

**Kern County Employees'
Retirement Association**

**A Pension Trust Fund of the
County of Kern, California**

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www.kcera.org**

**Comprehensive Annual
Financial Report**

2001 and 2000

Fiscal Years Ended June 30

Issued by:

**David J. Deutsch, CFA
Executive Director**

**Sheryl Lawrence
Retirement Accountant**

Table of Contents

Introductory Section

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

Financial Section

Independent Auditor's Report	17
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Financial Statements

Statement of Plan Net Assets	19
Statement of Changes in Plan Net Assets	20
Notes to Financial Statements	21

Required Supplemental Information

Schedule of Funding Progress	35
Schedule of Employer Contributions	35
Notes to Required Supplementary Information	36

Other Supplemental Information

Schedule of Administrative Expenses	37
Schedule of Investment Expenses	38
Schedule of Payments to Consultants	39

Investment Section

Investment Consultant's Report	43
Outline of Investment Policies	45
Asset Allocation	46
Investment Results	48
List of Investment Professionals	49
Schedule of Investment Fees and Services	50
Schedule of Fees and Commissions	51
Largest Stock and Bond Holdings	56

Table of Contents – Continued

Market Value Growth of Plan Assets	57
Investment Summary	58

Actuarial Section

Actuary’s Certification Letter	61
Summary of Actuarial Assumptions and Methods	63
Table 1: Ratio of Current Compensation to Compensation Anticipated at Retirement	64
Table 2: Probabilities of Separation from Active Service	65
Schedule of Active Member Valuation Data	66
Schedule of Retirants and Beneficiaries Added to and Removed from Payroll	67
Solvency Test	67
Actuarial Analysis of Financial Experience	68
Summary of Major Plan Provisions	69

Statistical Section

Schedule of Revenues by Source	75
Schedule of Expenses by Type	75
Schedule of Benefit Expenses by Type	76
Schedule of Retired Members by Type of Benefit	77
Schedule of Average Benefit Payments	78
Participating Employers and Active Members	79

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.



David J. Deutsch, CFA
Executive Director

Roberto L. Peña, CPA
Assistant Executive Director

Phil Franey, Chairman
Geoffrey B. King, Vice Chairman
Sharon Clark
John DeMario
Brent M. Dezember
Sharon E. Lesser
Ken Peterson
Tony Plante
Mark J. Smith
Michael Bradley, Alternate
Lois B. Maujer, Alternate

November 28, 2001

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, 2001 and 2000.

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 to provide retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. For fiscal year ended June 30, 2001, the KCERA paid retirements to 4,343 members and continued supplemental benefits to approximately 626 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA system added 195 service retirees and 52 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, 2001, twelve districts participated in the retirement plan including: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito & Vector Control District, North of the River Sanitation District, San Joaquin Valley Unified Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito Abatement District, and West Side Recreation and Park District.

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

MAJOR INITIATIVES

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

1. **Governance Policies: Board Charters and Job Descriptions:** Developing comprehensive policies for managing the business of the Board of Retirement including the respective duties and responsibilities of the Board Chair, Vice-Chair, Secretary to the Board and the Executive Director.
2. **Human Resources Policies and Implementation plan** aimed at supplementing personnel policy, and assessing staff job descriptions, classifications and compensation.
3. **Technology Initiative** requiring the formulation of a vision statement for technology for the KCERA, and plans to utilize technology in the service of KCERA membership.

Ventura Litigation Settlement Agreement

Parties to the *Ventura* litigation reached agreement in principle on key issues. The agreement was scheduled for court hearing in October, 2001.

The Supplemental Benefit Plan

The supplemental benefit plan (commonly known as “SRBR” for “Supplemental Retirement Benefit Reserve”), continued to provide purchasing power parity of 80% for all KCERA retirees or their beneficiaries.

