

**Kern County Employees'  
Retirement Association**

Kern County, California

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**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

**For the Fiscal Years Ended  
June 30, 2003 and 2002**

Issued by:

David J. Deutsch, CFA  
Executive Director

Sheryl Lawrence  
Retirement Accountant



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# 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 E. Lesser, Chairman  
Tony Plante, Vice Chairman  
Brad Barnes  
John DeMario  
Brent M. Dezember  
Claude Fiddler  
Phil Franey  
Barbara Patrick  
Michael Bradley, Alternate  
Lois B. Maujer, Alternate

David J. Deutsch, CFA  
Executive Director

Anne M. Holdren  
Assistant Executive Director

November 25, 2003

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, 2003 and 2002. This Letter of Transmittal is presented as a narrative introduction, overview, and analysis in conjunction with the Management's Discussion and Analysis included in the Financial Section of this Comprehensive Annual Financial Report.

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, 2003, the KCERA paid retirements to 4,599 members and continued supplemental benefits to 1,311 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA system added 181 service retirees, 16 non service-connected disability retirees, and 31 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).

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- **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, 2003, 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**

### Governance Compliance Monitoring

The Board of Retirement established comprehensive governance policies and board charters governing its committees and key positions in the prior fiscal year. The Board opted to engage Cortex Applied Research, Inc. (Cortex) to monitor board compliance with the policies and charters in the new year. Cortex reported on compliance in the fiscal year in a report entitled "2002 Governance Report." The report is composed of three sections, including (1) Charter and Policy Compliance, (2) Education Report and (3) Worksheets. Many of the 380 charter and policy requirements established by the Board are general in nature and not directly verifiable. Approximately 100 requirements were reviewed by Cortex. A minor discrepancy in compliance was reported with respect to the completion of all expected due diligence visitations and reports by the Executive Director in the year. Other areas of Governance were substantially followed by the Board.

The Board's Trustee Education Policy was reviewed and it was found that the policy was met with respect to new trustees and met, with few exceptions, by other trustees, as well.

In a subsequent event, the Board opted to continue compliance monitoring in the future.



### Funding Policy Revision

The Board reviewed its assumptions and methodologies with respect to the funding of the plan in 2002, resulting in the adoption of a Funding Policy. The new policy addresses the actuarial funding methodology, changing the method from Projected Unit Credit (PUC) to Entry Age Normal (EAN), in effect, reclassifying some future pensions costs (PUC) to past service costs as unfunded liabilities and allowing more stable contribution rates in the future. The new policy changed the amortization method for the unfunded actuarial liability to permit benefit enhancements to be amortized at 30 years, but holds all other amortization to no less than a rolling 12-year amortization. Lastly, the new policy allows for better sharing of contribution risks among the KCERA's 13 employers, while recognizing meaningful differences among employers with respect to plan provisions, employee contribution levels and employer contribution histories. The new Funding Policy was applied to the actuarial valuation of the plan for the period ending December 31, 2002.

### Pension Obligation Bonds

The County of Kern, the primary employer of the plan, issued \$285 million in Pension Obligation Bonds (POB) in June of the current year. The bonds were intended to cover the existing unfundedness of the plan as of December 31, 2002 and the proceeds were transferred to the KCERA. In anticipation of the substantial cash transfer, the KCERA created an overlay strategy in the futures markets, replicating the target asset allocation of the system in order to diminish any shortfalls arising from implementation. As full asset allocation exposure was realized, the KCERA could fund existing mandates on a pro rata basis in a timely and efficient manner, taking off the overlay in tandem with the transfers of cash.

### Implementation of Ventura Settlement

The Board continues to implement the requirements of the Settlement Agreement dated January 24, 2002, *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, providing increased benefits to qualified retirees in a lump sum for arrears to April 1, 1996 and as an increase in monthly benefits going forward, as well as implementing the terms of Agreement for all new retirees.

As of October 29, 2003, the project is approximately 70% complete and has cost a total of \$5,685,895 in retroactive payments, and increased the monthly retirement payroll by \$67,655. The KCERA expects the project to terminate in eighteen months at the latest.

## **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, 2002, the funded ratio of the system was approximately 83% using actuarial assets and actuarial liabilities of \$1,899,031,000 and \$1,570,278,000, respectively. The funded percentage decreased from 94% in 2001 to 83% in 2002. This decrease can be attributed to investment losses and a change in the funding methodology used by the Plan. In May 2003, the Plan received proceeds of \$285.1 million from pension obligation bonds (POBs) issued by the County of Kern. The POBs were issued to fund a significant portion of the Unfunded Actuarial Accrued Liability and as a subsequent event the funded ratio increased to 98%.

**FUNDING (Continued)**

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, 2002, 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, 2003, including net appreciation in fair value of investments and net of investment expenses, totaled \$444,022,830. This amount includes member and employer contributions of \$70,995,511, POB proceeds of \$285,092,130, and net investment income of \$87,935,189. Member contributions increased by \$1,461,191 (12%) over prior year and employer contributions increased by \$16,365,154 (39%) over prior year. The increase in member contributions is primarily attributable to members rolling over \$1,875,143 from IRC Section 457 Plans to purchase eligible service credit in the KCERA pension plan. The increase in employer contributions is attributable to salary increases, investment losses, and an improvement in benefits available to Safety members. Net investment income increased by \$164,183,166 (215%) over prior year. The increase in investment income is a result of an increase in the net appreciation in fair value of investments.

For the fiscal years ended June 30, 2003 and 2002:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) Amount</b>
Member Contributions	\$ 12,748,788	\$11,287,597	\$ 1,461,191	12%
Employer Contributions	58,246,723	41,881,569	16,365,154	39%
POB Proceeds	285,092,130	0	285,092,130	N/A
Net Investment Income (Loss)	<u>87,935,189</u>	<u>(76,247,977)</u>	<u>164,183,166</u>	215%
Total	\$444,022,830	\$(23,078,811)	\$467,101,641	2024%

**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, 2003, excluding investment expenses and security lending fees, were \$97,249,127, an increase of \$14,419,859 (17%) over prior year. This increase was the result of improved benefits for Safety members and

**DEDUCTIONS TO PLAN NET ASSETS (Continued)**

retroactive lump sum payments paid to entitled retirees and their beneficiaries as directed by the *Ventura* Settlement Agreement and Judgment. Other expenses increased for fiscal year 2003 because the KCERA paid fees in the amount of \$752 thousand to the attorneys representing the petitioners and class representatives of the *Ventura* litigation. In accordance with the *Ventura* Settlement Agreement and Judgment, the fees were paid from system earnings in the reserve against contingencies without regard to the administrative expense limitations of Government Code Section 31580.2.

For the fiscal years ended June 30, 2003 and 2002:

	<b>June 30, 2003</b>	<b>June 30, 2002</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) Amount</b>
Benefits and Refunds	\$94,302,059	\$80,613,013	\$13,689,046	17%
Administrative Expenses	2,166,624	2,167,965	(1,341)	0%
Other Expenses	<u>780,444</u>	<u>48,290</u>	<u>732,154</u>	1516%
Total	\$97,249,127	\$82,829,268	\$14,419,859	17%

**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.

## **INVESTMENTS (Continued)**

For fiscal year 2003, the investments of the plan provided a gain of 6.58% (net of fees). The KCERA's annualized rate of return, net of fees, over the past three years was -1.71%, and 2.84% 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, 2002. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports. Application fees for the fiscal year 2002 award process were \$480.

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.

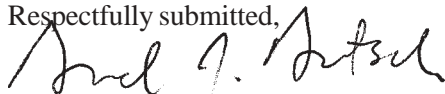
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we will again submit it to GFOA for appraisal.

## **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,



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, 2002

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.



President

Executive Director

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## Members of the Board of Retirement As of June 30, 2003



### Chairman

**Sharon E. Lesser**

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



### Trustee

**Claude D. Fiddler**

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



### Vice-Chairman

**Tony Plante**

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



### Trustee

**John J. DeMario**

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



### Trustee

**Phil Franey**

County Treasurer-Tax Collector  
Ex-Officio Member

### Alternate Members



### Trustee

**Brent Dezember**

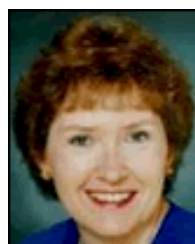
Appointed by Board of Supervisors.  
Present term expires 12/31/2003.



