes has been made in the accompanying financial statements, as the plan is exempt from Federal and State income taxes under the provisions of Internal Revenue Code, Section 501 and California Revenue and Taxation Code Section 23701, respectively.

**Management's Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**New Accounting Pronouncements**

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. In June 2001, the GASB issued Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments: Omnibus*, which amended certain provisions of GASB 34. The KCERA implemented GASB 34, as amended, for fiscal year June 30, 2002. GASB 34 required the KCERA to present Management's Discussion and Analysis as required supplementary information preceding the financial statements. GASB 34 did not have an impact on the net assets of the plan.



**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 – CASH AND INVESTMENTS**

At June 30, 2002, \$3,077,452 and at June 30, 2001, \$5,715,922 of the KCERA's uninsured and uncollateralized cash resources were combined with the County of Kern to form a pool of cash and investments.

The KCERA's cash and investments are categorized below to give an indication of the category risk level assumed by the Plan at June 30, 2002 and 2001 as defined by GASB Statement No. 3.

*Category 1* – Insured or registered, or securities held by the entity or by its agent in the entity's name.

*Category 2* – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

*Category 3* – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name. This includes the portion of the carrying amount of any underlying securities.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Based on the categories listed above, KCERA's cash and investments as of June 30, 2002 are classified as follows:

	Category 1	Category 3	Uncategorized	Total Fair Value
U.S. Government and agency securities				
Not on securities loan	\$ 163,798,621	\$ 5,912,024	\$ 79,825	\$ 169,790,470
On securities loan for securities collateral	3,858,099			3,858,099
On securities loan for cash collateral			15,144,446	15,144,446
Domestic corporate fixed-income securities				
Not on securities loan	208,062,082			208,062,082
On securities loan for securities collateral	41,059			41,059
On securities loan for cash collateral			22,241,781	22,241,781
International bonds				
Not on securities loan	13,822,693			13,822,693
On securities loan for cash collateral			3,276,652	3,276,652
Domestic equity securities				
Not on securities loan	83,402,861			83,402,861
On securities loan for securities collateral	44,461			44,461
On securities loan for cash collateral			20,418,087	20,418,087
International equity securities				
Not on securities loan	30,217,350			30,217,350
On securities loan for cash collateral			3,536,554	3,536,554
Common / collective investment funds			627,516,217	627,516,217
Limited partnerships			147,641,138	147,641,138
Loans			79,812,735	79,812,735
Call options			76,000	76,000
Securities lending short-term collateral				
investment pool			66,604,775	66,604,775
Short-term investment funds			62,883,067	62,883,067
<b>Total</b>	<b>\$ 503,247,226</b>	<b>\$ 5,912,024</b>	<b>\$ 1,049,231,277</b>	<b>\$1,558,390,527</b>

Reconciliation of the summary of the KCERA's investments above total investments per the Statement of Plan Net Assets available as of June 30, 2002, is as follows:

Total investments per Statement of Plan Net Assets	\$ 1,495,507,460
Plus cash and short-term investments	62,883,067
<b>Total investments summarized above</b>	<b>\$ 1,558,390,527</b>

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 3 – CASH AND INVESTMENTS (Continued)**

Based on the categories listed above, KCERA's cash and investments as of June 30, 2001 are classified as follows:

	Category 1	Category 3	Uncategorized	Total Fair Value
.S. Government and agency securities				
Not on securities loan	\$ 163,782,903	\$ 5,675,034	\$	\$ 169,457,937
On securities loan for cash collateral			26,142,783	26,142,783
Domestic corporate fixed-income securities				
Not on securities loan	220,378,876			220,378,876
On securities loan for securities collateral	4,383,954			4,383,954
On securities loan for cash collateral			22,182,081	22,182,081
International bonds				
Not on securities loan	16,508,781			16,508,781
On securities loan for cash collateral			486,329	486,329
Domestic equity securities				
Not on securities loan	186,248,371			186,248,371
On securities loan for cash collateral			4,124,839	4,124,839
International equity securities				
Not on securities loan	44,301,142			44,301,142
On securities loan for cash collateral			3,328,537	3,328,537
Common / collective investment funds			586,199,474	586,199,474
Limited partnerships			169,170,128	169,170,128
Loans			76,554,619	76,554,619
Call options			1,616	1,616
Securities lending short-term collateral investment pool			57,825,469	57,825,469
Short-term investment funds			39,816,171	39,816,171
<b>Total</b>	<b>\$ 635,604,027</b>	<b>\$ 5,675,034</b>	<b>\$ 985,832,046</b>	<b>\$ 1,627,111,107</b>

Reconciliation of the summary of the KCERA's investments above total investments per the Statement of Plan Net Assets available as of June 30, 2001, is as follows:

Total investments per Statement of Plan Net Assets	\$ 1,587,294,936
Plus cash and short-term investments	39,816,171
<b>Total investments summarized above</b>	<b>\$ 1,627,111,107</b>

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 4 – PORTFOLIO CONCENTRATION**

The fair value of securities with any one organization greater than 5% of plan net assets as of June 30, 2002 (other than U.S. Government securities) is presented in the following table:

Organization	Amount (in thousands)	Percentage of Net Assets
Global Bonds: Goldman Sachs Asset Management	\$146,754	10.22%
Synthetic S&P 500 Strategies: Pacific Investment Management Company (PIMCO) Westridge Capital Management	\$ 83,898 81,385	5.84% 5.67%
Index Funds: Barclays Global Investors S&P 500 Index Fund Barclays Global Investors Euro Alpha Tilts Strategy Fund Barclays Global Investors International Equity Index Fund Barclays Global Investors Alpha Tilts Strategy Fund	\$122,996 117,980 97,715 89,035	8.56% 8.21% 6.80% 6.20%

**NOTE 5 – SECURITIES LENDING**

Under provisions of state statutes, the KCERA Board of Retirement permits KCERA to participate in a securities lending program, whereby securities are transferred to independent broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities plus a fee in the future. The KCERA's custodian, The Northern Trust Company, is the agent for its securities lending program. The Northern Trust Company is authorized to lend U.S. government obligations, U.S. bonds and equities, and international bonds and equities that are being held in custody to various borrowers, such as, banks and brokers. All securities loans can be terminated on demand by either the lender or the borrower.

U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest. Marking to market is performed every business day subject to de minimis rules of change in value, and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the agent will at least equal the market value of the borrowed securities. Collateral received may include cash, irrevocable letters of credit, or securities which are direct obligations or guaranteed by the U.S. Government. Cash collateral is invested in a short term investment pool, or may be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

At June 30, 2002, the KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% plus accrued interest. At June 30, 2002 and 2001, the securities lending transactions collateralized by cash had a fair value of \$64,617,521 and \$56,264,569, respectively, and a collateral value of \$66,604,775 and \$57,825,469, respectively. At June 30, 2002 and 2001, the securities lending transactions collateralized by securities or letters of credit had a fair value of \$3,943,620 and \$7,398,205, respectively, and a collateral value of \$4,043,749 and \$7,651,963, respectively, which was not reported as assets and liabilities in the accompanying Statement of Plan Net Assets.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 – DERIVATIVES**

The KCERA utilizes derivative investment instruments in a number of its separately managed investment accounts, limited partnerships and other commingled funds. These instruments may include forward currency contracts, mortgage-backed securities, asset-backed securities, collateralized mortgage obligations, options and futures contracts, generally traded on public security exchanges. Gains and losses on derivative securities are tied to the performance of underlying securities and are based upon closing market values. The gains and losses are recorded in the Statement of Changes in Plan Net Assets.

The risks of using derivative instruments may include the risk that counterparties to contracts will not perform, that the public exchange will not meet its obligation to assume this counterparty risk, market risks including uncollectible mortgages or receivables backing a security, home mortgages which are prepaid at the option of the homeowner, and adverse movements currency exchange rates and/or interest rates. The KCERA does not utilize over-the-counter derivative contracts, except for foreign exchange hedging, nor does it leverage the plan's cash assets through such instruments in order to increase exposures to markets or market segments.

The KCERA utilizes forward currency contracts for the purpose of hedging against adverse movement in currency exchange rates and to facilitate settlement of transactions in foreign securities. While such hedging is expected to net out to zero impact on the fund in the long term, in the short term, gains and losses are included in net investment income from foreign currency transactions. The net foreign currency losses in fiscal years 2002 and 2001 are \$2,510,198 and \$3,155,629, respectively. Such contracts are commonly traded through an informal network of bank and brokers, or a currency futures market.

Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities are created from pools of mortgages or other assets (receivables). Such securities are subject to the market risk factors generally affecting fixed income securities, including interest rates, the credit of the issuers and duration or maturity of the issues. The KCERA uses options to manage risk exposures in certain accounts as a result of asset allocation requirements or unusual flows of cash to or from such accounts.

The KCERA utilizes futures instruments to manage asset allocation exposures to conform to asset allocation policies. In the short term, market changes can drive asset allocation away from targeted values. Futures overlays are used to rebalance the portfolio to a target allocation on a daily basis. Futures are also used to provide market exposure to an asset class as an adjunct to an investment strategy in order to tie the results of the strategy to a particular sector of the market for asset allocation purposes. For example, S&P 500 futures are used to "equitize" the results of a cash market strategy, thereby potentially providing enhanced broad equity market returns to the fund. The KCERA pledges cash and/or securities to provide initial margin for futures trading, generally between 4% to 5% of the notional value of the futures positions. Futures accounts mark to the market on a daily basis, requiring the KCERA to fund losses in the futures positions but utilize gains, as well, on a daily basis.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 6 – DERIVATIVES (Continued)**

The fair value of the KCERA's derivatives are as follows:  
(in thousands)

	June 30, 2002	June 30, 2001
Forward Currency Contracts (Receivables)	\$ 1,612	\$ 26
Forward Currency Contracts (Payables)	(1,618)	(27)
Mortgage-Backed Securities	151,911	158,654
Asset-Backed Securities	37,334	39,948
Collateralized Mortgage Obligation Securities	39,885	41,105
Call Options	76	2
Total Derivatives	\$229,200	\$239,708

**NOTE 7 – FUNDING POLICY**

Eligible County of Kern employees and their beneficiaries are entitled to pension, disability, and survivors' benefits under the provisions of the County Employees Retirement Law of 1937 with the establishment of the KCERA on January 1, 1945. As a condition of participation under the provisions of the County Employees Retirement Law of 1937, members are required to pay a percentage of their salaries, depending upon their age at date of entry in the system.