3% at 50 Formula Adopted for Safety Members

The Board of Supervisors of the County of Kern adopted Government Code Section 31664.1 enhancing the benefit accrual rate for safety members of the plan from 2.0% per year of service to 3.0% per year of service on a retroactive basis effective January 1, 2001.

ADDITIONS TO PLAN ASSETS

The total additions to plan net assets for June 30, 2001, including net appreciation in fair value of investments and net of investment expenses, totaled \$(49,550,350). This amount includes member and employer contributions of \$50,241,044 and net investment income of \$(99,791,394). Member contributions increased by \$3,027,615 (49%) over prior year and employer contributions increased by \$3,491,904 (9%) over prior year. The increase in member and employer contributions is attributable to higher salaries and an increase in both employee and employer contribution rates. Net investment income decreased by \$240,361,220 (171%) over prior year. The decrease in investment income is primarily a result of a decrease in the net appreciation in fair value of investments.

For the fiscal years ended June 30, 2001 and 2000:

	June 30, 2001	June 30, 2000	Increase (Decrease) Amount	Increase (Decrease) Amount
Member Contributions	\$9,173,557	\$6,145,942	\$3,027,615	49%
Employer Contributions	41,067,487	37,575,583	3,491,904	9%
Net Investment Income	(99,791,394)	140,569,826	(240,361,220)	(171)%
Total	\$(49,550,350)	\$184,291,351	\$(233,841,701)	(127)%

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, 2001, excluding investment expenses and security lending fees, were \$75,112,923, an increase of \$5,880,698 (8%) over prior year. This increase was the result of benefit increases, litigation expenses, and benefit system upgrades.

For the fiscal years ended June 30, 2001 and 2000:

	June 30, 2001	June 30, 2000	Increase (Decrease) Amount	Increase (Decrease) Amount
Benefits and Refunds	\$73,120,070	\$67,624,699	\$5,495,371	8%
Administrative Expenses	1,903,426	1,601,849	301,577	19%
Benefits System Expenses	89,427	5,677	83,750	1475%
Total	\$75,112,923	\$69,232,225	\$5,880,698	8%

INVESTMENTS

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

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

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

For fiscal year 2001, the investments of the plan provided a loss of -5.23% compared to a gain of 9.43% for the fiscal year ending June 30, 2000. The KCERA's annualized rate of return over the past three years was 4.70%, and 9.22% 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.

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, 2000, the funded ratio of the system was approximately 103% using actuarial assets and actuarial liabilities of \$1,434,873,000 and \$1,388,984,000, respectively.

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

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 49 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, 2000. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "David J. Deutsch". The signature is written in a cursive style with a large, prominent initial "D".

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, 2000

A certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Smith Arue
President

Jeffrey L. Esser
Executive Director

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Members of the Board of Retirement As of June 30, 2001



Chairman

Phil Franey

County Treasurer-Tax Collector
Ex-Officio Member



Trustee

Tony Plante

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



Vice-Chairman

Geoffrey B. King

Appointed by the Board of Supervisors.
Present term expires 12/31/2001.



Trustee

Sharon Lesser

Personnel Department. Elected by
general members.
Present term expires 12/31/2001.



Trustee

Sharon Clark

Recorder Department. Elected by
general members.
Present term expires 12/31/2001.



Trustee

John J. DeMario

Elected by retired members.
Present term expires 12/31/2001.

Alternate Members:



Trustee

Brent M. Dezember

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



Trustee

Michael Bradley

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



Trustee

Mark J. Smith

Appointed by the Board of Supervisors.
Present term expires 12/31/2001.



Trustee

Lois B. Maujer

Elected by retired members.
Alternate for all retired members.
Present term expires 12/31/2001.