### Trustee

**Michael Bradley**

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



### Trustee

**Barbara Patrick**

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



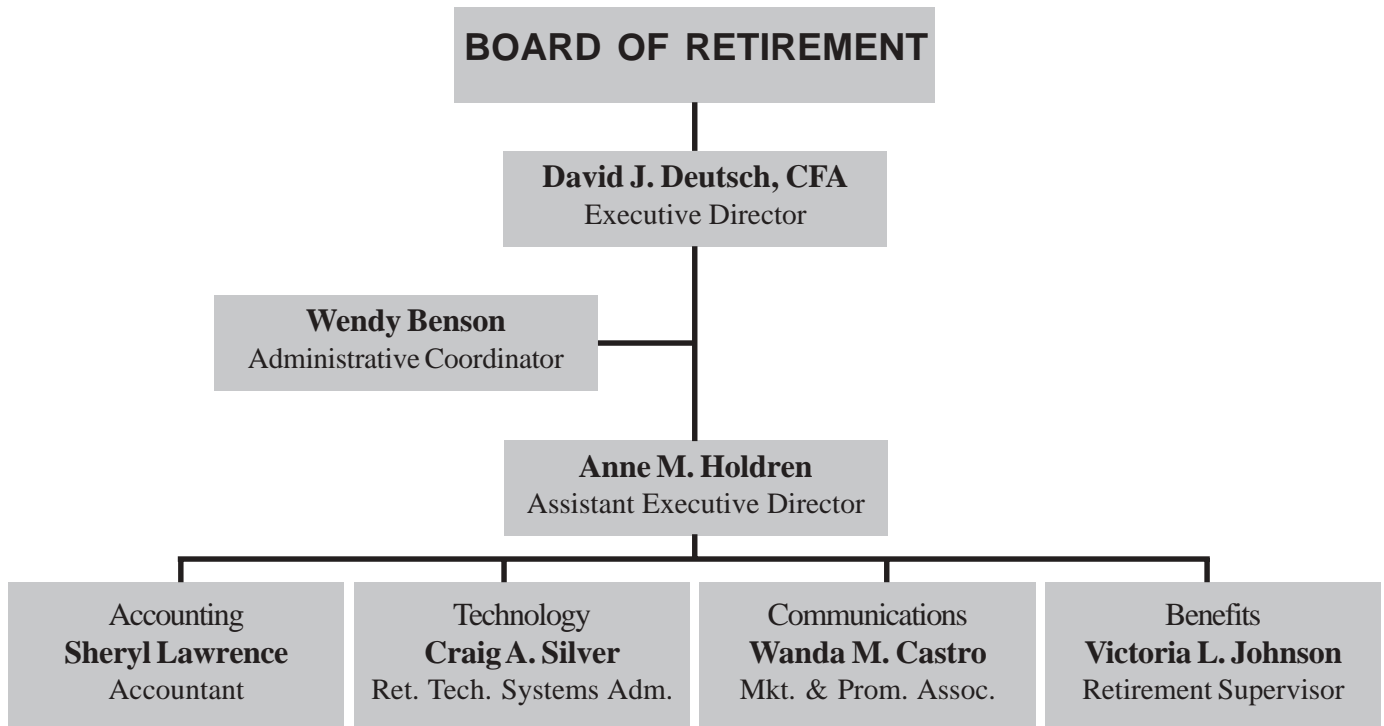
### Trustee

**Lois B. Maujer**

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

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**Administrative Organization Chart  
As of June 30, 2003**



# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## List of Professional Consultants As of June 30, 2003

### **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

Klein Denatale et al.  
Bakersfield, CA

### **INVESTMENT CONSULTANT**

Wilshire Associates, Inc.  
Santa Monica, CA

### **OTHER SPECIALIZED SERVICES**

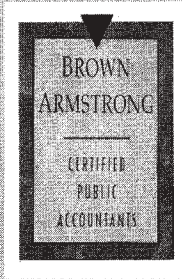
Cortex Applied Research, Inc.  
Toronto, Ontario  
Canada

*Note: A list of Investment Professionals is located on page 56 of the Investment Section of this report.*



# FINANCIAL SECTION





**BROWN ARMSTRONG PAULDEN  
McCOWN HILL STARBUCK & KEETER**  
Certified Public Accountants

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Shafter, California 93263  
Tel 661.746.2145 Fax 661.746.1218

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

Chris M. Thornburgh, CPA  
Lynn R. Krausse, CPA, MST  
Bradley M. Hankins, CPA  
Eric Xin, CPA  
Melinda A. McDaniels, CPA  
Thomas M. Young, CPA  
Amanda E. Wilson, CPA  
Sharon Jones, CPA, MST  
Rosalva Flores, CPA  
Debbie A. Rapp, CPA  
Julie A. Auvil, CPA  
Connie M. Perez, CPA

## INDEPENDENT AUDITOR'S REPORT

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, 2003 and 2002 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, 2003 and 2002 and its changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 17 through 21 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.

MEMBER of SEC Practice of the American Institute of Certified Public Accountants

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and other supplemental information on pages 37 through 42, 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 required supplementary information and other supplemental information on pages 37 through 42 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 STARBUCK & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
October 29, 2003

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, 2003 and 2002. 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 increased approximately \$346.8 million during the year ended June 30, 2003. The increase was due primarily to the receipt of \$285.1 million proceeds of pension obligation bonds issued by the County of Kern and from the performance of the investment portfolio in the second quarter of 2003.
- As of December 31, 2002, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 83%, compared to the funded ratio of 94%, as of December 31, 2001. The decrease is attributable to investment losses and a change in the actuarial funding methodology used by the Plan. However, in May 2003, the County of Kern issued pension obligation bonds (POBs) to fund a significant portion of the existing Unfunded Actuarial Accrued Liability. The proceeds from the POBs increased the funded ratio to 98% as a subsequent event.
- During the fiscal year ended June 30, 2003, the KCERA's total fund returned 6.58%, higher than the prior fiscal year return of -5.97%.
- Pension benefits for the year increased by approximately \$13 million or 18% over the prior year. The increase is substantially due to an improved benefit formula for Safety members, adopted January 1, 2001, and from lump sum payments to a class of litigants established by the court in the matter of *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 "*Ventura*") Settlement Agreement and Judgment.

### 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. Assets and current liabilities of the plan reflect full accruals. The statement reflects investments at fair value and accounting liabilities as distinct from actuarial liabilities.

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

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

- 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 on a full accrual basis.
- 3) **Notes to the Financial Statements** are an integral part of the financial statements and provide important additional information for a user.
- 4) **Required Supplementary Information** consists of two schedules and related notes of long-term actuarial data. The two schedules are the Schedule of Funding Progress and the Schedule of Employer Contributions.
- 5) **Other Supplemental Information** includes schedules of administrative expenses, investment manager fees, other investment expenses, and payments to consultants.

### 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, 2003 were \$1.8 billion, an increase of approximately \$347 million (24%) from June 30, 2002. The KCERA's net assets held in trust for pension benefits at June 30, 2002 were \$1.4 billion, a decrease of approximately \$106 million (7%) from June 30, 2001. Key elements of the increase (decrease) in net assets are described below and in Tables 1 and 2 on Page 23.

### Contributions and Income

Additions to plan net assets include member and employer contributions, and investment income. Member contributions were approximately \$12.7 million, \$11.3 million, and \$9.2 million for the years ended June 30, 2003, 2002, and 2001, respectively. Employer contributions were \$58.2 million, \$41.8 million, and \$41.1 million for the years ended June 30, 2003, 2002, and 2001, respectively.

Member contributions increased by approximately \$1.4 million (12%) in 2003 and by \$2.1 million (23%) in 2002. The increase in member contributions in 2003 is attributable to the purchase by members of eligible service credit using rollovers from the County Deferred Compensation program (IRC Section 457 Plan) and other California 403b funds as first allowed in California in 2003. The increase in member contributions in 2002 is primarily due to an increase in active membership from new hires and from lower terminations in the plan.

Employer contributions increased by approximately \$16.4 million (39%) in 2003, but remained constant in 2002. The increase in employer contributions in 2003 is primarily due to a combination of salary increases, investment losses, and an enhancement of benefits available to Safety members. On May 29, 2003, the KCERA received pension obligation bond (POB) proceeds of \$285,092,130 from the County of Kern to fund the December 31, 2002 Unfunded Actuarial Accrued Liability. The POB proceeds will reduce the employer contributions for General and Safety members for fiscal year 2004.

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

### Contributions and Income (Continued)

Net investment increases (losses) were \$87.9 million, \$(76.2) million, and \$(99.8) million for the years ended June 30, 2003, 2002, and 2001, respectively. The net investment losses in 2002 and 2001 are due to declining equity markets. The increase in 2003 can be attributed to strong equity performance in the second quarter 2003 and from strong fixed income performance throughout fiscal year 2003.

The KCERA's total fund return (net of fees) in fiscal year 2003 was 6.58%. For fiscal year 2003, the KCERA's equity composite returned 1.00%, the fixed income composite returned 14.19%, and the international equity composite returned -2.71%. The \$73.2 million decrease in investment income in fiscal year 2002 results from a total fund return (net of fees) of -5.97% for the year. For fiscal year 2002, 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)

### Benefits, Refunds, and Expenses

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 \$85.2 million, \$72.0 million, and \$65.3 million for the years ended June 30, 2003, 2002, and 2001, respectively. Pension benefits increased by approximately \$13.2 million (18%) in 2003 and by \$6.7 million (10%) in 2002. These increases were mainly due to a 14% increase in Safety retirements and to an improved benefit formula for Safety members. In fiscal year 2003, \$4.9 million in retroactive lump sum payments were paid to entitled retirees and their beneficiaries as directed by the *Ventura* Settlement Agreement and Judgment. These lump sum payments account for 6.5% of the 18% increase in pension benefits in 2003. The KCERA previously adopted California Government Code Section 31618 which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides retirees with 80% purchasing power parity and a \$1,000 death benefit. These supplemental retirement benefits paid were \$7.5 million, \$7.2 million and \$6.6 million for years ended June 30, 2003, 2002, and 2001, respectively. At June 30, 2003, refunds of member contributions were \$165 thousand more than fiscal year 2002, and for 2002 was \$265 thousand more than fiscal year 2001.