Annually, the employer contribution rates are actuarially determined by using the Projected Unit Credit Cost method. The employer contribution rates are made up of two parts:

1. The Normal Cost, or the cost of the portion of the benefit that is allocated to the current year.
2. The payment to amortize the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is the excess of the Plan's accrued liability over its assets. Most of the UAAL is currently amortized over 21 years, except for the additional liabilities due to granting Golden Handshake benefits, which are amortized over three years from the year in which they were granted.

The Memorandum of Understanding (MOU) adopted April 1997 between the County of Kern and its employees, took effect on July 5, 1997. The MOU states that members hired prior to the effective date will pay 50% of the full member contribution rate until they attain five years of service. Members hired after the effective date of the MOU will pay the full member rate until they attain five years of retirement service credit. After five years of service, no contributions are required from any member; such contributions are "picked up" by the County of Kern.

An annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted as of April 1, 1973. The liability for this annual retirement benefit increase was funded entirely from the unreserved fund balance prior to February 5, 1983. After this date (as recommended by the plan's independent Actuary, adopted by the KCERA Board of Retirement, and approved by the County of Kern Board of Supervisors) current funding for the cost-of-living reserve is included in the employers' contributions.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 7 – FUNDING POLICY (Continued)**

Participating Special Districts did not participate in the funding provided by a pension obligation bond of \$224.5 million issued by the County of Kern in November 1995. Therefore, different employer contribution rates are required to fund the unfunded liabilities for each class of participation. The rate of contributions for Special Districts changed on September 27, 1997, to reflect the impact of the County of Kern MOU, applicable to county members. Ten out of twelve Special Districts adopted provisions parallel to the MOU. Two Special Districts did not adopt the MOU; Buttonwillow Recreation and Park District and San Joaquin Valley Unified Air Pollution Control District.

The following table summarizes the required contribution rates in effect at June 30, 2002. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rate	Employer Rates
General Members	4.85% - 11.16%	12.29%
Safety Members	5.44% - 11.92%	14.66%
Special Districts (Electing MOU)	4.85% - 11.16%	15.04%
Special Districts (Not Electing MOU)	4.85% - 11.16%	9.51%

Total contributions made during fiscal years 2002 and 2001, respectively, amounted to \$53,169,166 and \$50,241,044 of which \$41,881,569 and \$41,067,487 were contributed by the County of Kern and Special Districts, and \$11,287,597 and \$9,173,557 were contributed by members.

**Supplemental Retirement Benefits**

A supplemental benefits program currently provides enhancement to benefits payable to retirees and their beneficiaries such as to bring all eligible recipients up to 80% of dollar purchasing power as of their retirement date. The program is contingently funded from one half of “excess” i.e. earnings greater than the assumed actuarial rate of interest. While the impact on the fund of paying supplemental benefits is difficult to project, the supplemental program is an additional cost of the plan.

Effective April 1, 2002, provisions of a court settlement agreement granted a permanent increase of .5% cost-of-living adjustment (COLA) to retirees and their beneficiaries. The cost of the .5% COLA increase will be initially funded with a \$64.7 million allocation from funds held in the Supplemental Retiree Benefit Reserve.

**NOTE 8 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS**

Member and employer contributions are allocated to various legally-required reserve accounts based on actuarial determinations. Member, employer, and retired members’ reserves are fully funded. The KCERA maintains the following reserve and designation accounts:

*Members’ Deposit Reserve* – member contributions and interest allocation to fund member retirement benefits.

*Employers’ Advance Reserve* – employer contributions and interest allocation to fund member retirement benefits.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 8 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS (Continued)**

*Cost-of-Living Reserve* – employer contributions and interest allocation to fund annual cost-of-living increases for retirees and the continuance beneficiaries.

*Retired Members' Reserve* – transfers from members' deposit reserve and employers' advance reserve, and interest allocation for funding of retired members' and their beneficiaries' monthly annuity payments.

*Supplemental Retiree Benefit Reserve* – monies reserved for enhanced non-vested benefits to current and future retired members and their beneficiaries.

*Contingency Reserve* – excess income to supplement deficient earnings. The contingency reserve satisfies the Government Code Section 31616 requirement for the KCERA to reserve at least 1% of assets, up to a maximum of 3% of assets. At fiscal year ended June 30, 2002, 1% of the Plan's assets are reserved for contingencies.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2002 and 2001 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	<u>2002</u>	<u>2001</u>
Members' deposit reserve, general	\$ 111,019,485	\$ 105,106,876
Members' deposit reserve, safety	54,583,867	59,467,733
Members' deposit reserve, special district	9,128,640	8,724,325
Employer's advance reserve, general	240,516,825	204,500,988
Employer's advance reserve, safety	177,216,017	176,470,322
Employer's advance reserve, special district	9,622,031	13,272,489
Cost of living reserve, general	180,301,103	203,184,858
Cost of living reserve, safety	135,134,904	164,841,178
Cost of living reserve, special district	7,640,571	3,284,036
Retired members' reserve, general	344,123,568	330,083,177
Retired members' reserve, safety	240,947,560	192,080,517
Supplemental retiree benefit reserve (SRBR)	161,504,287	160,970,734
Contingency reserve	<u>14,361,730</u>	<u>20,173,537</u>
Total reserves at five-year smoothed market actuarial valuation	1,686,100,588	1,642,160,770
Market stabilization reserve*	<u>(249,927,624)</u>	<u>(100,079,727)</u>
Total net assets held in trust for pension benefits	<u>\$ 1,436,172,964</u>	<u>\$ 1,542,081,043</u>

The Actuarial Valuation as of December 31, 2001 recommended a realignment of the employer advance reserves and the cost of living reserves which was approved by the Board of Retirement on May 22, 2002.

\*This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2002 and 2001.



**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 9– COMMITMENTS AND CONTINGENCIES**

**Capital Commitments**

The KCERA allocates 5% of assets to private equity markets. As of June 30, 2002 the KCERA's Board of Retirement committed \$105 million to four private equity fund-of-funds managed by Pantheon Ventures, Inc. (\$32.5 million) and Abbott Capital Management (\$72.5 million). Private equity investments have a long life cycle involving commitment, drawdowns, maturation, and stock distribution. For each fund, effective exposure reaches maximum at about four to six years and the effective allocation over the life cycle generally does not exceed 65% of the total commitment. As of June 30, 2002, the KCERA provided \$15,660,037 in drawdowns.

**Litigation**

The KCERA is a defendant in various lawsuits and other claims arising in the ordinary course of its operations. The KCERA's management and legal counsel estimate that the ultimate outcome of such litigation will not have a material effect on the KCERA's financial statements.

**Contingent Liability**

A Petition for Writ of Mandamus entitled "*Kern Law Enforcement Association, et al., Petitioners v. Board of Retirement, Kern County Employees' Retirement Association, Respondent; County of Kern, Real Party in Interest,*" Case No. 236460-NFT (hereafter "KLEA") was filed on June 9, 1998. The KLEA case arises from the California Supreme Court decision entitled "*Ventura County Deputy Sheriffs' Assn. v. Board of Retirement of Ventura County Employees' Retirement Assn* (hereafter "Ventura").

The KLEA litigation sought inclusion of additional items of pay not included by the KCERA Board in its resolution implementing the *Ventura* decision and also sued for retroactive inclusion of all additional pay items back to October 1, 1994 and going forward. The KLEA litigation was coordinated with other lawsuits brought against other counties and retirement systems operating under the same law as the KCERA.

On September 28, 2001, the trial court before which the KLEA litigation was pending approved a settlement entered into by all the parties. Judgment in the action was entered on January 24, 2002, notice of the Entry of Judgment was given to all parties on January 28, 2002, no appeal was filed within the statutory time period, and the Judgment has now become final. The main features of the settlement are: 1) inclusion of some additional pay items in "compensation earnable", 2) retroactive payments back to April 1, 1996 and going forward, 3) payment by KCERA of Petitioners' attorney fees in the amount of \$700,000 from available contingency reserves, 4) County payment of all member contributions owing as a result of inclusion of additional pay items in "compensation earnable", and 5) a permanent increase in the annual cost of living allowance (COLA) from 2% to 2.5% effective April 1, 2002. The cost of the additional 0.5% cost of living allowance will be initially funded with a \$64.7 million allocation from funds held in the Supplemental Retiree Benefits Reserve until exhausted, and thereafter on the same actuarial basis applied to the existing 2% COLA.

The KCERA is in the process of evaluating past service records in order to recalculate benefit levels in accordance with the Settlement Agreement and Judgment, and this process is expected to be completed within two years. The cost of the recalculated benefits will not be known until the recalculation process is complete. From July 1, 2002 to October 11, 2002, 79 retirees or their beneficiaries have received retroactive payments in the amount of \$1,421,077, and the monthly retiree payroll increased by \$18,136. As of June 30, 2002, the 0.5% COLA paid to retirees or their beneficiaries was \$93,298. From July 1, 2002 to October 11, 2002 the 0.5% COLA paid was \$93,030. The liability for the Settlement Agreement and Judgment was not included in the most recent actuarial valuation, dated December 31, 2001. The liability will first be included in the valuation to be dated December 31, 2002.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

**NOTE 10– REQUIRED SUPPLEMENTARY INFORMATION**

A schedule of the KCERA's funding progress that reports the actuarial value of assets, the actuarial accrued liability, and the relationship between the two over time and a schedule of employer contributions that provides information about the annual required contributions of the employer's Annual Required Contribution (ARC) and the percentage of the ARC recognized by the plan are presented, where available, on the following pages as Required Supplementary Information.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

**Schedule of Funding Progress**  
**(Net of SRBR and \$1,000 Death Benefits)**  
**(in thousands)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (3) – (2)</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Annual Payroll (4)/(6)</b>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/01	\$1,508,291	\$1,611,960	\$103,669	93.6%	\$333,791	31.1%
12/31/00	1,434,873	1,388,984	(45,889)	103.3%	283,282	-16.2%
12/31/99	1,325,928	1,324,662	(1,267)	100.1%	297,738	-0.4%
12/31/98	1,203,670	1,179,753	(23,917)	102.0%	282,251	-8.5%
12/31/97	1,113,914	1,140,019	26,105	97.7%	266,640	9.8%
12/31/96	1,003,076	1,029,574	26,498	97.4%	273,351	9.7%

**Schedule of Employer Contributions**

<b>Fiscal Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2002	\$41,881,569	100%
2001	41,067,487	100%
2000	37,575,583	100%
1999	40,159,103	100%
1998	35,420,517	100%
1997	27,902,854	100%

See accompanying notes to required supplemental information and independent auditors' report.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2002 AND 2001**

**NOTE 1 – ACTUARIAL ASSUMPTIONS AND METHODS**

The information presented in the required supplementary schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information as of the latest actuarial valuation dated December 31, 2001 is as follows:

Valuation date:	December 31, 2001
Actuarial cost method:	Projected unit credit method
Amortization method:	Level percent closed
Remaining amortization period: <sup>1</sup>	20 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	8.0%
Projected salary increases:	5.3%
Includes inflation at:	4.0%
Annual increase in system benefits cap:	2.0%

**NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION**

*Demographics:*

There was a significant increase in active payroll during 2001. This increase occurred at both the County of Kern and in participating Special Districts, and was due to a combination of new hires and having fewer terminations than assumed. Overall, the number of active members increased by 7.6% from 7,484 to 8,055. In addition, the average pay increased by 9.5% and total covered payroll increased by 17.8%.