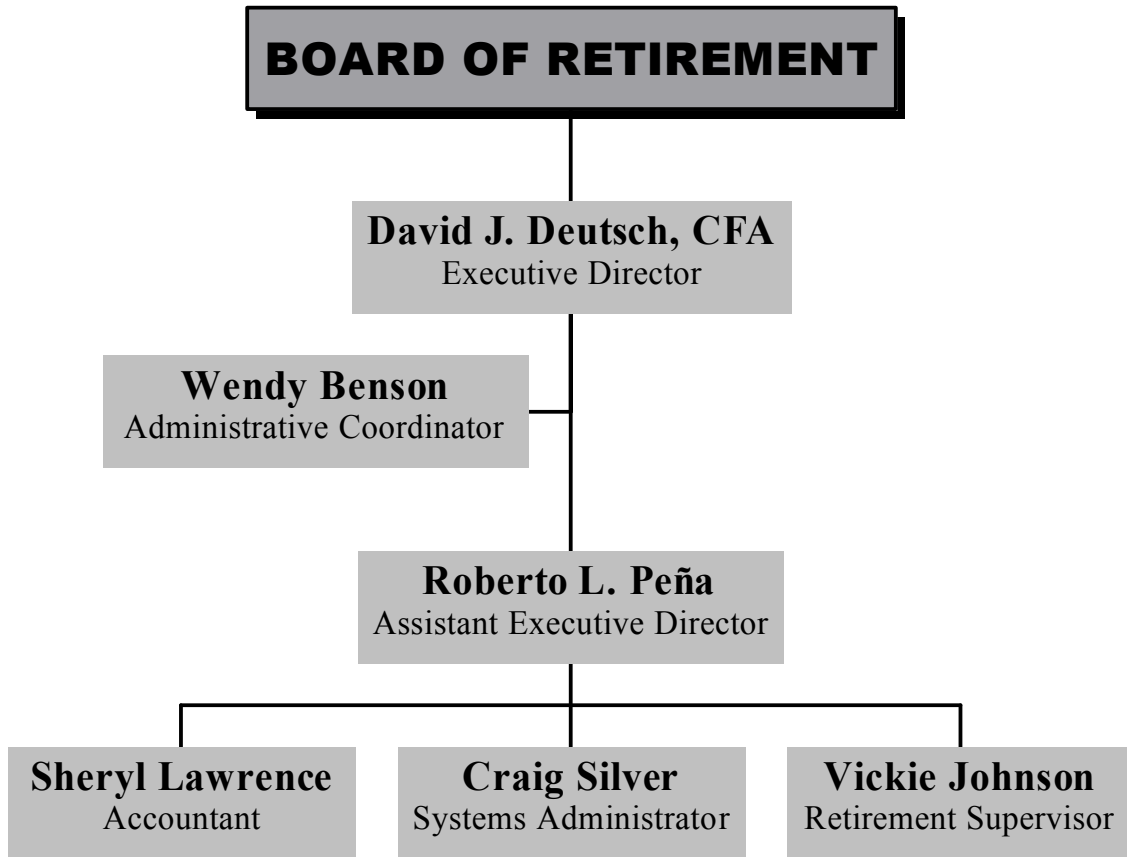
Trustee

Kenneth W. Peterson

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Administrative Organization Chart
As of June 30, 2001**



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants As of June 30, 2001

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

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 49 of the Investment Section of this report.



Phil Franey, Chairman
Geoffrey B. King, Vice Chairman
Sharon Clark
John DeMario
Brent M. Dezember
Sharon E. Lesser
Ken Peterson
Tony Plante
Mark J. Smith
Michael Bradley, Alternate
Lois B. Maujer, Alternate

David J. Deutsch, CFA
Executive Director

Roberto L. Peña, CPA
Assistant Executive Director

November 13, 2001

Dear Members:

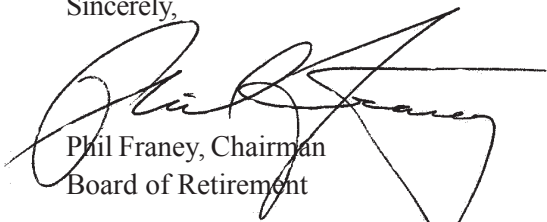
On behalf of the KCERA Board of Retirement (Board), I am pleased to present KCERA's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. This second Comprehensive Annual Financial Report (CAFR) reflects the Board's on-going commitment to serving KCERA members and interested parties with a high standard of excellence. The Board is proud that the prior year CAFR qualified this year for the Award for Excellence in Financial Reporting program sponsored by the Government Finance Officers Association.