The KCERA administrative expenses were \$2.2 million, \$2.2 million, and \$1.9 million for the years ended June 30, 2003, 2002, and 2001, respectively. At June 30, 2003, administration expenses remained consistent with fiscal year 2002, while administration expenses increased by \$265 thousand in 2002. This increase is primarily due to salary adjustments, required by an MOU, and the salaries and benefits of temporary employees hired by the KCERA to recalculate benefits in the matter of the *Ventura* Settlement Agreement and Judgment. For fiscal year 2003, the KCERA paid attorneys' fees in the amount of \$752 thousand to the attorneys representing the petitioners and class representatives of the *Ventura* litigation. In accordance with the Settlement Agreement and Judgment, the fees were paid from system earnings in the reserve against contingencies without regard to the administrative expense limitations of Government Code Section 31580.2.

	June 2003	June 2002	June 2001
Average Monthly Benefit Payments	\$7.3 Million	\$6.6 Million	\$6.0 Million
Retirees and Beneficiaries	4,599	4,485	4,343

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

**Reserves**

The KCERA's reserves are established under GASB 25 and in accordance with the County Employees Retirement Law of 1937. 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 the actuarial assumed interest rate of 8% from the total fund's actual return on net assets. The Market Stabilization Reserve was \$(205) million, \$(250), and \$(100) million for the years ended June 30, 2003, 2002, and 2001, respectively.

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. The KCERA credited the reserves 2.2% in fiscal year 2003 and 3.4% in fiscal year 2002. The credits were below the actuarial rate of 8.0% for both years.

<b>KCERA RESERVES</b>			
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Member Reserve	\$178,085,995	\$ 174,731,992	\$ 173,298,934
Employer Reserve	611,980,215	427,354,873	394,243,799
Cost of Living Reserve	424,347,977	323,076,577	371,310,072
Retired Member Reserve	598,332,494	585,071,128	522,163,694
Supplemental Retiree Benefit Reserve	157,432,545	161,504,287	160,970,734
Contingency Reserve	17,432,545	14,361,730	20,173,537
Market Stabilization Reserve	(205,062,026)	(249,927,624)	(100,079,727)
<b>Total</b>	<b>\$1,782,946,667</b>	<b>\$1,436,172,964</b>	<b>\$1,542,081,043</b>

**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 the investment of monies and for the administration of the KCERA. The Board of Retirement has the sole and exclusive fiduciary responsibility over the assets of the system. The assets are held for the exclusive purpose of providing benefits to the KCERA members and their survivors, as mandated.



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

**Net Assets  
(In thousands)**

**Table 1**

	2003	Increase (Decrease) Amount	2002	Increase (Decrease) Amount	2001
<b>Assets</b>					
Current Assets	\$ 511,555	\$ 299,165	\$ 212,390	\$ 77,935	\$ 134,454
Investments	1,446,447	17,544	1,428,903	(100,566)	1,529,469
Securities Lending Collateral	42,542	(24,063)	66,605	8,780	57,825
Capital Assets and Other Assets	152	(106)	258	(96)	354
<b>Total Assets</b>	<b>\$2,000,696</b>	<b>\$ 292,540</b>	<b>\$1,708,156</b>	<b>\$ (13,947)</b>	<b>\$1,722,103</b>
<b>Liabilities</b>					
Current Liabilities	\$ 175,207	\$ (30,171)	\$ 205,378	\$ 83,181	\$ 122,196
Liabilities for Security Lending	42,542	(24,063)	66,605	8,780	57,825
<b>Total Liabilities</b>	<b>\$ 217,749</b>	<b>\$(54,234)</b>	<b>\$ 271,983</b>	<b>\$ 91,961</b>	<b>\$ 180,022</b>
<b>Total Net Assets</b>	<b>\$1,782,947</b>	<b>\$ 346,774</b>	<b>\$1,436,173</b>	<b>\$ (105,908)</b>	<b>\$1,542,081</b>

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

**Table 2**

	2003	Increase (Decrease) Amount	2002	Increase (Decrease) Amount	2001
<b>Additions</b>					
Member Contributions	\$ 12,749	\$ 1,462	\$ 11,287	\$ 2,113	\$ 9,174
Employer Contributions	343,339	301,457	41,882	814	41,067
Investment Income (Loss)	87,935	164,182	(76,247)	23,544	(99,791)
<b>Total Additions</b>	<b>\$444,023</b>	<b>\$467,102</b>	<b>\$ (23,078)</b>	<b>\$ 26,471</b>	<b>\$ (49,550)</b>
<b>Deductions</b>					
Pension Benefits	\$ 85,176	\$ 13,206	\$ 71,970	\$ 6,702	\$ 65,268
Supplemental Retirement Benefits	7,525	318	7,207	578	6,629
Refunds of Member Contributions	1,601	165	1,436	213	1,223
Administrative Expenses	2,167	(1)	2,168	265	1,903
Litigation Expenses	752	(752)	0	0	0
Benefits System Expenses	28	(20)	48	(42)	89
<b>Total Deductions</b>	<b>\$ 97,249</b>	<b>\$ 14,420</b>	<b>\$ 82,829</b>	<b>\$ 7,716</b>	<b>\$ 75,113</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$346,774</b>	<b>\$452,682</b>	<b>\$(105,908)</b>	<b>\$ 18,755</b>	<b>\$(124,663)</b>

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENT OF PLAN NET ASSETS  
AS OF JUNE 30, 2003 AND 2002**

	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Cash in County Pool	\$ 6,490,474	\$ 3,077,452
Short-Term Investment Funds	404,857,355	62,883,067
Total Cash and Short-Term Investment Funds	<u>411,347,829</u>	<u>65,960,519</u>
Receivables:		
Investments Sold	93,727,738	140,239,662
Interest and Dividends	4,061,257	5,363,305
Receivable for Index Futures	325	0
Contributions and Other Receivables	2,418,094	826,736
Total Receivables	<u>100,207,414</u>	<u>146,429,703</u>
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	484,817,288	520,055,546
International Bonds	13,796,499	17,099,345
Domestic Stocks	585,935,393	536,458,812
International Stocks	300,921,347	291,545,536
Real Estate Investments	41,450,930	48,083,409
Private Equity Funds	19,525,075	15,660,037
Collateral Held for Securities Lending	42,542,001	66,604,775
Total Investments	<u>1,488,988,533</u>	<u>1,495,507,460</u>
Prepaid Insurance	15,962	63,847
Property, Fixtures and Equipment, net of accumulated depreciation of \$262,112 and \$151,243, respectively	<u>136,416</u>	<u>194,182</u>
Total Assets	<u>2,000,696,154</u>	<u>1,708,155,711</u>
<b>Liabilities</b>		
Securities Purchased	173,363,570	203,379,365
Payable for Index Futures	0	171,950
Collateral Held for Securities Lent	42,542,001	66,604,775
Other Liabilities	1,843,916	1,826,657
Total Liabilities	<u>217,749,487</u>	<u>271,982,747</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b><u>\$ 1,782,946,667</u></b>	<b><u>\$ 1,436,172,964</u></b>

(A schedule of funding progress is presented on page 39.)

*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, 2003 AND 2002**

	2003	2002
<b>Additions</b>		
Contributions		
Employer	\$ 343,338,853	\$ 41,881,569
Member	12,748,788	11,287,597
Total Contributions	<u>356,087,641</u>	<u>53,169,166</u>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	58,571,559	(117,408,356)
Interest	25,106,275	31,051,163
Dividends	4,700,462	6,177,114
Real Estate Investments	3,297,341	7,949,161
Other Investment Income	18,275	15,719
Total Investment Income (Loss)	<u>91,693,912</u>	<u>(72,215,199)</u>
Less: Investment Expenses	<u>3,888,553</u>	<u>4,226,773</u>
Net Investment Income (Loss)	<u>87,805,359</u>	<u>(76,441,972)</u>
Securities Lending Income		
Earnings	1,108,103	1,712,844
Less: Rebates & Bank Fees	<u>978,273</u>	<u>1,518,849</u>
Net Securities Lending Income	<u>129,830</u>	<u>193,995</u>
Total Additions	<u>444,022,830</u>	<u>(23,078,811)</u>
<b>Deductions</b>		
Retirement and Survivor Benefits	85,175,696	71,970,669
Supplemental Retirement Benefits	7,525,584	7,206,580
Refunds of Member Contributions	1,600,779	1,435,764
Administrative Expenses	2,166,624	2,167,965
Litigation Expenses	751,994	0
Benefits Administration System Expenses	<u>28,450</u>	<u>48,290</u>
Total Deductions	<u>97,249,127</u>	<u>82,829,268</u>
<b>Net Increase (Decrease)</b>	<b>346,773,703</b>	<b>(105,908,079)</b>
<b>Net Assets Held in Trust for Pension Benefits</b>		
Beginning of Year	1,436,172,964	1,542,081,043
End of Year	<u>\$ 1,782,946,667</u>	<u>\$ 1,436,172,964</u>

See accompanying notes to the financial statements.