Total payments to retirees and their beneficiaries increased by approximately 11% during 2001. The number of retired members and their beneficiaries receiving pension checks increased by 1.3% from 4,314 to 4,372. The average monthly benefit check increased by 9.5% to \$1,326.

*Benefits:*

The County of Kern adopted California Government Code Section 31664.1 beginning January 1, 2001. This formula, commonly referred to as 3% at 50, improves retirement benefits by as much as 50% for Safety members.

See accompanying independent auditors' report.

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<sup>1</sup> Additional liabilities for Golden Handshake benefits are amortized over three years from the year in which they are granted.

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OTHER SUPPORTING SCHEDULES

### Schedule of Administrative Expenses For the Years Ended June 30, 2002 and 2001

	2002	2001
<i>Personnel Services:</i>		
Salaries & Wages	\$ 804,761	\$ 624,620
Employee Benefits	<u>308,226</u>	<u>240,800</u>
Total Personnel Services	<u>1,112,987</u>	<u>865,420</u>
<i>Professional Services:</i>		
Legal Counsel	323,324	447,505
Audit	45,876	41,897
Medical/Hearing Officers	19,433	31,103
Information Technology Services	19,143	17,597
Other Professional Services	<u>160,074</u>	<u>79,344</u>
Total Professional Services	<u>567,850</u>	<u>617,446</u>
<i>Communication:</i>		
Postage	22,017	19,275
Printing	11,935	2,909
Telephone	10,440	13,952
Education & Professional Development	63,939	82,635
Publications/Legal Notifications	<u>19,052</u>	<u>9,760</u>
Total Communication	<u>127,383</u>	<u>128,531</u>
<i>Miscellaneous:</i>		
Equipment Leases	13,407	15,801
Office Expense	51,115	39,350
Insurance	60,596	35,773
Maintenance	3,803	1,929
Memberships	6,694	6,901
Special Departmental Expense	1,361	2,277
Other Services	37,621	21,515
Pension Disbursement Fees	104,114	97,843
Depreciation and Amortization	70,253	62,930
Utilities	<u>10,781</u>	<u>7,710</u>
Total Miscellaneous	<u>359,745</u>	<u>292,029</u>
<b>Total Administrative Expenses</b>	<b><u>\$2,167,965</u></b>	<b><u>\$1,903,426</u></b>

See accompanying independent auditors' report.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### OTHER SUPPORTING SCHEDULES (Continued)

#### Schedule of Investment Expenses For the Years Ended June 30, 2002 and 2001

	<b>2002</b>	<b>2001</b>
<i>Investment Manager Fees:</i>		
Equity		
Domestic	\$ 936,929	\$ 973,273
International	1,505,883	684,814
Fixed Income		
Domestic	639,961	940,745
Global	194,795	164,598
Mortgage Loans	0	5,401
Real Estate		
Investments in Real Estate	196,452	253,827
Individual Properties	0	43,590
Securities (REITs)	159,206	121,250
Total Investment Manager Fees	<u>3,633,226</u>	<u>3,187,498</u>
 <i>Other Investment Expenses:</i>		
Custodian	241,394	222,130
Actuarial Valuation	42,100	56,124
Investment Consultant	169,000	139,000
Legal Fees	9,860	2,689
Policy Implementation Overlay Strategy	131,193	0
Total Other Investment Expenses	<u>593,547</u>	<u>419,943</u>
 <b>Total Fees and Other Investment Expenses</b>	 <u>4,226,773</u>	 <u>3,607,441</u>
 <i>Security Lending Rebates and Bank Fees</i>	 <u>1,518,849</u>	 <u>863,243</u>
 <b>Total Investment Expenses</b>	 <u><b>\$ 5,745,622</b></u>	 <u><b>\$ 4,470,684</b></u>

See accompanying independent auditors' report.

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OTHER SUPPORTING SCHEDULES (Continued)

### Schedule of Payments to Consultants For the Years Ended June 30, 2002 and 2001

<i>Individual or Firm</i>	<i>Nature of Service</i>	<i>Commission / Fee</i>	
		<b>2002</b>	<b>2001</b>
Brown Armstrong	External Auditors/Tax Advisor	\$ 47,483	\$ 41,897
Morrison & Foerster, LLP	Legal Counsel	170,498	276,513
Kern County Counsel	Legal Counsel	142,516	153,154
Hanson Bridgett	Legal Counsel	20,169	0
Klein Denatale et al.	Legal Counsel	0	19,507
Watson Wyatt & Company	Actuarial Services	0	40,902
Public Pension Professionals, Inc.	Actuarial Services	113,050	37,700
Cortex Applied Research, Inc.	Policy Consultants	58,880	35,517
<b>Total Payments to Consultants</b>		<b>\$552,596</b>	<b>\$605,190</b>

(A schedule of Investment Fees and Services is presented on pages 55 and 56 in the Investment Section.)

See accompanying independent auditors' report.

# ***INVESTMENT SECTION***







October 11, 2002

David J. Deutsch, CFA  
Executive Director  
Kem County Employees' Retirement Association  
1115 Truxtun Avenue  
Bakersfield, CA 93301

Dear Mr. Deutsch,

I am pleased to provide you with our report on the Kern County Employees' Retirement Association (KCERA) for the year ending June 30, 2002.

For the fiscal year ended June 30, 2002, the KCERA's retirement fund had an investment loss of 5.97% and ended the year with total assets of \$1.42 billion.

The retirement funds are managed according to guidelines codified in the KCERA's Statement of Investment Goals, Objectives, and Policies. This statement is reviewed periodically and revisions were most recently accepted by the KCERA Board of Retirement in March 2002.

At fiscal year end, the KCERA's retirement fund's asset allocation was in compliance with the target allocations selected by this Board in December 1999. In addition, all managers were in compliance with their guidelines on June 30, 2002.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Domestic Equities	40%	36.7%
International Equities	20%	20.6%
Fixed Income	35%	35.9%
Real Estate	5%	5.8%
Cash	0%	1.0%

Performance was acceptable, despite a turbulent year for the domestic and international equity markets:

- The KCERA's total fund returned -5.97% for the year, versus its policy's return of -5.14%. Underperformance versus policy was largely due to the slight overweight on international equities and the underperformance of fixed income relative to the benchmark.
- The KCERA's equity composite returned -14.54% versus a return of -16.62% for the Wilshire 5000. In a year characterized by continued economic concerns and the increased market volatility, superior performance by some of the KCERA's active equity managers lessened the impact of the market trend.

WILSHIRE ASSOCIATES  
1299 Ocean Avenue, Suite 700 Santa Monica, CA 90401-1085  
TEL 310.451.3051 FAX 310.458.0520 www.wilshire.com



- The KCERA's fixed income composite returned 5.12% versus 8.63% for the Lehman Aggregate Bond Index. As the economy continued to be weak and the Federal Reserve cut interest rates several times, high yield in particular dramatically underperformed the broader market, contributing to the KCERA's results.
- The KCERA's international equity composite fell -6.56% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned -8.12%. European markets have been substantially impacted over the last year by the weak world economic cycle and continued high unemployment, while Asian markets continue to be negatively impacted by the ongoing recession in Japan and the decrease in demand for imports (especially technology-related goods) by the United States. Negative results were mitigated somewhat by the reversal in the downward trend of the European currency (Euro) versus the US dollar.

As KCERA's investment consultant, Wilshire Associates, Inc. provides investment advice, asset and liability studies, manager monitoring, and detailed quarterly performance reports to the KCERA Board of Retirement. We work closely with the Board and yourself in updating and reviewing investment policies and risk control for the investment fund.

Sincerely,

A handwritten signature in black ink, appearing to read 'Michael C. Schlachter'.

Michael C. Schlachter  
Vice President

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OUTLINE OF INVESTMENT POLICIES

Adopted by the Board of Retirement March 8, 2002

### General Information

The Board of Retirement (the Board) has exclusive control of the investments of the retirement fund and, therefore, establishes investment policies and implements investment decisions. The overall objective of the KCERA's investment program is to prudently invest assets such as to offset some of the costs of the plan in providing the retirement benefits required by the County Employees' Retirement Law of 1937.

The Board is governed by the Government Code Sections 31594 and 31595 which provides a standard of care commonly known as the "prudent expert rule", a rule which recognizes that special skill and knowledge may be necessary in order to invest the fund prudently. Accordingly, the Board of Retirement retains a number of professional investment advisers and an investment consultant. The Board of Retirement is required to diversify the investments of the plan so as to minimize the risk of loss and to maximize the rate of return, unless it is clearly prudent not to do so.

The Board consists of nine members and two alternate members. Four members of the Board are appointed by the Kern County Board of Supervisors; the County Treasurer-Tax Collector is a statutory member of the Board; and four members are elected by active and retired members of the system.

### Summary of Investment Guidelines

The Board of Retirement has adopted an Investment Policy Statement to serve as the framework for investment policy making and investment objective setting within the context of applicable California laws. The Statement establishes investment goals, objectives, and policies and defines the responsibilities of the Board members in regard to the KCERA's investments. The guidelines articulated in the Statement are, in outline, as follows:

- To base the investment of assets on a financial plan that takes into consideration various alternative investment mixes, their resulting risk and return levels, and the current and projected liabilities of the plan
- To adopt an asset allocation mix with an objective of achieving or maintaining a fully funded status.
- To select and monitor external investment managers and a master custodian.
- To oversee investment services and ensure that they are received at the lowest possible cost without sacrificing quality or performance.
- To establish a proxy voting policy with regard to equity investments.
- To review every aspect of the investment program on a regular basis.