This past year, the KCERA Board of Retirement pursued a settlement with respect to the pending *Ventura* litigation. The court's decision in this matter resolved many pay issues, and substantially supported the actions previously taken by the Board with respect to such items, while leaving certain issues unresolved. Additionally, the County of Kern adopted an enhanced benefit formula for all safety members of the retirement system, a benefit known as "3% at 50", meaning that such members become eligible for retirement at 50 years of age and that they shall received 3% of their final average compensation for each year of service to the County. The Board retained Northern Trust Company as master custodian for the assets of the system, promising increased performance and service to our members. The Board also retained the services of Public Pension Professional, Inc. to serve as actuary to the plan.

The investments of the system performed well relative to their benchmarks in a clearly difficult market environment. The fund returned -5.23% versus its policy benchmark return of -6.73%. Despite negative results, the investment program expects to earn at least 8.0% per annum over the long term.

I wish to commend KCERA staff for their good work in providing a Comprehensive Annual Financial Report for this second year.

Sincerely,



Phil Franey, Chairman
Board of Retirement

1115 Truxtun Avenue, Bakersfield CA 93301.4639, Tel 661.868.3790 Fax 661.868.3779
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FINANCIAL SECTION



BROWN ARMSTRONG
RANDALL REYES PAULDEN & McCOWN
CERTIFIED PUBLIC ACCOUNTANTS

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Shafter, California 93263
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- Peter C. Brown, CPA
- Burton H. Armstrong, CPA, MST
- Jerry E. Randall, CPA/ABV, CFP
- Benjamin P. Reyes, CPA
- Andrew J. Paulden, CPA
- Harvey J. McCown, CPA
- Andrea Rutherford-Hill, CPA
- Steven R. Starbuck, CPA
- Aileen K. Keeter, CPA

- Lynn R. Krausse, CPA, MST
- Chris M. Thornburgh, CPA
- Joan M. Anderson, CPA
- Bradley M. Hankins, CPA
- B. Marie Ebersbacher, CPA, CFE
- Eric H. Xin, CPA
- Melinda A. McDaniels, CPA
- Thomas M. Young, CPA
- Vonie L. Chronan, CPA
- Michelle L. Gonzales, CPA
- Amanda E. Wilson, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the
Kern County Employees' Retirement Association
County of Kern, California

We have audited the accompanying statement of plan net assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2001 and 2000, 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 audits.

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, 2001 and 2000 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 schedules on pages 35 and 36 are not required parts of the basic financial statements but are 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 the supplementary information. However, we did not audit the information and express no opinion on it.

MEMBER of SEC Practice Section 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 supporting schedules on pages 37 through 39, and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of KCERA. The supporting schedules on pages 37 through 39 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.

In accordance with Government Auditing Standards, we have also issued a reported dated October 31, 2001 on our consideration of the Kern County Employees' Retirement Associations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. This report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG RANDALL
REYES PAULDEN & McCOWN
ACCOUNTANCY CORPORATION