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
JUNE 30, 2003 AND 2002  
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, 2003, employee membership data related to the pension plan was as follows:

	<u>General</u>	<u>Safety</u>	<u>Total</u>
Active employees	6,380	1,609	7,989
Terminated employees – vested	752	97	849
Retirees and beneficiaries currently receiving benefits	<u>3,548</u>	<u>1,051</u>	<u>4,599</u>
	<u>10,680</u>	<u>2,757</u>	<u>13,437</u>

**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.

#### **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, 2003 and 2002.
Real estate investments and alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.

#### Capital Assets

Capital 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.

### NOTE 3 – CASH AND INVESTMENTS

At June 30, 2003, \$6,490,474 and at June 30, 2002, \$3,077,452 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, 2003 and 2002 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, 2003 are classified as follows:

	Category 1	Category 3	Uncategorized	Total Fair Value
U.S. Government and agency securities				
Not on securities loan	\$ 153,958,693	\$ 5,994,133	\$	\$ 159,952,826
On securities loan for securities collateral	3,044,630			3,044,630
On securities loan for cash collateral			3,753,770	3,753,770
Domestic corporate fixed-income securities				
Not on securities loan	191,186,565			191,186,565
On securities loan for securities collateral	1,445,058			1,445,058
On securities loan for cash collateral			19,786,372	19,786,372
International bonds				
Not on securities loan	13,591,322			13,591,322
On securities loan for cash collateral			205,177	205,177
Domestic equity securities				
Not on securities loan	90,755,399			90,755,399
On securities loan for cash collateral			15,454,301	15,454,301
International equity securities				
Not on securities loan	30,685,043			30,685,043
On securities loan for securities collateral	257,860			257,860
On securities loan for cash collateral			2,186,778	2,186,778
Common / collective investment funds			680,629,757	680,629,757
Limited partnerships			158,762,305	158,762,305
Loans			74,749,369	74,749,369
Securities lending short-term collateral				
investment pool			42,542,001	42,542,001
Short-term investment funds			404,857,355	404,857,355
<b>Total</b>	<b>\$ 484,924,570</b>	<b>\$ 5,994,133</b>	<b>\$ 1,402,927,185</b>	<b>\$ 1,893,845,888</b>

Reconciliation of the summary of the KCERA's investments above to total investments per the Statement of Plan Net Assets available as of June 30, 2003, is as follows:

Total investments per Statement of Plan Net Assets	\$ 1,488,988,533
Plus cash and short-term investments	404,857,355
<b>Total investments summarized above</b>	<b>\$ 1,893,845,888</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, 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	\$ 5,991,849	\$	\$ 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 to 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 4 – PORTFOLIO CONCENTRATION**

The fair value of securities with any one organization greater than 5% of plan net assets as of June 30, 2003 (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	\$108,506	6.09%
Synthetic S&P 500 Strategies: Pacific Investment Management Company (PIMCO)	\$ 97,786	5.48%
Comingled Funds: Barclays Global Investors S&P 500 Index Fund	\$141,683	7.95%
Barclays Global Investors Euro Alpha Tilts Strategy Fund	122,241	6.86%
Barclays Global Investors International Equity Index Fund	100,449	5.63%
Barclays Global Investors Alpha Tilts Strategy Fund	98,189	5.51%

**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, 2003, 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, 2003 and 2002, the securities lending transactions collateralized by cash had a fair value of \$41,386,397 and \$64,617,521, respectively, and a collateral value of \$42,542,001 and \$66,604,775, respectively. At June 30, 2003 and 2002, the securities lending transactions collateralized by securities or letters of credit had a fair value of \$4,747,548 and \$3,943,620, respectively, and a collateral value of \$4,855,744 and \$4,043,749, 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 2003 and 2002 are \$455,163 and \$2,510,198, 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, 2003	June 30, 2002
Forward Currency Contracts (Receivables)	\$ 2,506	\$ 1,612
Forward Currency Contracts (Payables)	(2,530)	(1,618)
Mortgage-Backed Securities	129,377	151,911
Asset-Backed Securities	23,045	37,334
Collateralized Mortgage Obligation Securities	42,506	39,885
Call Options	0	76
Total Derivatives	\$194,904	\$229,200

**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.

For fiscal year 2003, 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 20 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.

On April 1, 1973, an annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted. The 2% COLA was funded entirely from the unreserved fund balance until February 5, 1983. After this date and prior to fiscal year 2003, funding the 2% COLA was included in the employers' contributions. In fiscal year 2002, the County of Kern activated Government Code Section 31617 which provides that COLAs shall be funded first from excess earnings, to the extent of such excess, and thereafter from employer contributions. In fiscal year 2003, the Plan had no excess earnings and the 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, 2003. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rate	Employer Rates
General Members	4.85% - 11.16%	13.28%
Safety Members	5.44% - 11.92%	27.66%
Special Districts (Electing MOU)	4.85% - 11.16%	17.82%
Special Districts (Not Electing MOU)	4.85% - 11.16%	13.68%

Total contributions made during fiscal years 2003 and 2002, respectively, amounted to \$70,995,511 and \$53,169,166 of which \$58,246,723 and \$41,881,569 were contributed by the County of Kern and Special Districts, and \$12,748,788 and \$11,287,597 were contributed by members. On May 29, 2003, the KCERA received \$285,092,130 of pension obligation bond (POB) proceeds from the County of Kern to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability. The POB proceeds will reduce the General and Safety members contribution rates for fiscal year 2004.

**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.

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

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

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

*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, 2003, 1% of the Plan's net assets are reserved for contingencies.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2003 and 2002 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	<b>2003</b>	<b>2002</b>
Members' deposit reserve, general	\$ 114,398,150	\$ 111,019,485
Members' deposit reserve, safety	53,921,828	54,583,867
Members' deposit reserve, special district	9,766,017	9,128,640
Employer's advance reserve, general	330,395,734	240,516,825
Employer's advance reserve, safety	270,483,096	177,216,017
Employer's advance reserve, special district	11,101,385	9,622,031
Cost of living reserve, general	232,379,550	180,301,103
Cost of living reserve, safety	183,839,184	135,134,904
Cost of living reserve, special district	8,129,243	7,640,571
Retired members' reserve, general	348,164,234	344,123,568
Retired members' reserve, safety	250,168,260	240,947,560
Supplemental retiree benefit reserve (SRBR)	157,432,545	161,504,287
Contingency reserve	17,829,467	14,361,730
	<hr/>	<hr/>
Total reserves at five-year smoothed market actuarial valuation	1,988,008,693	1,686,100,588
Market stabilization reserve*	(205,062,026)	(249,927,624)
	<hr/>	<hr/>
Total net assets held in trust for pension benefits	\$ 1,782,946,667	\$ 1,436,172,964

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, 2003 and 2002.

## 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, 2003 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, 2003, the KCERA provided \$19,525,075 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.

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 August 16, 2002 to October 29, 2003, 679 retirees or their beneficiaries have received retroactive payments in the amount of \$5,685,895, and the monthly retiree payroll increased by \$67,655. The liability of the recalculated benefits paid on or before December 31, 2002 and the additional 0.5% cost of living allowance was included in the most recent actuarial valuation, 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, 2003 AND 2002**

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) (3) – (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Annual Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/02	\$1,570,278	\$1,899,031	\$328,753	82.7%	\$344,871	95.3%
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%

**Schedule of Employer Contributions**

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2003	\$58,246,723	*682%
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%

*\*Percentage reflects pension obligation bond proceeds totaling \$285.1 million.*

*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, 2003 AND 2002

#### 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, 2002 is as follows:

Valuation date:	December 31, 2002
Actuarial cost method:	Entry age funding method
Amortization method:	Level percent closed
Remaining amortization period: <sup>1</sup>	25 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	8.0%
Projected salary increases:	Rates varying by service
Includes inflation at:	4.0%
Annual increase in system benefits cap:	2.5%

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

##### *Demographics:*

Total payments to retirees and their beneficiaries increased by approximately 13% during 2002. The number of retired members and their beneficiaries receiving pension checks increased by 3.3% from 4,372 to 4,516. The average monthly benefit check increased by 9.9% to \$1,457.

##### *Benefits:*

As part of a court settlement, the County of Kern has increased the maximum cost-of-living increase from the current level of 2% per year, up to 2.5% per year. This benefit increase will be partly funded using money set aside for this purpose within the Supplemental Retiree Benefit Reserve by the Retirement Board.