### Summary of Proxy Voting Guidelines

The Board has established a set of policies for dealing with proxies, the KCERA Proxy Voting Policy. This policy considers shareholder voting on corporate issues to represent assets of the plan to be voted in the best interests of the beneficiaries of the plan. The voting of proxies is delegated to investment advisers to vote on behalf of the Board according to the guidelines established in the policy. The Board is responsible to monitor proxy voting to see that its policies are implemented effectively.

## KERN COUNTY EMPLOYEES' RETIEMENT ASSOCIATION

### ASSET ALLOCATION

The Board of Retirement periodically establishes asset allocation policy aimed at achieving a long term rate of return on the fund's investments such as to prudently add income to the fund to help provide the benefits promised. The asset allocation statement provides a target allocation or weighting to each of the broad investment classes of assets along with allowable ranges of weightings around each target weight. The target weights are viewed as longer-term objectives to be funded in a manner consistent with efficiency and cost savings. The asset allocation policy provides the target level of diversification among asset classes anticipated for the future. Asset allocation is reviewed on an annual basis to assure that the expectations and assumptions incorporated in the policy remain valid and appropriate. Investment performance is monitored on quarterly, annual and multi-year basis. The asset allocation of the fund is rebalanced, as needed, but in view of the costs of such transactions, as well.

The Board engages external professional investment advisers to invest various portions of the fund. The advisers are, however, constrained to invest as provided in the KCERA's investment policies and allocation guidelines. Investment advisers formally notice their compliance with such policies and their portfolios are scrutinized for such compliance at regular intervals. The investment consultant participates in policy formulation and searches for new managers, as well as the termination of existing managers failing to perform or otherwise out of compliance with their investment mandates.

The target asset allocation and the actual asset allocation at June 30, 2002 are as follows:

	<u>Actual*</u>	<u>Target</u>	<u>Target Ranges</u>	
			<u>Minimum</u>	<u>Maximum</u>
Domestic Equities	35.6%	35.0%	31.2%	39.2%
International Equities	20.6%	20.0%	15.0%	25.0%
Fixed Income	35.9%	35.0%	33.0%	37.0%
Real Estate	5.8%	5.0%	0.0%	10.0%
Alternative Investments	1.1%	5.0%	0.0%	5.2%
Cash / Other	1.0%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

\*The June 30, 2002 asset allocation is based upon Wilshire Associates's June 30, 2002 Kern County Employees' Retirement Association Investment Performance Analysis.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

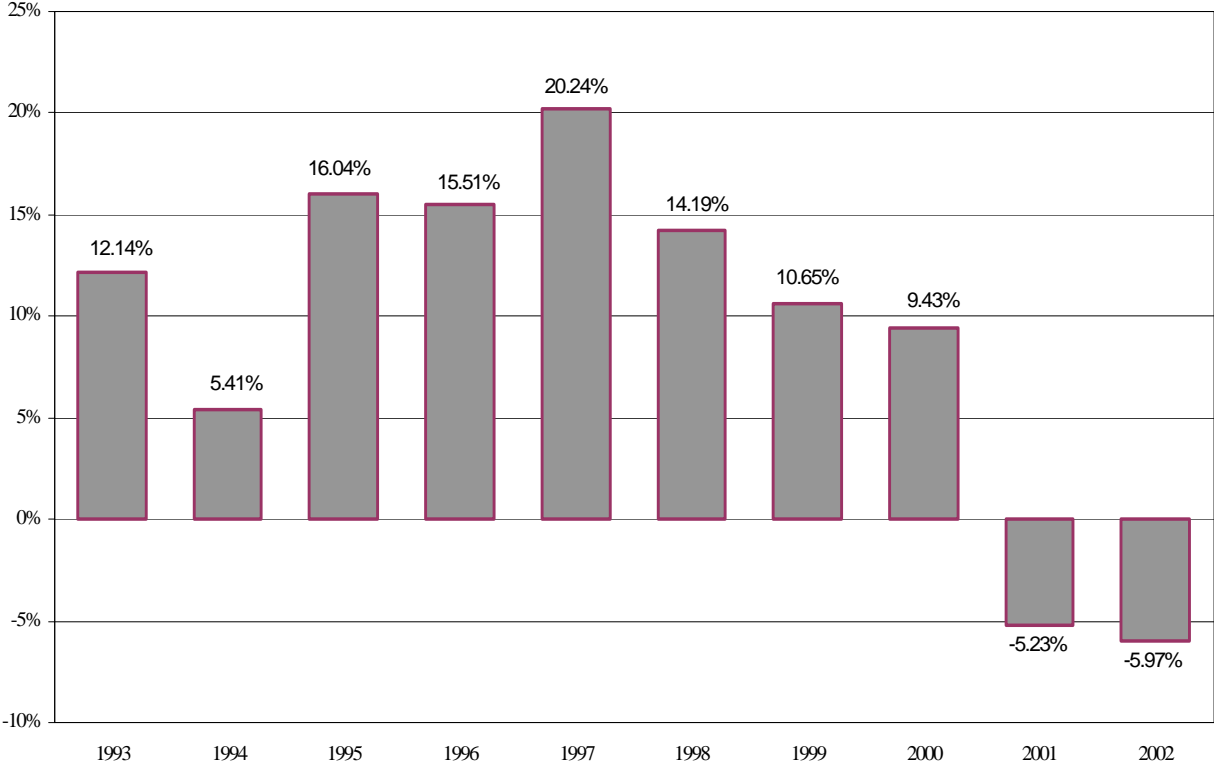
### Investment Summary For the Year Ended June 30, 2002

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
<i>Domestic Equities</i>		
Large Cap Index Fund	\$ 122,996	8.7%
Large Cap Synthetic Strategies	262,760	18.5%
Small Cap Value Securities	63,344	4.5%
Small Cap Growth Index Fund	<u>56,852</u>	4.0%
Total Domestic Equities	<u>505,952</u>	35.6%
<i>Internatioinal Equities</i>		
International Equity Funds	215,696	15.2%
Emerging Markets Growth Fund	42,096	3.0%
Pacific Basin Securities	<u>35,064</u>	2.5%
Total International Equities	<u>292,856</u>	20.6%
<i>Fixed Income</i>		
Core Plus Global Fixed-Income	209,033	14.7%
Government / Corporate Bond Index Fund	100,843	7.1%
High Yield Bonds	86,053	6.1%
Mortgage-Backed Securities	77,255	5.4%
Commercial Mortgage-Backed Securities	27,470	1.9%
Co-Investments in Commercial Mortgages	<u>8,530</u>	0.6%
Total Fixed Income	<u>509,154</u>	35.9%
<i>Real Estate</i>		
Public / Private Real Estate Investments	39,553	2.8%
Securities (REITs)	<u>42,118</u>	3.0%
Total Real Estate	<u>81,671</u>	5.8%
<i>Alternative Investments</i>	16,127	1.1%
<i>Cash &amp; Short-Term Cash Investment Funds</i>	9,539	0.7%
<i>Policy Implementation Overlay Strategy</i>	4,499	0.3%
<b>Total Investments</b>	<b><u>\$ 1,419,798</u></b>	<b>100.0%</b>

The June 30, 2002 investment summary is based upon Wilshire Associates's June 30, 2002 Kern County Employees' Retirement Association Investment Performance Analysis.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**History of Performance**  
**Annual Returns (Net of Fees)**  
**Periods Ended 6/30**



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Investment Results

#### Returns for Periods Ended June 30, 2002

	Current Year	Annualized		
		3-year	5-year	10-year
<b>Total Portfolio:</b>	-5.97	-0.83	4.27	8.76
*Benchmark: Composite Policy	-6.14	-1.37	4.16	8.35
TUCS Master Trust Median	-4.96	-0.32	5.65	9.93
<b>Domestic Equity:</b>	-14.54	-6.85	4.34	11.17
Benchmark: Wilshire 5000 Index	-16.62	-8.22	3.57	11.05
TUCS Equity Median	-15.82	-3.40	5.76	12.61
<b>International Equity:</b>	-6.56	-5.76	-1.89	5.49
**Benchmark: Custom Index	-8.12	-6.14	-1.90	4.88
Benchmark: PMSCI ACWI Fr ex US Index	-8.12	-6.14	-1.69	5.50
TUCS International Equity Median	-6.48	-3.22	1.14	7.17
<b>Fixed Income:</b>	5.12	6.68	6.49	7.23
Benchmark: Lehman Aggregate Index	8.63	8.11	7.57	7.34
TUCS Fixed Income Median	8.01	7.89	7.46	7.47
<b>Real Estate:</b>	11.42	12.48	8.61	7.15
Benchmark: 50% Wilshire Real Estate Securities Index / 50% Wilshire Real Estate Fund Index	9.83	11.47	9.83	9.42
<b>Cash &amp; Cash Equivalents</b>	4.21	5.10	5.33	5.06
Benchmark: 91-Day T-Bill	2.63	4.58	4.82	4.76

\*Kern County Composite Policy:

40%	Wilshire 5000
30%	Lehman Aggregate
5%	Merrill Lynch High Yield Master
20%	PMSCI ACWI Fr ex US (G)
2.5%	WRE Securities Index
2.5%	NCREIF
100%	

\*\*Kern County International Equity Composite:

Inception – 2Q99	50% MSCI Europe / 50% MSCI Pacific Basin (unhedged)
2Q99 – 2Q01	MSCI ACWI Fr X US (G)
2Q01 - Present	PMSCI ACWI Fr ex US

Note: Return calculations were prepared using a time-weighted rate of return based on market values (fair values) in accordance with the AIMR's Performance Presentation Standards.