Bakersfield, California
October 31, 2001

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2001 AND 2000

	2001	2000
Assets		
Cash in County Pool	\$ 5,715,922	\$ 5,787,017
Cash and Short-Term Investment Funds	39,816,171	29,828,141
Total Cash and Short-Term Investment Funds	45,532,093	35,615,158
Receivables:		
Investments Sold	79,676,937	76,900,571
Interest and Dividends	6,227,385	4,673,972
Receivable for Futures	334,875	717,100
Contributions and Other Receivables	2,682,506	794,167
Total Receivables	88,921,703	83,085,810
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	322,049,978	517,785,886
Global Bonds	250,678,493	44,094,703
Domestic Equity Securities	602,365,727	722,393,828
International Equity Securities	269,857,020	356,419,906
Mortgages	0	1,140,286
Real Estate	0	7,713,745
Pooled Real Estate	64,963,174	66,233,039
Alternative Investments	19,555,075	19,282,372
Collateral Held for Securities Lending	57,825,469	23,605,906
Total Investments	1,587,294,936	1,758,669,671
Prepaid Insurance	111,733	0
Property, Fixtures and Equipment, net of accumulated depreciation of \$62,930 and \$16,483, respectively	242,345	294,092
Total Assets	1,722,102,810	1,877,664,731
Liabilities		
Securities Purchased	120,891,972	185,236,831
Collateral Held for Securities Lent	57,825,469	23,605,906
Other Liabilities	1,304,326	2,077,678
Total Liabilities	180,021,767	210,920,415
Net Assets Held in Trust for Pension Benefits	\$ 1,542,081,043	\$ 1,666,744,316
(A schedule of funding progress is presented on page 35.)		

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, 2001 AND 2000**

	2001	2000
Additions		
Contributions		
Employer	\$ 41,067,487	\$ 37,575,583
Member	9,173,557	6,145,942
Total Contributions	<u>50,241,044</u>	<u>43,721,525</u>
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	(143,430,832)	108,346,556
Interest	31,647,293	26,386,294
Dividends	5,622,317	5,829,980
Real Estate Operating Income, net	970	446,443
Limited Partnerships Income	9,928,184	4,524,902
Securities Lending Revenues	911,090	1,358,066
Other Income	268	26,888
Total Investment Income	<u>(95,320,710)</u>	<u>146,919,129</u>
Less Investment Expenses	3,607,441	5,093,290
Less Securities Lending Rebates and Bank Charges	<u>863,243</u>	<u>1,256,013</u>
Net Investment Income	<u>(99,791,394)</u>	<u>140,569,826</u>
Total Additions	(49,550,350)	184,291,351
Deductions		
Retirement and Survivor Benefits	65,268,084	59,503,349
Supplemental Retirement Benefits	6,629,279	6,979,140
Refunds of Member Contributions	1,222,707	1,142,210
Administrative Expenses	1,903,426	1,601,849
Benefits Administration System Expenses	89,427	5,677
Total Deductions	<u>75,112,923</u>	<u>69,232,225</u>
Net Increase	(124,663,273)	115,059,126
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	<u>1,666,744,316</u>	<u>1,551,685,190</u>
End of Year	<u>\$ 1,542,081,043</u>	<u>\$ 1,666,744,316</u>

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
JUNE 30, 2001 AND 2000
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, 2001, employee membership data related to the pension plan was as follows:

	<u>General</u>	<u>Safety</u>	<u>Total</u>
Active employees	5,952	1,620	7,572
Terminated employees – vested	740	85	825
Retirees and beneficiaries currently receiving benefits	<u>3,421</u>	<u>922</u>	<u>4,343</u>
	<u>10,113</u>	<u>2,627</u>	<u>12,740</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% for all retirees and continuance beneficiaries was adopted as of April 1, 1973.

SUPPLEMENTAL BENEFIT

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

The KCERA follows the accounting principles and reporting guidelines as set forth in Statement 25 of the Governmental Accounting Standards Board (GASB). 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, 2001 and 2000.
Mortgages	Reported at the remaining principal balance and are collateralized by deeds of trust on real property.
Real estate equity	Rental properties are valued based on the most recent property appraisals.
Pooled real estate and alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.