##### *Future Issues:*

In May 2003, the County of Kern issued Pension Obligation Bonds. The proceeds from these bonds, \$285.1 million, will pay off a significant portion of the Unfunded Actuarial Accrued Liability.

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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**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (Continued)**  
**FOR THE YEARS ENDED JUNE 30, 2003 AND 2002**

**NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION  
(CONTINUED)**

*Assumptions and Methodology:*

As a result of the Analysis of Plan Experience for the period from January 1, 2000 through December 31, 2002, changes have been made in the economic assumptions, demographic assumptions, and funding methodology. The changes in assumptions and funding methodology since prior year are as follows:

Economic Assumptions:

Salary Increase: Revise the rates based on age to rates based on the employee's service.

Demographic Assumptions:

Withdrawal: Adjust the rates of withdrawal for both General and Safety Members to reflect increased terminations at later ages.

Deferred Vested: Increase the rates for General and Safety Members.

Disability: Adjustments in the incidence of disabilities at various ages. Adjustments in the distribution between service and non-service connected disability rates.

Pre-Retirement Mortality: A decrease in the rate of service connected deaths.

Post-Retirement Mortality: Change to a newer mortality table (RP-2000) reflecting the impact of the type of work performed by an individual during that person's career on post-retirement life expectancy.

Funding Methodology:

Funding Method: Changed from Projected Unit Credit to Entry Age.

Risk Sharing: The calculation of Normal Cost was refined to better share risks between Districts and between the County and Districts.

Amortization Period: The amortization period for significant benefit changes was increased to 30 years. The amortization period for new Unfunded Actuarial Accrued Liability will not drop below 12 years.

*See accompanying independent auditors' report.*

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OTHER SUPPORTING SCHEDULES

### Schedule of Administrative Expenses For the Years Ended June 30, 2003 and 2002

	2003	2002
<i>Personnel Services:</i>		
Salaries & Wages	\$ 913,745	\$ 804,761
Employee Benefits	358,525	308,226
Total Personnel Services	<u>1,272,270</u>	<u>1,112,987</u>
<i>Professional Services:</i>		
Legal Counsel	186,339	323,324
Audit	50,746	45,876
Medical/Hearing Officers	52,349	19,433
Information Technology Services	30,029	19,143
Other Professional Services	135,802	160,074
Total Professional Services	<u>455,265</u>	<u>617,446</u>
<i>Communication:</i>		
Postage	24,281	22,017
Printing	2,927	11,935
Telephone	10,670	10,440
Education & Professional Development	63,026	63,939
Publications/Legal Notifications	8,323	19,052
Total Communication	<u>109,227</u>	<u>127,383</u>
<i>Miscellaneous:</i>		
Equipment Leases	18,170	13,407
Office Expense	49,022	51,115
Insurance	58,483	60,596
Maintenance	4,340	3,803
Memberships	7,829	6,694
Special Departmental Expense	2,901	1,361
Other Services	2,422	37,621
Pension Disbursement Fees	108,699	104,114
Depreciation and Amortization	68,681	70,253
Utilities	9,315	10,781
Total Miscellaneous	<u>325,310</u>	<u>359,745</u>
<b>Total Administrative Expenses</b>	<b><u>\$2,166,624</u></b>	<b><u>\$2,167,965</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, 2003 and 2002

	<b>2003</b>	<b>2002</b>
<i>Investment Manager Fees:</i>		
Equity		
Domestic	\$ 1,398,906	\$ 936,929
International	945,031	1,505,883
Fixed Income		
Domestic	474,388	639,961
Global	203,944	194,795
Real Estate		
Investments in Real Estate	98,479	196,452
Individual Properties	35,000	0
Securities (REITs)	135,175	159,206
Total Investment Manager Fees	3,290,923	3,633,226
 <i>Other Investment Expenses:</i>		
Custodian	172,174	241,394
Actuarial Valuation	77,250	42,100
Investment Consultant	168,257	169,000
Legal Fees	13,474	9,860
Policy Implementation Overlay Strategy	166,475	131,193
Total Other Investment Expenses	597,630	593,547
<b>Total Fees and Other Investment Expenses</b>	<b>3,888,553</b>	<b>4,226,773</b>
<i>Security Lending Rebates and Bank Fees</i>	978,273	1,518,849
<b>Total Investment Expenses</b>	<b>\$ 4,866,826</b>	<b>\$ 5,745,622</b>

*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, 2003 and 2002**

<i>Individual or Firm</i>	<i>Nature of Service</i>	<i>Commission / Fee</i>	
		<b>2003</b>	<b>2002</b>
Brown Armstrong	External Auditors/Tax Advisor	\$ 50,747	\$ 47,483
Kern County Counsel	Legal Counsel	146,348	142,516
Morrison & Foerster, LLP	Legal Counsel	14,556	170,498
Hanson Bridgett	Legal Counsel	13,705	20,169
Klein Denatale et al.	Legal Counsel	20,217	0
Public Pension Professionals, Inc.	Actuarial Services	115,050	113,050
MAXIMUS, Inc.	Personnel Consultants	23,500	0
Cortex Applied Research, Inc.	Policy Consultants	27,964	58,880
<b>Total Payments to Consultants</b>		<b>\$412,087</b>	<b>\$552,596</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





November 6, 2003

David J. Deutsch, CFA  
 Executive Director  
 Kern 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, 2003.

For the fiscal year ended June 30, 2003, the KCERA's retirement fund had an investment gain of 6.58% and ended the year with total assets of \$1.78 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 June 2003.

At fiscal year end, the KCERA's retirement fund's asset allocation was significantly overweighted to cash due to the recent completion of the pension obligation bond issuance. Shortly after the fiscal year ended, these proceeds were invested and the KCERA was in compliance with the target allocations selected by the Board in January 2003, with the exception of the new allocation to Hedge Funds, which remains unfunded. In addition, all managers were in compliance with their guidelines on June 30, 2003.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Domestic Equities	40%	32.9%
International Equities	20%	17.0%
Fixed Income	31%	27.7%
Real Estate	6%	4.3%
Hedge Funds	3%	0.0%
Cash	0%	18.1%

Performance was positive, helping to mitigate the affects of the declines over the last few years in the domestic and international equity markets:

- The KCERA's total fund returned 6.58% for the year, versus the policy return of 4.31%. Outperformance versus policy was largely due to superior manager performance from several managers and the slight underweight to domestic and international equities coupled with an overweight to fixed income during a period in which bonds outperformed stocks. The KCERA's median peer in our database returned 3.78%, indicating that the KCERA was better positioned that most other funds for the inevitable economic and market rebound.

- The KCERA's Equity composite returned 1.00% versus a return of 1.28% for the Wilshire 5000. In a year characterized by continued economic concerns, war in the Middle East, and above-average market volatility, superior performance by some of the KCERA's active equity managers lessened the impact of the low performing stock market. Slight underperformance versus the benchmark was largely due to one underperforming manager and the impact of replacing the small cap growth portfolio shortly before the end of the year. The median Equity return for KCERA's peers was -0.20%.
- The KCERA's fixed income composite returned 14.19% versus 10.40% for the Lehman Aggregate Bond Index. Persistent economic weakness and global political uncertainty continued to drive overall demand for US fixed income. In addition, a rebound in the High Yield markets caused these bonds to show a return for the year of 27.6% and helped the overall KCERA Fixed Income portfolio. The median Fixed Income return for KCERA's peers was 11.09%.
- The KCERA's international equity composite fell -2.71% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned -4.19%. Despite the beginnings of a recovery in the US economy, both European and Pacific Basin markets continue to be weak, with European stocks down -5.22% and Pacific Basin stocks falling -9.58%. These poor returns were mitigated somewhat by a 6.96% rise in the value of Emerging Markets Equities, which comprise approximately 10% of the index. European markets have been substantially impacted over the last few years by the weak world economic cycle and continued high unemployment, which 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. Recent apparent recoveries in Japan and the United States should have a positive impact on International Equities if such recoveries persist.