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Investment Professionals As of June 30, 2002

#### Investment Managers

##### DOMESTIC EQUITY

Barclays Global Investors, N.A.  
San Francisco, CA

Fidelity Management Trust Company  
Boston, MA

Pacific Investment Management Company  
Newport Beach, CA

Rothschild Asset Management, Inc.  
New York, NY

Westridge Capital Management, Inc.  
Santa Barbara, CA

##### INTERNATIONAL EQUITY

Barclays Global Investors, N.A.  
San Francisco, CA

Capital International, Inc.  
Los Angeles, CA

HSBC Asset Management, Inc.  
New York, NY

##### REAL ESTATE

Fidelity Real Estate Asset Manager  
Boston, MA

LaSalle Securities Limited  
Baltimore, MD

##### ALTERNATIVE INVESTMENTS

Abbott Capital Management, LLC  
Boston, MA

Pantheon Ventures, Inc.  
San Francisco, CA

#### Investment Managers (Continued)

##### FIXED INCOME

FFCA Institutional Advisors, Inc.  
Scottsdale, AZ

Hyperion Capital Management, Inc.  
New York, NY

Mellon Bank  
Pittsburgh, PA

W.R. Huff Asset Management Co., LLC  
Morristown, NJ

##### GLOBAL FIXED INCOME

Goldman, Sachs & Co.  
New York, NY

#### Consultant

Wilshire Associates, Inc.  
Santa Monica, CA

#### Actuary

Public Pension Professionals, Inc.  
Oakland, CA

#### Custodian

The Northern Trust Company  
Chicago, IL

#### Policy Implementation Overlay Strategy

The Clifton Group  
Minneapolis, MN

## KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

### Schedule of Investment Fees and Services For the Years Ended June 30, 2002 and 2001

	<b>2002</b>	<b>2001</b>
<i>Investment Managers' Fees</i>		
Domestic Equity Managers:		
Barclays Global Investors, N.A.	62,659	52,785
Fidelity Management Trust Company	116,952	203,219
Rothschild Asset Management, Inc.	382,320	216,379
Westridge Capital Management, Inc.	<u>374,998</u>	<u>500,890</u>
Total Domestic Equity Managers	<u>936,929</u>	<u>973,273</u>
International Equity Managers:		
Barclays Global Investors, N.A.	1,334,394	414,897
HSBC Asset Management	<u>171,489</u>	<u>269,917</u>
Total International Equity Managers	<u>1,505,883</u>	<u>684,814</u>
Domestic Fixed Income Managers:		
Heitman Capital Management Corp.	0	5,401
Hyperion Asset Management, Inc.	242,460	258,114
Mellon Bank	60,705	62,504
W.R. Huff Asset Management Co., LLC	<u>336,796</u>	<u>620,127</u>
Total Domestic Fixed Income Managers	<u>639,961</u>	<u>946,146</u>
Global Fixed Income Managers:		
Fiduciary Trust Company International	0	10,602
Goldman, Sachs & Co.	<u>194,795</u>	<u>153,996</u>
Total Domestic Fixed Income Managers	<u>194,795</u>	<u>164,598</u>
Real Estate Managers:		
Fidelity Real Estate Asset Manager	196,452	253,827
Heitman Capital Management Corp.	0	43,590
LaSalle Securities Limited	<u>159,206</u>	<u>121,250</u>
Total Real Estate Managers	<u>355,658</u>	<u>418,667</u>
 <b>Total Investment Managers' Fees</b>	 <b><u>3,633,226</u></b>	 <b><u>3,187,498</u></b>

## KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

### Schedule of Investment Fees and Services (Continued) For the Years Ended June 30, 2002 and 2001

	<b>2002</b>	<b>2001</b>
<i>Custodial Fees</i>		
Bankers Trust Company	0	156,382
The Northern Trust Company	241,394	65,748
Total Custodial Fees	241,349	222,130
 <i>Policy Implementation Overlay Strategy</i>		
The Clifton Group	131,193	0
 <i>Actuarial Fees</i>		
Watson Wyatt & Company	0	18,424
Public Pension Professionals, Inc.	42,100	37,700
Total Actuarial Fees	42,100	56,124
 <i>Investment Consultant Fees</i>		
Wilshire Associates, Inc.	169,000	139,000
 <i>Legal Fees</i>		
Kern County Counsel	9,860	2,689
 <i>Security Lending Fees</i>		
Bankers Trust Company	0	812,216
The Northern Trust Company	1,518,849	51,027
Total Security Lending Fees	1,518,849	863,243
 <b>Total Investment Fees and Services</b>	<b>\$ 5,745,622</b>	<b>\$ 4,470,984</b>

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Largest Stock Holdings (By Market Value)

As of June 30, 2002

Shares	Stocks	Market Value
106,978	Equity Office Properties Trust	\$ 3,220,038
77,605	Starwood Hotels & Resorts Worldwide, Inc.	2,552,428
53,397	Avalonbay Communities, Inc.	2,493,640
59,700	Boston Properties, Inc.	2,385,015
47,600	Apartment Investment & Management	2,341,920
62,908	Simon Property Group, Inc.	2,317,531
85,292	Archstone-Smith Trust	2,277,296
48,200	Vornado Realty Trust	2,226,840
70,400	Prologis Trust	1,830,400
82,357	National Australia Bank	1,636,581

### Largest Bond Holdings (By Market Value)

As of June 30, 2002

Par	Bonds	Market Value
24,000,000	FNMA TBA Pool 6.5% 15 Years August	\$ 24,806,250
23,000,000	FHLMC 15 Yr Gold Partn CTF 6.5% 15 Years August	23,747,500
2,320,269	MFO Goldman Sachs Trust High Yield Fund	16,033,057
9,800,000	FNMA 30 Years Single Family Mortgage 7.0% 30 Years August	10,106,250
10,000,000	U.S. Treasury Notes 2.875% due 6/30/2004	9,985,500
8,500,000	Sears CR A/C Master TR II Ser 2000-4 due 10/18/2011	8,525,942
6,286,000	FNMA Remic Tr 1993-127 CL-FA Variable Rate due 10/25/2021	6,383,546
4,900,000	U.S. Treasury Bonds 6.875% due 8/15/2025	5,647,422
5,500,000	Spiegel Credit Card Master TR Variable Rate due 11/15/2010	5,509,097
4,000,000	U.S. Treasury Bonds 6.875% due 8/15/2020	5,431,616
4,900,000	FNMA TBA Pool 6.0% 30 Years August	4,866,288

A complete list of portfolio holdings is available upon request.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Fees and Commissions For the Year Ended June 30, 2002

#### Fees:

	Assets under management	Fees
<b>Investment managers' fees:</b>		
Domestic equity managers	\$ 422,053,940	\$ 936,929
International equity managers	250,762,100	1,505,883
Fixed income managers	500,557,707	834,756
Real estate managers	68,889,326	355,658
Total investment managers' fees	<u>\$ 1,242,263,073</u>	<u>\$ 3,633,226</u>
<b>Other investment service fees:</b>		
Custodial fees	-	\$ 241,394
Actuarial fees	-	42,100
Investment consultant fees	-	169,000
Legal fees	-	9,860
Security lending fees	-	1,518,849
Total investment service fees	-	<u>\$ 1,981,203</u>

#### Commissions:

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
(D)JARDINE FLEMING SECURITIES TOKYO	49.29	38,500.00	0.0013
A.B.WATLEY, INC.	695.00	13,900.00	0.0500
ABEL NOSER CORPORATION	4,102.50	210,000.00	0.0195
ABN AMRO ASIA SEC HK LTD (HONGKONG)	203.49	26,247.00	0.0078
ABN AMRO EQUITIES SYDNEY AUSTRALIA	1,121.38	38,149.00	0.0294
ABN AMRO INCORPORATED LLC	3,190.00	119,700.00	0.0266
B TRADE SERVICES	155.00	16,100.00	0.0096
BANC AMERICA SECUR. MONTGOMERY DIV.	9,395.00	280,300.00	0.0335
BEAR, STEARNS, SECURITIES CORP	8,856.20	497,700.00	0.0178
BERNSTEIN, SANFORD C. & CO	7,832.00	176,800.00	0.0443
BNY CLEARING SERVICES LLC	5,637.00	180,100.00	0.0313
BNY ESI SECURITIES CO.	30.00	1,500.00	0.0200
BRIDGE TRADING COMPANY	10.00	2,200.00	0.0045
BUCKINGHAM RESEARCH GROUP	1,338.00	22,300.00	0.0600
BUNTING WARBURG INC.	220.80	6,900.00	0.0320
BURDETT BUCKERIDGE & YOUNG-SYDNEY	119.18	2,407.00	0.0495
CANTOR FITZGERALD & CO	4,626.00	396,500.00	0.0117
CHAPMAN CO.	2,965.00	88,700.00	0.0334
CIBC WOOD GUNDY	168.80	8,875.00	0.0190
CIBC WORLD MARKETS CORP. NEW YORK	6,520.00	145,200.00	0.0449
CITATION GROUP	2,937.50	70,750.00	0.0415

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
CL KING & ASSOCIATES	1,270.00	25,400.00	0.0500
CORRESPONDENT SERVICES CORP.	6.00	400.00	0.0150
CREDIT LYONNAIS SECS ASIA LTD H.K	105.74	18,000.00	0.0059
CREDIT LYONNAIS SECS SINGAPORE	295.71	135,000.00	0.0022
CREDIT SUISSE FIRST BOSTON CORPORATION	5,296.80	118,100.00	0.0449
CSFB (EUROPE) LIMITED LONDON	455.51	52,951.00	0.0086
CSFB (HK) SEC LTD	988.42	181,100.00	0.0055
CSFB AUSTRALIA EQUITIES LTD MELBOUR	6,136.98	355,436.00	0.0173
CSFB HONG KONG LIMITED, HONG KONG	1,727.05	1,064,728.00	0.0016
CSFB NEW YORK DTC 355	481.28	15,300.00	0.0315
D. A. DAVIDSON & CO. INC.	2,180.00	84,700.00	0.0257
D. KLEINWORT WASSERSTEIN N. AMERICA	12,275.69	2,461,649.00	0.0050
DAIWA SECS HONG KONG	1,571.31	85,900.00	0.0183
DAIWA SECS SMBC TOKYO	226.69	4,500.00	0.0504
DEUTSCHE BANK SECURITIES INC	15,016.00	398,900.00	0.0376
DEUTSCHE MORGAN GREN SECS LTD SYD	3,254.22	382,438.00	0.0085
DEUTSCHE SECURITIES ASIA LTD, H.K.	226.01	295,495.00	0.0008
DONALDSON LUFKIN & JENRETTE SECURITIES CORP.	16,728.66	366,211.00	0.0457
DRESDNER SECURITIES	320.00	6,400.00	0.0500
DRESDNER SECURITIES NY	1,891.86	97,950.00	0.0193
EDWARDS. A.G.	3,980.00	104,000.00	0.0383
FACTSET DATA SYSTEMS	3,262.50	82,100.00	0.0397
FIRST MARATHAN SECURITIES	28.80	900.00	0.0320
FIRST OPTIONS OF CHICAGO	135.00	5,400.00	0.0250
FIRST TENNESSEE SECURITIES	4,135.00	92,500.00	0.0447
FIRST UNION CAPITAL MARKETS CLEARANCE	13,037.00	293,400.00	0.0444
FLEDGELING NOMINEES LTD	496.59	1,310.00	0.3791
FOX PITT BELTON	1,870.00	50,200.00	0.0373
GERARD KLAIDER MATTISON & COMPANY	65.00	3,700.00	0.0176
GOLDMAN SACHS & CO NW YK DTC 005	575.06	70,000.00	0.0082
GOLDMAN SACHS & COMPANY	97,989.12	184,410.00	0.5314
GOLDMAN SACHS CAPITAL MARKETS NY	694.38	35,400.00	0.0196
GREEN STREET ADVISORS INC	10,492.50	217,650.00	0.0482
HOENIG & CO.	3,526.00	87,200.00	0.0404
IBJ TOKYO SECURITIES	260.22	6,900.00	0.0377
ING BARINGS INT'L	1,240.00	24,800.00	0.0500
ING BARINGS SECS HK LTD, HONG KONG	883.89	93,250.00	0.0095
INSTINET	2,514.00	196,200.00	0.0128
INVESTMENT TECHNOLOGY GROUP INC	17,975.86	1,084,033.00	0.0166
ISI GROUP INC.	9,390.00	218,000.00	0.0431
ITG AUSTRALIA LTD, MELBOURNE	952.82	155,583.00	0.0061
J.P. MORGAN SECURITIES INC	1,710.00	48,000.00	0.0356
JACKSON PARTNERS AND ASSOCIATES INC	1,250.00	25,000.00	0.0500
JANNEY MONTGOMERY SCOTT	2,453.00	69,200.00	0.0354
JARDINE FLEMING & CO LTD	81.56	61,500.00	0.0013
JARDINE FLEMING HONG KONG	84.46	9.00	9.3844
JB WERE & SON MELBOURNE	3,872.43	548,003.00	0.0071