Fixed Assets

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

Income Taxes

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

Management's Estimates

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

New Accounting Pronouncements

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. GASB 34 provides a financial reporting model for governmental entities that addresses four basic reporting elements: management's discussion and analysis, government-wide and fund financial statements, notes to the financial statements, and required supplementary information. The KCERA is required to implement GASB 34 for the fiscal year ending June 30, 2002.

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

NOTE 3 – CASH AND INVESTMENTS

At June 30, 2001, \$5,715,922 and at June 30, 2000, \$5,787,017 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, 2001 and 2000 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, 2001 are classified as follows:

	Category 1	Category 3	Uncategorized	Total Fair Value
U.S. Government and agency securities				
Not on securities loan	\$ 163,782,903	\$ 5,675,034	\$	\$ 169,457,937
On securities loan for cash collateral			26,142,783	26,142,783
Domestic corporate fixed-income securities				
Not on securities loan	220,378,876			220,378,876
On securities loan for securities collateral	4,383,954			4,383,954
On securities loan for cash collateral			22,182,081	22,182,081
International bonds				
Not on securities loan	16,508,781			16,508,781
On securities loan for cash collateral			486,329	486,329
Domestic equity securities				
Not on securities loan	186,248,371			186,248,371
On securities loan for cash collateral			4,124,839	4,124,839
International equity securities				
Not on securities loan	44,301,142			44,301,142
On securities loan for cash collateral			3,328,537	3,328,537
Common / collective investment funds			586,199,474	586,199,474
Limited partnerships			169,170,128	169,170,128
Loans			76,554,619	76,554,619
Call options			1,616	1,616
Securities lending short-term collateral investment pool			57,825,469	57,825,469
Short-term investment funds		87,770	39,728,401	39,816,171
Total	\$ 635,604,027	\$ 5,762,804	\$ 985,744,276	\$1,627,111,107

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

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

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, 2000 are classified as follows:

	Category 1	Uncategorized	Total Fair Value
U.S. Government and agency securities			
Not on securities loan	\$ 190,337,670	\$	\$ 190,337,670
On securities loan for securities collateral	493,984		493,984
On securities loan for cash collateral		5,740,794	5,740,794
Repurchase agreements	44,000,000		44,000,000
Domestic corporate fixed-income securities			
Not on securities loan	120,391,671		120,391,671
On securities loan for securities collateral	763,413		763,413
On securities loan for cash collateral		6,850,975	6,850,975
Global bonds	44,094,703		44,094,703
Domestic equity securities			
Not on securities loan	180,317,187		180,317,187
On securities loan for securities collateral	510,469		510,469
On securities loan for cash collateral		3,743,522	3,743,522
International equity securities			
Not on securities loan	66,452,827		66,452,827
On securities loan for securities collateral	1,418,510		1,418,510
On securities loan for cash collateral		6,122,245	6,122,245
Common / collective investment funds		791,183,578	791,183,578
Limited partnerships		185,851,482	185,851,482
Mortgages and other loans		79,076,990	79,076,990
Real estate equity		7,713,745	7,713,745
Securities lending short-term collateral			
investment pool		23,605,906	23,605,906
Short-term investment funds		29,828,141	29,828,141
Total	\$ 637,728,965	\$1,139,717,378	\$1,788,497,812

Reconciliation of the summary of the KCERA's investments above total investments per the Statement of Plan Net Assets available as of June 30, 2000, is as follows:

Total investments per Statement of Plan Net Assets	\$ 1,758,669,671
Plus cash and short-term investments	29,828,141
Total investments summarized above	\$ 1,788,497,812

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, 2001 (other than U.S. Government securities) is presented in the following table:

Organization	Amount (in thousands)	Percentage of Net Assets
Corporate Bonds: W.R. Huff Asset Management	\$ 82,703	5.36%
Global Bonds: Goldman Sachs Asset Management	148,200	9.61%
Synthetic S&P 500 Strategies: Pacific Investment Management Company (PIMCO)	84,652	5.49%
Index Funds: Barclays Global Investors S&P 500 Index Fund	202,479	13.13%
Barclays Global Investors Alpha Tilts Strategy Fund	93,939	6.09%
Barclays Global Investors International Equity Index Fund	83,454	5.41%

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.