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,



Michael C. Schlachter  
Vice President

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OUTLINE OF INVESTMENT POLICIES

Adopted by the Board of Retirement June 11, 2003

### 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' RETIREMENT 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, 2003 are as follows:

	<u>Actual*</u>	<u>Target</u>	<u>Target Ranges</u>	
			<u>Minimum</u>	<u>Maximum</u>
Domestic Equities	31.9%	34.0%	30.0%	38.0%
International Equities	17.0%	20.0%	17.0%	23.0%
Fixed Income	27.7%	31.0%	28.0%	34.0%
Real Estate	4.3%	6.0%	0.0%	10.0%
Alternative Investments	1.0%	6.0%	0.0%	6.0%
Hedge Funds	0.0%	3.0%	0.0%	5.0%
Cash / Other	18.1%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

*\*The June 30, 2003 asset allocation is based upon Wilshire Associates's June 30, 2003 Kern County Employees' Retirement Association Investment Performance Analysis.*

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

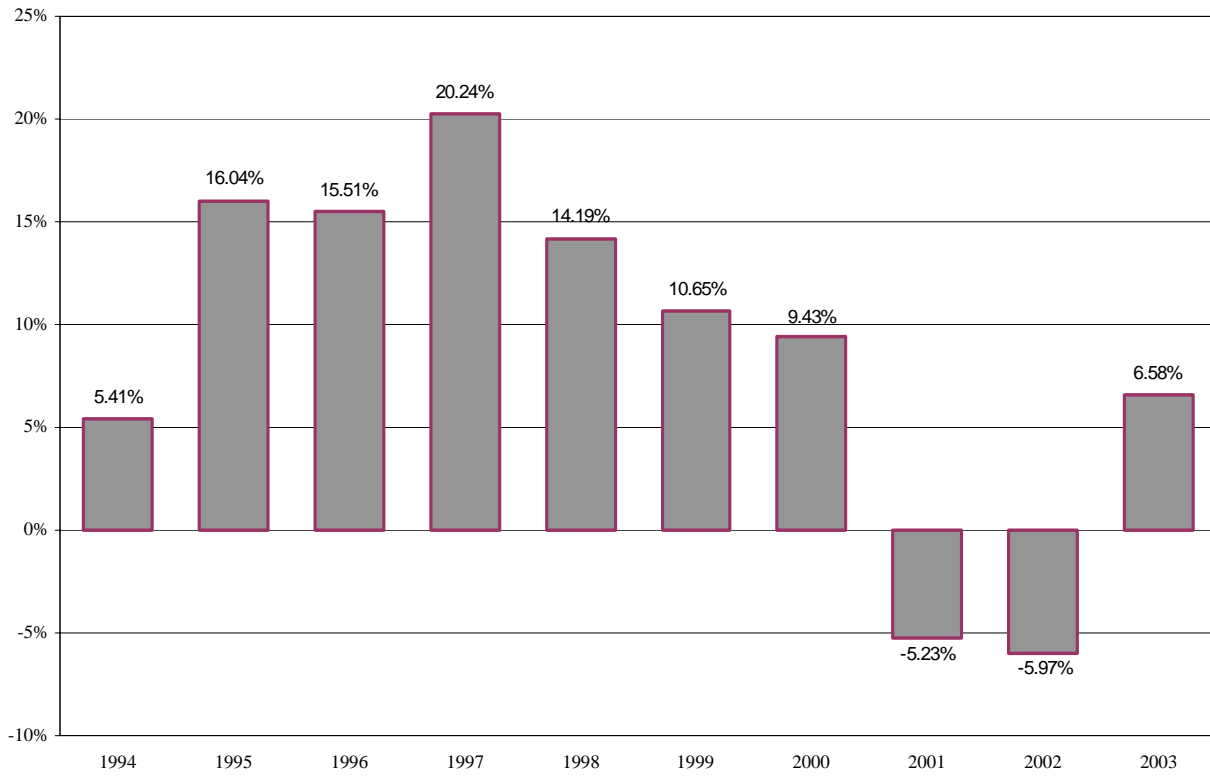
### Investment Summary For the Year Ended June 30, 2003

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
<i>Domestic Equities</i>		
Large Cap Index Fund	\$ 141,683	8.0%
Large Cap Synthetic Strategies	293,354	16.5%
Small Cap Value Securities	63,351	3.6%
Small Cap Growth Fund	<u>68,969</u>	3.9%
Total Domestic Equities	<u>567,657</u>	31.9%
<i>International Equities</i>		
International Equity Funds	222,690	12.5%
Emerging Markets Growth Fund	45,102	2.5%
Pacific Basin Securities	<u>34,672</u>	2.0%
Total International Equities	<u>302,464</u>	17.0%
<i>Fixed Income</i>		
Core Plus Global Fixed-Income	196,385	11.0%
Government / Corporate Bond Index Fund	103,997	5.8%
High Yield Bonds	94,934	5.3%
Mortgage-Backed Securities	66,025	3.7%
Commercial Mortgage-Backed Securities	23,393	1.3%
Co-Investments in Commercial Mortgages	<u>8,029</u>	0.5%
Total Fixed Income	<u>492,763</u>	27.7%
<i>Real Estate</i>		
Public / Private Real Estate Investments	33,406	1.9%
Securities (REITs)	<u>42,859</u>	2.4%
Total Real Estate	<u>76,265</u>	4.3%
<i>Alternative Investments</i>	18,485	1.0%
<i>Cash &amp; Short-Term Cash Investment Funds</i>	276,883	15.6%
<i>Policy Implementation Overlay Strategy</i>	44,879	2.5%
<b>Total Investments</b>	<b><u>\$ 1,779,396</u></b>	<b>100.0%</b>

The June 30, 2003 investment summary is based upon Wilshire Associates's June 30, 2003 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, 2003

	Current Year	Annualized		
		3-year	5-year	10-year
<b>Total Portfolio:</b>	6.58	-1.71	2.84	8.21
*Benchmark: Composite Policy	4.31	-2.85	2.30	7.62
TUCS Master Trust Median	3.78	-2.34	3.02	8.94
<b>Domestic Equity:</b>	1.00	-8.91	-0.60	10.07
Benchmark: Wilshire 5000 Index	1.28	-10.58	-1.30	9.54
TUCS Equity Median	-0.20	-8.10	0.77	10.70
<b>International Equity:</b>	-2.71	-11.25	-1.42	3.52
**Benchmark: Custom Index	-4.19	-12.48	-1.82	2.95
TUCS International Equity Median	-4.39	-10.97	0.27	6.08
<b>Fixed Income:</b>	14.19	9.62	7.33	7.22
Benchmark: Lehman Aggregate Index	10.40	10.08	7.54	7.21
TUCS Fixed Income Median	11.09	10.09	7.46	7.48
<b>Real Estate:</b>	4.04	10.71	7.97	7.37
Benchmark: 50% Wilshire Real Estate Securities Index / 50% Wilshire Real Estate Fund Index	5.64	10.70	8.34	9.13
<b>Cash &amp; Cash Equivalents</b>	3.75	4.56	4.97	5.10
Benchmark: 91-Day T-Bill	1.53	3.33	4.02	4.57

\*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, 2003

### Investment Managers

#### DOMESTIC EQUITY

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

Pacific Investment Management Company  
Newport Beach, CA

Putnam Investments  
Boston, MA

Rothschild Asset Management, Inc.  
New York, NY

Westridge Capital Management, Inc.  
Santa Barbara, CA

#### INTERNATIONALEQUITY

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, 2003 and 2002

	<b>2003</b>	<b>2002</b>
<i>Investment Managers' Fees</i>		
Domestic Equity Managers:		
Barclays Global Investors, N.A.	581,428	62,659
Fidelity Management Trust Company	30	116,952
Rothschild Asset Management, Inc.	596,656	382,320
Westridge Capital Management, Inc.	220,792	374,998
Total Domestic Equity Managers	1,398,906	936,929
International Equity Managers:		
Barclays Global Investors, N.A.	880,402	1,334,394
HSBC Asset Management	64,628	171,489
Total International Equity Managers	1,505,883	1,505,883
Domestic Fixed Income Managers:		
Heitman Capital Management Corp.	0	0
Hyperion Asset Management, Inc.	229,900	242,460
Mellon Bank	60,177	60,705
W.R. Huff Asset Management Co., LLC	184,312	336,796
Total Domestic Fixed Income Managers	474,389	639,961
Global Fixed Income Managers:		
Goldman, Sachs & Co.	203,944	194,795
Total Domestic Fixed Income Managers	203,944	194,795
Real Estate Managers:		
Fidelity Real Estate Asset Manager	98,479	196,452
Heitman Capital Management Corp.	35,000	0
LaSalle Securities Limited	135,175	159,206
Total Real Estate Managers	268,654	355,658
 <b>Total Investment Managers' Fees</b>	 <b>3,290,923</b>	 <b>3,633,226</b>

## KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

### Schedule of Investment Fees and Services (Continued) For the Years Ended June 30, 2003 and 2002

	2003	2002
<i>Custodial Fees</i>		
The Northern Trust Company	172,174	241,394
<i>Policy Implementation Overlay Strategy</i>		
The Clifton Group	166,475	131,193
<i>Actuarial Fees</i>		
Public Pension Professionals, Inc.	77,250	42,100
<i>Investment Consultant Fees</i>		
Wilshire Associates, Inc.	168,257	169,000
<i>Legal Fees</i>		
Kern County Counsel	13,474	9,860
<i>Security Lending Fees</i>		
The Northern Trust Company	978,273	1,518,849
<b>Total Investment Fees and Services</b>	<b>\$ 4,866,826</b>	<b>\$ 5,745,622</b>

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Largest Stock Holdings (By Market Value) As of June 30, 2003