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
JB WERE AND SON (NZ) LIMITED	11.03	2,101.00	0.0052
JEFFERIES & COMPANY	3,830.00	295,500.00	0.0130
JOHNSON RICE & CO.	1,740.00	55,600.00	0.0313
JONES & ASSOCIATES	2,930.00	185,400.00	0.0158
JP MORGAN SECURITIES AUSTRALIA LTD	873.29	62,306.00	0.0140
JP MORGAN SECURITIES (ASIA PACIFIC)	2,418.96	377,991.00	0.0064
JP MORGAN SECURITIES AUSTRALIA LTD	802.74	25,440.00	0.0316
KEB SMITH BARNEY SECS CO LTD SEOUL	223.49	5,440.00	0.0411
KEEFE BRUYETTE AND WOODS INC.	5,507.40	284,740.00	0.0193
LAZARD FRERES & CO.	1,725.00	34,500.00	0.0500
LEGG MASON WOOD WALKER INC	8,635.00	184,300.00	0.0469
LEHMAN BROTHERS ASIA LTD/HONG KONG	591.89	14,048.00	0.0421
LEHMAN BROTHERS INC	7,440.00	173,000.00	0.0430
LEHMAN BROTHERS INC NEW YORK	32,127.87	439,380.00	0.0731
LEHMAN BROTHERS SECS ASIA LTD HK	547.75	123,000.00	0.0045
LYNCH JONES & RYAN	40,854.00	1,274,900.00	0.0320
MACQUARIE EQUITIES LTD SYDNEY	628.59	51,004.00	0.0123
MCDONALD AND COMPANY	3,225.00	247,400.00	0.0130
MERRILL LYNCH EQ AUSTRALIA MELBOURNE	1,328.63	96,889.00	0.0137
MERRILL LYNCH EQUITIES SYDNEY	7,209.16	575,850.00	0.0125
MERRILL LYNCH FAR EAST HONG KONG	10,146.24	1,694,698.00	0.0060
MERRILL LYNCH FENNER & SMITH INC	2,903.15	72,103.00	0.0403
MERRILL LYNCH INTER NEW YK DTC 161	1,424.10	87,540.00	0.0163
MERRILL LYNCH INTL. SEOUL BRANCH	153.12	470.00	0.3258
MERRILL LYNCH PIERCE FENNER & SMITH	7,166.28	714,400.00	0.0100
MERRILL PROFESSIONAL CLEARING CORP.	385.00	7,700.00	0.0500
MIZUHO SECURITIES ASIA LTD H.KONG	348.86	2,500.00	0.1395
MORGAN GRENFELL & CO LTD / LONDON	866.28	2,300.00	0.3766
MORGAN KEEGAN AND COMPANY	3,850.00	88,300.00	0.0436
MORGAN STANLEY & CO INC.	9,836.60	175,700.00	0.0560
MORGAN STANLEY & CO. SAN FRANCISCO	167.72	69,384.00	0.0024
MORGAN STANLEY INT. LDN (CST 50701)	2,957.81	358,600.00	0.0082
MORGAN STANLEY TOKYO	136.23	3,900.00	0.0349
NEEDHAM & COMPANY	35.00	700.00	0.0500
NEUBERGER AND BERMAN	62.50	2,500.00	0.0250
NIKKO SALOMON SMITH BARNEY LTD TOKYO	91.50	9,000.00	0.0102
NOMURA INTERNATIONAL LTD HONG KONG	112.60	54,000.00	0.0021
PAINE WEBBER INC	932.00	23,400.00	0.0398
PETERS & COMPANY	6.40	200.00	0.0320
PRUDENTIAL SECURITIES INCORP	5,995.00	281,300.00	0.0213
RAGEN MAC KENZIE INC	240.00	4,000.00	0.0600
RAYMOND JAMES	2,765.00	64,100.00	0.0431
RBC DAIN RAUSCHER	420.00	8,400.00	0.0500
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	3,754.00	234,200.00	0.0160
ROBERTSON STEPHENS & CO L.R.	3,590.00	80,300.00	0.0447
ROBINSON HUMPHREY/AMERICA	2,940.70	74,814.00	0.0393

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
MILLER TABAK HIRSCH			
SALOMON BROS INTL LTD LONDON	6,774.60	471,048.00	0.0144
SALOMON BROTHERS HONG KONG	5,882.44	1,115,500.00	0.0053
SALOMON BROTHERS NEW YORK	11,166.31	458,882.00	0.0243
SALOMON SMITH BARNEY AUSTRAL SEC PT	62.66	4,181.00	0.0150
SALOMON SMITH BARNEY SYDNEY AUSTR.	3,953.10	355,116.00	0.0111
SBC WARBURG DILLON REED & COR NY	98.84	3,000.00	0.0329
SCOTIA MCLEOD INC	41.57	3,897.00	0.0107
SCOTT & STRINGFELLOW INVESTMENT	6,922.50	294,325.00	0.0235
SG COWEN AND COMPANY	6,980.00	149,200.00	0.0468
SG SECURITIES SINGAPORE	512.09	66,500.00	0.0077
SIDOTI AND COMPANY LLC	505.00	30,300.00	0.0167
SMITH BARNEY INC	10,855.00	330,600.00	0.0328
SOUNDVIEW FINANCIAL GROUP	135.00	2,700.00	0.0500
SPEAR LEEDS AND KELLOGG	45.00	900.00	0.0500
STANDARD AND POORS SECURITIES	3,501.00	81,400.00	0.0430
THOMAS WEISEL PARTNERS LLC	605.00	18,500.00	0.0327
U.S. BANCORP PIPER JAFFRAY INC	9,575.00	278,100.00	0.0344
UBS A.G. (HONG KONG BRANCH)	52.88	800.00	0.0661
UBS AG LONDON	985.28	35,053.00	0.0281
UBS AUSTRALIA GROUP LTD. SYDNEY	81.83	7,688.00	0.0106
UBS WARBURG (ASIA) LTD HK	46,374.11	3,521,566.00	0.0132
UBS WARBURG (HONG KONG) LTD	905.11	120,069.00	0.0075
UBS WARBURG DILLON READ LLC	8,840.45	219,327.00	0.0403
UBS WARBURG PTE LTD SING.	252.37	4,200.00	0.0601
UBS WARBURG SECS LTD SEOUL	2,326.40	15,269.00	0.1524
UNION BANK OF SWIT NEW YK DTC 642	311.31	8,199.00	0.0380
US CLEARING INSTITUTIONAL TRADING	66.00	3,300.00	0.0200
VANDHAM SECURITIES CORP	735.00	24,500.00	0.0300
WACHOVIA SECURITIES	25.00	500.00	0.0500
WATERHOUSE SECURITIES INC	238.08	7,440.00	0.0320
WEEDEN AND & CO	431.00	8,800.00	0.0490
WEISS PECK AND GREER	960.00	22,600.00	0.0425
WELLS FARGO VAN KASPER, LLC	1,886.00	38,800.00	0.0486
Unassigned Broker	592.00	1,737,820.90	0.0003
<b>TOTAL</b>	<b>\$630,195.08</b>	<b>30,315,412.90</b>	

The KCERA has directed brokerage rebate arrangements with Abel Noser Corporation, BNY ESI & Co., Lynch, Jones & Ryan (Instinet), and MAGNA Securities Corporation to provide low cost, execution-only services for a portion of the fund's transactions.





# ***ACTUARIAL SECTION***





**Public Pension  
Professionals, Inc**

121 MacKinnon Place  
Oakland, CA 94610  
510-652-8420 (telephone)  
510-652-8421 (facsimile)  
irasummer@pensioncube.com (email)

October 25, 2002

Board of Retirement  
Kern County Employees' Retirement Association  
1115 Truxtun Avenue  
Bakersfield, CA 93301-4639  
(661) 868-3790 (Telephone)  
(661) 868-3779 (Facsimile)

Members of the Board:

The annual actuarial valuation required for the Kern County Employees Retirement Association (KCERA) has been prepared as of December 31, 2001 by Public Pension Professionals, Incorporated. In preparing this valuation, we have employed generally accepted actuarial assumptions and methods to determine a sound value for the KCERA's assets, liabilities and future contribution requirements. In our opinion, the combined operation of the assumptions and methods applied in this valuation fairly represent past and anticipated future experience of KCERA and meet the parameters required by Government Accounting Standards Board Statement 25.

The financing objective of the system has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a 29-year period commencing with the December 31, 1992 valuation, while maintaining contribution rates that remain relatively level, as a percentage of payroll, from generation to generation.