Initial collateral levels will not be less than 102%, in the case of securities of U.S. issuers, and 105%, in the case of securities on non-U.S. issuers. 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.

At June 30, 2001, the KCERA had no credit risk exposure to borrowers because the collateral exceeded the amount borrowed. At June 30, 2001 and 2000, the securities lending transactions collateralized by cash had a fair value of \$56,264,569 and \$22,457,236, respectively, and a collateral value of \$57,825,469 and \$23,605,906, respectively. At June 30, 2001 and 2000, the securities lending transactions collateralized by securities or letters of credit had a fair value of \$7,398,205 and \$3,186,376, respectively, and a collateral value of \$7,651,963 and \$3,217,598, 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 instruments to hedge its exposure to certain risks and to manage cash assets. In accordance with GASB, these derivative instruments include forward currency contracts, call options, and repurchase agreements. The risks of using derivative instruments include the risk that a counterparty to a contract will be unable to meet the terms of the contracts, and adverse movements in exchange rates or interest rates. The KCERA utilizes forward currency contracts for the purpose of hedging against adverse movements in exchange rates and to facilitate settlement of transactions in foreign securities. Gains and losses from the currency hedging are included in net investment income from foreign currency transactions. Included in net investment income are gains and losses from foreign currency transactions. The net foreign currency (loss) gain in fiscal years 2001 and 2000 are \$(3,155,629) and \$1,095,083, respectively.

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

	June 30, 2001	June 30, 2000
Forward Currency Contracts (Receivables)	\$26	\$66,750
Forward Currency Contracts (Payables)	(27)	(67,391)
Call Options	2	7,687
Repurchase Agreements	0	44,000
Total Derivatives	\$ 1	\$ 51

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.

The employer contribution rates have been determined using the Projected Unit Credit Cost method. The employer contribution is 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 22 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.

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

NOTE 5 – FUNDING POLICY (Continued)

Employer contributions are based on total compensation. For valuation purposes, total compensation is estimated to be base pay plus 2.4% for General Members, and base pay plus 9.7% for Safety Members. 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.

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

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. The MOU is reflected in the calculation for the required employer contribution rates as of July 5, 1997.

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 rate in effect at June 30, 2001. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rate	Employer Rates
General Members	4.85% - 11.16%	11.60%
Safety Members	5.44% - 11.92%	17.05%
Special Districts (Electing MOU)	4.85% - 11.16%	13.92%
Special Districts (Not Electing MOU)	4.85% - 11.16%	9.90%

Total contributions made during fiscal years 2001 and 2000, respectively, amounted to \$50,241,044 and \$43,721,525 of which \$41,067,487 and \$37,575,583 were contributed by the County of Kern and Special Districts, and \$9,173,557 and \$6,145,942 were contributed by members.

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

NOTE 5 – FUNDING POLICY (Continued)

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. For fiscal years 2001 and 2000, respectively, \$0 and \$18,190,033 of excess earnings were added to the Supplemental Retiree Benefit Reserve (SRBR) and were not available for the regular benefits program.

NOTE 8 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS

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

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

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

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, 2001, the Board of Retirement designated 2% of the Plan's assets to be reserved for contingencies.