Shares	Stocks	Market Value
116,312	National Australia Bank	\$ 2,613,157
191,083	Westpac Banking Corp.	2,082,436
47,240	NTL, Inc.	1,611,829
196,431	News Corp.	1,475,449
220,356	BHP Billiton LTD	1,276,835
32,926	PS Business Parks, Inc.	1,162,288
34,600	Toyota Motor Corp.	896,157
35,800	Sensient Technologies Corp.	823,042
34,800	South Financial Group, Inc.	811,884
25,050	UGI Corp.	794,085

### Largest Bond Holdings (By Market Value) As of June 30, 2003

Par	Bonds	Market Value
40,000,000	FNMA Single Family Mortgage 4.5% 15 Years July	\$ 40,796,000
9,000,000	GNMA II Single Family Mortgage 6.5% 30 Years July	9,427,500
13,600,000	U.S. Treasury Sec Stripped Int Pmt due 2/15/2014	8,917,656
8,000,000	FNMA Single Family Mortgage 4.5% 15 Years August	8,137,520
4,000,000	U.S. Treasury Bonds 8.75% due 8/15/2020	6,127,640
4,500,000	GNMA TBA Pool 7.0% 30 Years July	4,726,659
4,723,089	Spiegel Credit Card Master TR Variable Rate due 11/15/2010	4,726,659
4,400,000	FNMA Single Family Mortgage 5.0% 15 Years July	4,544,364
4,200,000	FNMA Single Family Mortgage 5.0% 30 Years July	4,266,276
4,100,000	FNMA 30 Years Pass-Throughs 5.5% 30 Years July	4,237,104

*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, 2003

#### Fees:

	Assets under management	Fees
<b>Investment managers' fees:</b>		
Domestic equity managers	\$ 400,902,535	\$ 1,398,906
International equity managers	257,361,785	945,030
Fixed income managers	484,891,960	678,333
Real estate managers	52,241,924	268,654
Total investment managers' fees	\$ 1,195,398,204	\$ 3,290,923
<b>Other investment service fees:</b>		
Custodial fees	-	\$ 172,174
Policy implementation overlay strategy	-	166,475
Actuarial fees	-	77,250
Investment consultant fees	-	168,257
Legal fees	-	13,474
Security lending fees	-	978,273
Total investment service fees	-	\$ 1,575,903

#### Commissions:

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
ABEL NOSER CORPORATION	1,450.00	29,000	0.05000
ABN AMRO ASIA LTD	411.45	76,000	0.00541
ABN AMRO ASIA SEC HK LTD (HONGKONG)	406.05	49,100	0.00827
ABN AMRO EQUITIES SYDNEY AUSTRALIA	1,837.68	175,499	0.01047
ARCHIPELAGO BCC CAPITAL	2,162.00	108,100	0.02000
BANC AMERICA SECUR. MONTGOMERY DIV.	845.00	16,900	0.05000
BEAR, STEARNS, SECURITIES CORP	1,885.00	37,700	0.05000
BERNSTEIN, SANFORD C. & CO	2,222.00	39,800	0.05583
BNP PARIBAS PEREGRINE SEC PL S'PORE	5.85	1,000	0.00585
BNP PARIBAS PEREGRINE SECS. LTD. HK	287.20	70,000	0.00410
BNY CLEARING SERVICES LLC	275.00	5,500	0.05000
BUCKINGHAM RESEARCH GROUP	1,518.00	25,500	0.05953
CANTOR FITZGERALD & CO	2,932.20	58,600	0.05004
CIBC WORLD MARKETS CORP. NEW YORK	2,595.00	51,900	0.05000
CITIGROUP GLOBAL LTD BROKER	565.34	239,000	0.00237
CITIGROUP GLOBAL MARKETS INC	4,808.59	200,408	0.02399
CITIGROUP GLOBAL MARKETS INC, AUS	328.63	15,004	0.02190
CITIGROUP GLOBAL MKTS ASIA LTD HK	453.18	301,300	0.00150
CL KING & ASSOCIATES	275.00	5,500	0.05000
COMMERZBANK AG LONDON	46.07	1,400	0.03291
CREDIT LYONNAIS SECS ASIA LTD H.K	506.20	68,000	0.00744

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
CREDIT LYONNAIS SECS SINGAPORE	65.35	4,000	0.01634
CREDIT SUISSE FIRST BOSTON CORPORATION	1,005.00	20,100	0.05000
CSFB (HK) SEC LTD	199.95	81,000	0.00247
CSFB AUSTRALIA EQUITIES LTD MELBOUR	3,839.89	637,380	0.00602
CSFB HONG KONG LIMITED	4,298.78	325,261	0.01322
D. A. DAVIDSON & CO. INC.	198.00	3,300	0.06000
DAIWA SECS HONG KONG	442.37	30,000	0.01475
DEUTSCHE BANK SECURITIES INC	4,050.00	81,000	0.05000
DEUTSCHE BK,AG LONDON INTL EQUITIES	340.43	38,000	0.00896
EDWARDS. A.G.	560.00	11,200	0.05000
ERNST AND COMPANY	55.00	1,100	0.05000
FACTSET DATA SYSTEMS	2,218.50	49,300	0.04500
FERRIS BAKER WATTS, INC	95.00	1,900	0.05000
FIRST TENNESSEE SECURITIES	20.00	400	0.05000
FOX PITT KELTON	360.00	7,200	0.05000
GOLDMAN SACHS & CO NW YK	406.20	106,150	0.00383
GOLDMAN SACHS & COMPANY	4,094.00	73,300	0.05585
GREEN STREET ADVISORS INC	2,102.95	42,059	0.05000
INSTINET	12.00	400	0.03000
INSTINET PACIFIC LTD HK	13.34	8,000	0.00167
J.P. MORGAN SECURITIES INC	135.00	2,700	0.05000
JANNEY MONTGOMERY SCOTT	1,121.80	22,400	0.05008
JB WERE & SON MELBOURNE	3,360.83	227,702	0.01476
JB WERE AND SON (NZ) LIMITED	10.75	1,652	0.00651
JEFFERIES & COMPANY	2,980.00	59,600	0.05000
JOHNSON RICE & CO.	610.00	12,200	0.05000
JONES & ASSOCIATES	1,539.00	34,200	0.04500
JP MORGAN SECURITIES (ASIA PAC)	439.16	120,400	0.00365
JP MORGAN SECURITIES AUSTRALIA LTD	1,537.77	34,801	0.04419
JP MORGAN SECURITIES LIMITED LONDON	2,114.02	363,573	0.00581
KEEFE BRUYETTE AND WOODS INC.	1,630.00	32,600	0.05000
LEGG MASON WOOD WALKER INC	2,515.00	50,300	0.05000
LEHMAN BROTHERS ASIALTD/HONG KONG	932.39	29,013	0.03214
LEHMAN BROTHERS INC	10,004.40	202,420	0.04942
LEHMAN BROTHERS SECS ASIA LTD HK	4,666.34	346,589	0.01346
LYNCH JONES & RYAN	24,407.40	530,500	0.04601
MACQUARIE EQUITIES LTD SYDNEY	8,085.05	739,477	0.01093
MCDONALD AND COMPANY	3,710.00	74,200	0.05000
MERRILL LYNCH EQUITIES SYDNEY	4,655.20	340,247	0.01368
MERRILL LYNCH FAR EAST HONG KONG	1,560.53	245,000	0.00637
MERRILL LYNCH PIERCE FENNER & SMITH	3,741.50	81,200	0.04608
MIDWEST RESEARCH SECURITIES	145.00	2,900	0.05000
MIZUHO SECURITIES ASIA LTD H.KONG	1,074.27	24,000	0.04476
MORGAN KEEGAN AND COMPANY	1,736.30	34,700	0.05004
MORGAN STANLEY & CO INC. NEW YORK	5,945.00	118,900	0.05000
MORGAN STANLEY INT. LDN (CST 50701)	1,506.29	109,700	0.01373
NATIONAL FINANCIAL SERVICES	25.00	500	0.05000
NEUBERGER AND BERMAN	148.50	3,300	0.04500