We assisted in the preparation of several schedules included in the actuarial, statistical and financial sections of KCERA's Comprehensive Annual Financial Report. These include:

1. Schedule of Active Member Valuation Data
2. Schedule of Retirants and Beneficiaries Added to and Removed from Payroll
3. Solvency Test
4. Actuarial Analysis of Financial Experience
5. Schedule of Average Benefit Payment Amounts
6. Schedule of Funding Progress

We supplied the current year information for these schedules through the preparation of our annual valuation report and through additional reports prepared for KCERA staff. Data for years prior to December 31, 2000 actuarial valuation were prepared by the prior actuary for KCERA.

Our calculations are based upon the member data and financial information supplied to us by KCERA staff. This data has not been audited, but has been reviewed and found to be internally consistent and consistent with the prior year's data.

**P<sup>3</sup>** *Actuaries you can understand*

I am a Fellow of the Society of Actuaries, an Enrolled Actuary under ERISA, a Fellow in the'Conference of Consulting Actuaries, a Member of the American Academy of Actuaries, and have experience in performing actuarial valuations for public retirement systems. As such, I meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Sincerely,

A handwritten signature in black ink, appearing to read "Ira M. Summer". The signature is written in a cursive style with a large initial "I" and a prominent "M".

Ira M. Summer, FSA, EA, FCA, MAAA  
President

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary of Actuarial Assumptions and Methods

<b>Interest Rate:</b>	8.0%
<b>Salary Increase - Individual:</b>	As shown in Table I.
<b>Inflation Assumption:</b>	4.0%
<b>Asset Valuation Method:</b>	The market value of assets is adjusted to recognize, over a five-year period, investment earnings greater than (or less than) the assumed investment return.
<b>Funding Method:</b>	The Projected Unit Credit Funding Method. The Unfunded Actuarial Accrued Liability is amortized over 29 years beginning in 1992. The additional liability incurred through the granting of Golden Handshake benefits are amortized over three years from the year in which they were granted.
<b>Amortization Method:</b>	Level percent closed.
<b>Post-Retirement Mortality:</b>	
A) General Members and Beneficiaries of General and Safety Members:	1994 Group Annuity Mortality Table, with ages set forward two years for male and female members.
B) Safety Members:	1994 Group Annuity Mortality Table, male, with no age adjustments.
C) Pensioners on Disability Retirement:	1981 Disability Mortality Table.
<b>Proportion of Members with Spouses at Retirement:</b>	80% of male employees and 50% of female employees are assumed married at retirement. Wives are assumed four years younger than their husbands.
<b>Rate of Termination of Employment:</b>	As shown in Table II.

The above methods and assumptions were selected by the actuary as being appropriate for the plan and were used in the latest actuarial valuation dated December 31, 2001.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**Assumed Rate of Salary Increase  
As of December 31, 2001**

<b>Age</b>	<b>General Members</b>	<b>Safety Members</b>
20	10.0%	8.0%
25	8.0%	7.0%
30	7.0%	6.0%
35	5.5%	5.0%
40	5.0%	5.0%
45	5.0%	5.0%
50	5.0%	5.0%
55	5.0%	5.0%
60	5.0%	0.0%
65	5.0%	0.0%
70	0.0%	0.0%

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Probabilities of Separation from Active Service (Number separating at each age per 10,000 working at that age)

Age Nearest	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Service Disability	Service Death	Death While Eligible	Vested Termination
<b>General Members - Male</b>								
20	2,340	3	0	0	1	1	0	125
30	1,026	4	2	0	2	1	1	125
40	585	7	12	0	12	1	3	125
50	300	17	26	500	38	2	14	125
60	150	35	65	2,000	62	4	39	125
70	0	0	0	10,000	0	0	0	0
<b>General Members - Female</b>								
20	2,385	2	0	0	2	0	0	125
30	1,269	3	4	0	2	0	1	125
40	729	4	14	0	6	0	1	125
50	300	17	38	500	29	0	2	125
60	150	34	106	1,700	54	0	9	125
70	0	0	0	10,000	0	0	0	0
<b>Safety Members - All</b>								
20	1,000	2	0	0	10	2	0	35
30	348	3	10	0	30	3	2	35
40	238	4	29	0	74	5	5	35
50	122	7	48	800	128	6	13	35
60	0	0	0	10,000	0	0	0	0



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/96	General	5,539	\$187,370,586	\$33,828	1.2%
	Safety	1,373	62,475,608	45,503	2.6%
	<b>Total</b>	<b>6,912</b>	<b>249,846,194</b>	<b>36,147</b>	<b>1.6%</b>
12/31/97	General	5,421	\$190,146,200	\$35,076	3.7%
	Safety	1,422	66,131,203	46,506	2.2%
	<b>Total</b>	<b>6,843</b>	<b>256,277,403</b>	<b>37,451</b>	<b>3.6%</b>
12/31/98	General	5,522	\$199,250,420	\$36,083	2.9%
	Safety	1,474	72,335,699	49,074	5.5%
	<b>Total</b>	<b>6,996</b>	<b>271,586,119</b>	<b>38,820</b>	<b>3.7%</b>
12/31/99	General	5,642	\$211,804,416	\$37,541	4.0%
	Safety	1,496	75,446,382	50,432	2.8%
	<b>Total</b>	<b>7,138</b>	<b>287,250,798</b>	<b>40,242</b>	<b>3.7%</b>
12/31/00	General	5,903	\$207,229,836	\$35,106	-6.5%
	Safety	1,581	76,052,708	48,104	-4.6%
	<b>Total</b>	<b>7,484</b>	<b>283,282,544</b>	<b>37,822</b>	<b>-5.9%</b>
12/31/01	General	6,397	\$250,670,766	\$39,186	11.6%
	Safety	1,658	83,120,619	50,133	4.2%
	<b>Total</b>	<b>8,055</b>	<b>333,791,385</b>	<b>41,439</b>	<b>9.6%</b>

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Retirants and Beneficiaries Added to and Removed from Payroll

Plan Year Ending December 31	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll	% Increase in Annual Retiree Payroll	Average Annual Allowance
1996	3,744	198	148	3,919	49,301,764	12.5%	12,580
1997	3,919	224	111	4,219	54,465,028	10.5%	12,909
1998	4,219	186	161	3,990	53,537,214	-1.7%	13,418
1999	3,990	213	132	4,159	58,467,114	9.2%	14,058
2000	4,159	222	148	4,233	62,656,284	7.2%	14,802
2001	4,233	269	130	4,372	69,567,864	11.0%	15,912

### Solvency Test

Aggregate Accrued Liabilities					Portion of Accrued Liabilities Covered by Reported Assets			
Valuation Date	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
12/31/96	125,406,170	536,613,809	367,554,164	1,029,574,143	1,003,075,890	100%	100%	93%
12/31/97	137,690,425	594,568,260	407,760,403	1,140,019,088	1,113,914,418	100%	100%	94%
12/31/98	147,543,099	585,569,646	446,640,502	1,179,753,247	1,203,670,449	100%	100%	100%
12/31/99	159,632,656	670,212,529	494,816,546	1,324,661,731	1,325,928,243	100%	100%	100%
12/31/00	152,866,205	689,790,937	546,326,563	1,388,983,705	1,434,872,718	100%	100%	100%
12/31/01	179,904,379	771,375,980	660,679,843	1,611,960,202	1,508,291,483	100%	100%	84%

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	2001	2000	1999
Investment Performance Greater (Less) than Expected	\$(8,316,670)	\$30,711,362	\$42,603,978
New Entrants into System (Greater) Less than Expected	(6,946,979)	(2,203,016)	(2,507,511)
Individual Salary Increases (Greater) Less than Expected	(20,228,653)	46,256,288	14,520,247
Demographic Changes Greater (Less) than Expected	(43,684,720)	(20,031,534)	(10,686,247)
Change in Benefits	(70,891,864)		
Change in Assumptions		(2,672,105)	(44,912,359)
Golden Handshake Benefits			(62,361)
<b>Composite Gain (or Loss) During Year</b>	<b><u>\$(150,891,864)</u></b>	<b><u>\$52,060,995</u></b>	<b><u>\$(1,044,253)</u></b>

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## Summary of Major Plan Provisions

*Benefit Sections 31676.1, 31676.14, 31664, and 31664.1 of the 1937 Act.*

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937 as adopted by the County of Kern.

### Membership

Membership is automatic upon appointment to a permanent position of 50% or more of the regular standard hours required. Retirement entry date is the first day of the first, full bi-weekly payroll period following the date of employment.

### Final Average Salary

Final average salary is defined as the highest pensionable pay in one year, including base salary and other pay elements includible as a result of the "Ventura" decision.

### Vested

Members are considered vested in the plan after they have obtained five years of retirement service credit.

### Member Contribution Rates

The basic contribution is computed on the member's base pay plus compensable special pay, with the contribution rate being determined by the member's entry age into the system. The following table shows the percent of the full member contributions that members are required to contribute:

Hire Date Relative to <u>July 5, 1997</u>	<u>Member-Paid Portion of the Full Member Rate</u>	
	<u>Less Than 5 Years of Service</u>	<u>5 Years of Service or More</u>
Before	50%	0%
On or After	100%	0%

### Return of Contributions

If a member should resign, his or her contribution plus interest will be refunded. Any vested member may elect to leave his or her contribution on deposit and receive a deferred vested benefit when eligible for retirement.

### Service Retirement Benefit

General members with at least 10 years of retirement service credit who are age 50 or older, or with 30 years of retirement service credit regardless of age, are eligible for service retirement. Benefit is 1.667% of final compensation for each year of service, multiplied by Section 31676.14 law factors.

Safety members with at least 10 years of retirement service credit who are age 50 or older, or with 20 years of retirement service credit regardless of age, are eligible for service retirement. Benefit is 3.000% of final compensation for each year of service, multiplied by Section 31664.1 law factors.

For Members integrated with Social Security, benefits based on \$350 of monthly final average salary are reduced by 1/3.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary of Major Plan Provisions (Continued)

#### Disability Benefit

Members with 5 years of retirement service credit, regardless of age, are eligible for non-service connected disability. The benefit is at least 20% to a maximum of 40% of the member's final average monthly compensation for life.

If the disability is service connected, there is no minimum retirement service credit requirement. The member may retire with a benefit of 50% of his or her final average salary.

#### Death Benefit (Before Retirement)

An active member's beneficiary is entitled to receive death benefits which consist of accumulated contributions plus interest, and one month's salary for each full year of service up to a maximum of six month's salary.

If a member dies while eligible for service retirement or non-service connected disability, the spouse or minor children receives 60% of the allowance that the member would have received for retirement on the day of his or her death.