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
NOMURA INTERNATIONAL LTD HONG KONG	1,055.60	132,447	0.00797
PERCIVAL FINANCIAL PARTNERS	600.00	12,000	0.05000
PERSHING LLC	11,862.00	200,700	0.05910
PXP SECURITIES CORP	600.00	12,000	0.05000
RAYMOND JAMES	1,794.30	35,700	0.05026
ROBERT W. BAIRD & COMPANY INC MILWAUKEE USA	3,541.00	63,400	0.05585
SCHWAB, CHARLES	12.80	6,400	0.00200
SCOTT & STRINGFELLOW INVESTMENT	2,844.60	56,800	0.05008
SG COWEN AND COMPANY	3,600.00	72,000	0.05000
SG SECURITIES HONG KONG LTD	119.83	198,000	0.00061
SIDOTI AND COMPANY LLC	50.00	1,000	0.05000
SIDOTI CO LLC	555.00	11,100	0.05000
SMITH BARNEY INC	8,374.50	171,500	0.04883
STANDARD AND POORS SECURITIES	4,297.50	95,500	0.04500
STEPHENS INC	1,355.00	27,100	0.05000
SUNTRUST ROBINSON HUMPHREY	1,090.00	21,800	0.05000
U.S. BANCORP PIPER JAFFRAY INC	1,336.60	26,700	0.05006
UBS AUSTRALIA GROUP LTD. SYDNEY	4,217.50	382,456	0.01103
UBS FINANCIAL SERVICES INC	60.00	1,200	0.05000
UBS SECURITIES ASIA	10,714.16	1,291,896	0.00829
UBS SECURITIES LLC NEW YORK	350.00	7,000	0.05000
UBS WARBURG LLC	210.00	4,200	0.05000
VANDHAM SECURITIES CORP	6,036.00	201,200	0.03000
WACHOVIA CAPITAL MARKETS	5,194.20	96,150	0.05402
WACHOVIA SECURITIES LLC	4,589.50	91,700	0.05005
WAVE SECURITIES LLC	8.00	400	0.02000
WEEDEN AND & CO	295.00	5,900	0.05000
WELLS FARGO SECURITIES LLC	1,017.30	19,400	0.05244
WELLS FARGO VAN KASPER, LLC	390.00	6,500	0.06000
WEST LB SEC HONG KONG	1,377.54	149,900	0.00919
WILSHIRE ASSOCIATES INCORPORATED	1,485.00	29,700	0.05000
<b>TOTAL</b>	<b>\$219,561.63</b>	<b>10,372,784</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)  
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November 20, 2003

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, 2002 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 25-year period commencing with the December 31, 2002 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, flowing style.

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>	Entry Age Funding Method. The Unfunded Actuarial Accrued Liability is amortized over 25 years beginning in 2003. 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:	RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers.
B) Safety Members:	RP-2000 Healthy Annuitant Mortality Table, with adjustment for blue collar workers.
C) Pensioners on Disability Retirement:	RP-2000 Disabled Annuitant 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, 2002.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Assumed Rate of Salary Increase As of December 31, 2002

Years of Service	General Members	Safety Members
0	8.00%	7.50%
1	8.00%	7.50%
2	8.00%	7.50%
3	8.00%	7.50%
4	8.00%	7.50%
5	8.00%	7.50%
6	4.75%	7.50%
7	4.75%	7.50%
8	4.75%	7.50%
9	4.75%	7.50%
10 or more	4.75%	5.25%

## 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	1,050	10	0	0	0	0	0	200
30	1,327	12	2	0	3	0	0	200
40	1,311	30	8	0	13	0	0	200
50	1,004	60	26	500	39	0	0	200
60	593	66	65	2,000	98	0	0	200
70	0	0	0	10,000	0	0	0	0
<b>General Members - Female</b>								
20	930	3	1	0	1	0	0	190
30	1,238	4	2	0	2	0	0	190
40	1,353	10	12	0	18	0	0	190
50	1,211	24	24	500	36	0	0	190
60	884	56	28	1,700	42	0	0	190
70	0	0	0	10,000	0	0	0	0
<b>Safety Members - All</b>								
20	300	9	0	0	3	2	0	70
30	348	12	0	0	28	2	0	70
40	404	28	0	0	78	2	0	70
50	469	56	0	1,000	198	2	0	70
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
12/31/97	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>
12/31/02	General	6,414	\$261,061,804	\$40,702	3.9%
	Safety	1,641	83,809,133	51,072	1.9%
	<b>Total</b>	<b>8,055</b>	<b>344,870,937</b>	<b>42,815</b>	<b>3.3%</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
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
2002	4,372	248	104	4,516	79,057,729	13.6%	17,506

### 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)
12/31/97	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%
12/31/02	184,313,063	964,393,657	750,324,334	1,899,031,054	1,570,277,657	100%	100%	56%

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	2002	2001	2000
Investment Performance Greater (Less) than Expected	\$(133,288,517)	\$(8,316,670)	\$30,711,362
New Entrants into System (Greater) Less than Expected	(2,101,441)	(6,946,979)	(2,203,016)
Individual Salary Increases (Greater) Less than Expected	(29,814,488)	(20,228,653)	46,256,288
Demographic Changes Greater (Less) than Expected	21,223,199	(43,684,720)	(20,031,534)
Change in Benefits	(21,969,100)	(70,891,864)	
Change in Assumptions	(58,622,302)		(2,672,105)
<b>Composite Gain (or Loss) During Year</b>	<b>\$(224,572,649)</b>	<b>\$(150,891,864)</b>	<b>\$52,060,995</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 July 5, 1997	Member-Paid Portion of the Full Member Rate	
	Less Than 5 Years of Service	5 Years of Service or More
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 withing the Supplemental Retire Benefits Reserve. The change was reflected in the 12/31/02 actuarial valuation.

#### Supplemental Retiree 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, Tier2, 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		
2003	\$12,748,788	\$343,338,853*	16.96%	\$87,935,189	\$444,022,830
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

\*Includes \$285,092,130 of pension obligation bond proceeds from the County of Kern to pay off the December 31, 2002 Unfunded Actuarial Accrued Liability.

### Schedule of Expenses by Type

Fiscal Year Ending 6/30	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
2003	\$92,701,280	\$2,166,624	\$1,600,779	\$780,444	\$97,249,127
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

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Benefit Expenses by Type For Fiscal Years 1998-2003 (in thousands)

	2003	2002	2001	2000	1999	1998
<i>Service Retirement Benefits</i>						
General	\$41,497	\$38,542	\$36,675	\$34,123	\$32,826	\$31,135
Safety	22,616	18,436	14,614	13,168	12,297	11,779
Total	64,113	56,978	51,289	47,291	45,123	42,914
<i>Disability Benefits</i>						
General	5,684	5,482	5,136	4,928	4,600	3,836
Safety	8,187	7,508	6,932	6,249	5,906	5,703
Total	13,871	12,990	12,068	11,177	10,506	9,539
<i>Beneficiary Benefits</i>						
General	5,724	5,394	5,151	4,832	4,598	3,963
Safety	3,901	3,630	3,224	3,027	2,857	2,252
Total	9,625	9,024	8,375	7,859	7,455	6,215
<i>Retroactive Payments</i>						
General	2,097	0	0	0	0	0
Safety	2,775	0	0	0	0	0
Total	4,872	0	0	0	0	0
<i>Lump Sum Death Benefits</i>						
	220	185	165	155	175	209
<b>Total Benefit Payments</b>	<b>92,701</b>	<b>79,177</b>	<b>71,897</b>	<b>64,482</b>	<b>63,259</b>	<b>58,877</b>
<i>Refunds</i>						
	1,601	1,436	1,223	1,142	1,043	1,392
<b>Total Benefit Expenses</b>	<b>\$94,303</b>	<b>\$80,613</b>	<b>\$73,120</b>	<b>\$67,624</b>	<b>\$64,302</b>	<b>\$60,269</b>



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Retired Members by Type of Benefit As of June 30, 2003

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
\$1-500	597	160	9	1	218	74	34	45	36	20
501-1,000	1,032	510	55	44	179	93	43	54	37	17
1,001-1,500	835	451	45	145	54	54	17	36	25	8
1,501-2,000	613	297	13	184	21	41	4	23	22	8
2,001-3,000	747	417	7	206	16	30	5	24	37	5
3,001-4,000	364	268	0	69	11	7	1	3	4	1
4,001-5,000	147	133	1	9	1	0	1	1	1	0
5,001-6,000	116	114	0	0	1	0	0	1	0	0
Over 6,000	148	144	1	3	0	0	0	0	0	0
Totals	4,599	2,494	131	661	501	299	105	187	162	59

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
\$1-500	597	16	6	0	0	251	322	2
501-1,000	1,032	12	16	1	0	440	539	24
1,001-1,500	835	16	12	1	0	321	387	98
1,501-2,000	613	6	4	1	0	218	258	126
2,001-3,000	747	9	10	1	0	296	264	167
3,001-4,000	364	3	7	1	0	215	82	56
4,001-5,000	147	1	1	0	1	116	19	9
5,001-6,000	116	0	2	0	0	104	10	0
Over 6,000	148	0	0	0	0	136	9	3
Totals	4,599	63	58	5	1	2,097	1,890	485

#### 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 12/31/97</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
<i>Valuation date 12/31/02</i>								
Average Monthly Benefit								
General	1,516	1,517	1,184	911	624	451	394	357
Safety	3,946	2,763	2,363	2,200	1,466	1,146	837	0
Number of Active Retirants								
General	789	796	528	522	440	281	118	24
Safety	270	200	156	133	99	111	49	0

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Participating Employers and Active Members As of June 30, 2003

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<i>County of Kern:</i>	
General Members	6,006
Safety Members	1,609
Total	<u>7,989</u>

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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	12
Inyokern Community Services District	2
Kern County Water Agency	66
Kern Mosquito & Vector Control District	20
North of the River Sanitation District	7
San Joaquin Valley Unified Air Pollution Control District	237
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	<u>374</u>

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<i>Total Active Membership</i>	
General Members	6,380
Safety Members	1,609

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<b>Total</b>	<b><u>7,989</u></b>
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