If a member dies in the performance of duty, the spouse or minor children receives 50% of the member's final average salary.

#### Death Benefit (After Retirement)

A death benefit of \$1,000 is payable to their designated beneficiary or estate.

If the retirement was for service or non-service connected disability and the member chose the unmodified plan, their surviving spouse or minor children will receive a monthly allowance equal to 60% of the retirement allowance.

If the retirement was for service connected disability, their spouse or minor children will receive a 100% continuance of their retirement allowance.

#### Post-Retirement Cost-of-Living Benefits

Each April 1, the benefits are adjusted by the percentage change in the Consumer Price Index (capped at 2%). As a result of the "*Kern Law Enforcement Association*" court settlement, the County of Kern increased the maximum cost-of-living of 2% per year to 2.5% per year. The 0.5% increase will be partly funded from \$64.7 million set aside within the Supplemental Retire Benefits Reserve. The change will be reflected in the 12/31/02 actuarial valuation.

#### Supplemental Retire Benefits Reserve (SRBR) Benefits

The Board of Retirement adopted Section 31618 on April 23, 1984 which provides for the establishment of the SRBR. The SRBR shall be used only for the benefit of retired members and beneficiaries. The distribution of the SRBR shall be determined by the Board of Retirement. These benefits are financed from excess earnings of the fund. Tier 3 benefits are provided only after Tier 1, Tier 2, and Tier 3 benefits already granted, and \$1,000 death benefits are funded.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary of Major Plan Provisions (Continued)

#### Supplemental Retire Benefits Reserve (SRBR) Benefits - Continued

A) Eligibility:	Tier 1:	Member on or before July 1, 1994.
	Tier 2:	Pensioners with at least five years of credited service, and their surviving beneficiaries, whose benefits have reduced by 20% in purchasing power since retirement.
	Tier 3:	Pensioners and their surviving beneficiaries whose benefits have reduced by 20% in purchasing power since retirement.
B) Benefits	Tier 1:	\$35.50 per month, not subject to cost-of-living adjustments.
	Tier 2:	\$1.372 times years of service, per month, for members who retired prior to 1985, granted July 1, 1994.
		\$5.470 times years of service, per month, for members who retired prior to 1985, granted July 1, 1996.
		\$10.276 times years of service, per month, for members who retired prior to 1981, granted July 1, 1997.
Tier 3:	Additional benefit to maintain 80% purchasing power protection.	



# *STATISTICAL SECTION*





## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Revenues by Source

Fiscal Year Ending 6/30	Member Contributions	Employer		Investment Income	Total
		Dollars	% of Annual Covered Payroll		
2002	\$11,287,597	\$41,881,569	12.89%	\$(76,247,977)	\$(23,078,811)
2001	9,173,557	41,067,487	13.09%	(99,791,394)	(49,550,350)
2000	6,145,942	37,575,583	12.45%	140,569,826	184,291,351
1999	5,446,223	40,159,103	14.06%	161,883,259	207,488,585
1998	4,403,959	35,420,517	13.07%	171,314,190	211,138,666
1997	9,725,046	27,902,854	10.58%	204,885,085	242,512,985

### Schedule of Expenses by Type

Fiscal Year Ending 6/30	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
2002	\$79,177,249	\$2,167,965	\$1,435,764	\$48,290	\$82,829,268
2001	71,897,363	1,903,426	1,222,707	89,427	75,112,923
2000	66,482,489	1,601,849	1,142,210	5,677	69,232,225
1999	63,258,785	1,392,610	1,043,182	323,400	66,017,977
1998	58,877,153	1,349,468	1,392,290	3,571	61,622,482
1997	52,537,006	1,126,490	1,070,534		54,734,030

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Schedule of Benefit Expenses by Type**  
**For Fiscal Years 1997-2002**  
(in thousands)

	2002	2001	2000	1999	1998	1997
<i>Service Retirement Benefits</i>						
General	\$38,542	\$36,675	\$34,123	\$32,826	\$31,135	\$27,654
Safety	18,436	14,614	13,168	12,297	11,779	10,837
Total	<u>56,978</u>	<u>51,289</u>	<u>47,291</u>	<u>45,123</u>	<u>42,914</u>	<u>38,491</u>
<i>Disability Benefits</i>						
General	5,482	5,136	4,928	4,600	3,836	3,863
Safety	7,508	6,932	6,249	5,906	5,703	4,666
Total	<u>12,990</u>	<u>12,068</u>	<u>11,177</u>	<u>10,506</u>	<u>9,539</u>	<u>8,529</u>
<i>Beneficiary Benefits</i>						
General	5,394	5,151	4,832	4,598	3,963	3,384
Safety	3,630	3,224	3,027	2,857	2,252	1,898
Total	<u>9,024</u>	<u>8,375</u>	<u>7,859</u>	<u>7,455</u>	<u>6,215</u>	<u>5,282</u>
<i>Lump Sum Death Benefits</i>						
	185	165	155	175	209	234
<b>Total Benefit Payments</b>	<b>79,177</b>	<b>71,897</b>	<b>66,482</b>	<b>63,259</b>	<b>58,877</b>	<b>52,536</b>
<i>Refunds</i>						
	1,436	1,223	1,142	1,043	1,392	1,071
<b>Total Benefit Expenses</b>	<b><u>\$80,613</u></b>	<b><u>\$73,120</u></b>	<b><u>\$67,624</u></b>	<b><u>\$64,302</u></b>	<b><u>\$60,269</u></b>	<b><u>\$53,607</u></b>

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Retired Members by Type of Benefit As of June 30, 2002

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
\$1-250	211	43	1	0	100	30	14	6	10	7
251-500	552	205	10	2	157	50	30	56	33	9
501-750	609	333	25	15	92	48	28	42	19	7
751-1,000	551	286	41	48	63	37	17	30	18	11
1,001-1,250	451	271	16	84	21	23	6	18	8	4
1,251-1,500	366	198	4	89	14	26	4	12	14	5
1,501-1,750	308	147	7	91	11	20	3	16	10	3
1,751-2,000	313	152	2	107	2	11	2	15	19	3
Over 2,000	1,124	834	3	204	18	19	3	17	21	5
Totals	4,485	2,469	109	640	478	264	107	212	152	54

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
\$1-250	211	7	2	0	0	99	102	1
251-500	552	12	7	0	0	237	292	4
501-750	609	8	7	1	0	264	320	9
751-1,000	551	10	7	1	0	237	265	31
1,001-1,250	451	11	7	0	0	185	191	57
1,251-1,500	366	4	2	0	0	139	165	56
1,501-1,750	308	3	1	1	0	115	125	63
1,751-2,000	313	3	3	1	0	97	121	88
Over 2,000	1,124	11	13	1	1	696	227	175
Totals	4,485	69	49	5	1	2,069	1,808	484

#### Type of Retirement

- 1** – Normal retirement for age and service
- 2** – Non-service connected disability retirement
- 3** – Service connected disability retirement
- 4** – Former member with deferred future benefit
- 5** – Beneficiary payment – normal retirement
- 6** – Beneficiary payment – active member who died and was eligible for retirement
- 7** – Beneficiary payment – death in service
- 8** – Beneficiary payment – disability retirement
- 9** – Supplemental and ex-spouses

#### Option Selected

- Option 1** – Beneficiary receives lump sum of member's unused contributions
- Option 2** – Beneficiary receives 100% of member's reduced monthly allowance.
- Option 3** – Beneficiary receives 50% of member's reduced monthly allowance.
- Option 4** – More than one beneficiary receives 100% of member's reduced monthly allowance.
- A** – Unmodified 60% continuance.
- B** – Unmodified no continuance.
- C** – Unmodified 100% continuance

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Average Benefit Payment Amounts

	Number of Years Since Retirement							
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35
<i>Valuation date 12/31/96</i>								
Average Monthly Benefit								
General	1,300	934	765	513	441	353	242	47
Safety	2,114	1,823	1,717	1,329	938	728	0	0
Number of Active Retirants								
General	971	622	592	482	311	114	22	1
Safety	291	171	130	100	87	25	0	0
<i>Valuation date 12/31/97</i>								
Average Monthly Benefit								
General	1,287	960	827	564	469	415	241	262
Safety	2,200	1,977	1,850	1,400	1,050	807	0	0
Number of Active Retirants								
General	992	720	617	507	337	148	31	2
Safety	252	212	159	99	107	36	0	0
<i>Valuation date 12/31/98</i>								
Average Monthly Benefit								
General	1,264	1,120	872	654	484	399	254	171
Safety	2,135	2,175	1,821	1,595	1,112	880	577	0
Number of Active Retirants								
General	956	683	569	465	325	154	34	3
Safety	271	152	137	101	82	54	4	0
<i>Valuation date 12/31/99</i>								
Average Monthly Benefit								
General	1,346	1,327	958	744	498	413	292	146
Safety	2,580	2,480	2,039	1,666	1,126	888	729	0
Number of Active Retirants								
General	803	658	535	521	429	259	81	11
Safety	208	159	163	112	120	85	15	0
<i>Valuation date 12/31/00</i>								
Average Monthly Benefit								
General	1,341	1,393	1,048	794	534	398	292	213
Safety	2,441	2,480	2,007	1,743	1,196	953	686	1,476
Number of Active Retirants								
General	840	700	507	540	437	264	86	11
Safety	191	222	163	125	120	84	30	1
<i>Valuation date 12/31/01</i>								
Average Monthly Benefit								
General	1,375	1,469	1,126	837	582	409	364	311
Safety	3,290	2,739	2,363	2,054	1,376	1,020	792	0
Number of Active Retirants								
General	833	745	506	514	448	282	94	19
Safety	226	188	151	124	110	101	37	0

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Participating Employers and Active Members As of June 30, 2002

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<i>County of Kern:</i>		
General Members		6,130
Safety Members		1,630
	Total	7,760
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<i>Participating Agencies (General Membership):</i>		
Berrenda Mesa Water District		12
Buttonwillow Recreation and Park District		3
East Kern Cemetery District		2
Inyokern Community Services District		3
Kern County Water Agency		67
Kern Mosquito & Vector Control District		20
North of the River Sanitation District		9
San Joaquin Valley Unified Air Pollution Control District		219
Shafter Recreation and Park District		0
West Side Cemetery District		6
West Side Mosquito Abatement District		8
West Side Recreation and Park District		12
	Total	361
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<i>Total Active Membership</i>		
General Members		6,491
Safety Members		1,630
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	<b>Total</b>	<b>8,121</b>