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

NOTE 6 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS (Continued)

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2001 and 2000 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	<u>2001</u>	<u>2000</u>
Members' deposit reserve, general	\$ 105,106,876	\$ 97,453,892
Members' deposit reserve, safety	59,467,733	58,319,390
Members' deposit reserve, special district	8,724,325	8,284,672
Employer's advance reserve, general	204,500,988	191,714,108
Employer's advance reserve, safety	176,470,322	181,581,785
Employer's advance reserve, special district	13,272,489	12,677,187
Cost of living reserve, general	203,184,858	189,409,737
Cost of living reserve, safety	164,841,178	154,339,532
Cost of living reserve, special district	3,284,036	2,884,250
Retired members' reserve, general	330,083,177	305,734,637
Retired members' reserve, safety	192,080,517	162,874,571
Supplemental retiree benefit reserve (SRBR)	160,970,734	155,079,380
Contingency reserve	20,173,537	33,334,886
	<hr/>	<hr/>
Total reserves at five-year smoothed market actuarial valuation	1,642,160,770	1,553,688,027
Market stabilization reserve*	(100,079,727)	113,056,289
	<hr/>	<hr/>
Total net assets held in trust for pension benefits	<u>\$ 1,542,081,043</u>	<u>\$ 1,666,744,316</u>

*This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2001 and 2000.

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

NOTE 10- COMMITMENTS AND CONTINGENCIES

Capital Commitments

On February 11, 1998, the KCERA's Board of Retirement approved a \$20 million allocation to two private equity fund-of-funds managers', Pantheon Ventures, Inc. (\$5 million) and Abbott Capital Management (\$15 million). On April 15, 1998, the Board of Retirement revised the allocation to private equity fund-of-funds from \$20 million to \$30 million (\$22.5 million to Abbott Capital Management and \$7.5 million to Pantheon Ventures, Inc.). Private equity investments have a long life cycle involving commitment, drawdowns, maturation, and stock distribution. Effective exposure will likely reach maximum at four to six years and the effective allocation over this time is about 65% of the total commitment. As of June 30, 2001, the KCERA funded \$19,555,075 of these capital commitments.

New Benefit Formula for Safety Members

Effective January 1, 2001, the Board of Supervisors from the County of Kern adopted Government Code Section 31664.1 enhancing the benefit accrual rate for safety members of the plan from 2.0% per year of service to 3.0% per year of service on a retroactive basis. This formula improves retirement benefits by as much as 50% for eligible safety members. Since this benefit enhancement took effect after the December 31, 2000 actuarial valuation, it is not included in the calculation of the funded position or the recommended contribution rates for fiscal year 2001-02.

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. 23460-7NFT (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*").

As a consequence of *Ventura*, the Board of Retirement of the Kern County Employees' Retirement Association (hereafter "KCERA Board") adopted a resolution specifying which elements of pay are included in "compensation earnable". The KCERA Board further determined that inclusion of elements of pay previously excluded would be effective on a prospective basis commencing October 1, 1997, which was the day on which the *Ventura* decision became final. The cost of the expanded definition of "compensation earnable" adopted by the KCERA Board was estimated by its actuary at \$26.4 million and is recognized in the KCERA's most recent actuarial valuation dated December 31, 2000.

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.

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

NOTE 10– COMMITMENTS AND CONTINGENCIES (Continued)

On September 28, 2001, the trial court before which the KLEA litigation was pending approved a settlement entered into by all the parties. 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) an increase in the annual cost of living allowance from 2% to 2.5% commencing April 1, 2002.

The cost of the settlement is being funded in part by increased employer contributions and in part by KCERA’s Supplemental Retiree Benefit Reserve fund. The cost associated with the increases in retirement allowances because of the addition of pay items to “compensation earnable” and providing the increased benefits on a retroactive basis is approximately \$25 million. That cost is borne mainly by the employers, except to the extent that member contributions may be collected prospectively from active members receiving the added pay items. The present value of the increase in the annual cost of living adjustment from 2% to 2.5% is estimated by KCERA’s actuary to be \$85.9 million. Of that amount, KCERA will fund \$64.7 million from the Supplemental Retiree Benefit Reserve and the remaining \$21.2 million will be funded from either employer contributions or a combination of employer and member contributions, depending on the currently operative employee bargaining agreement.

Other

On August 8, 2001, the Board of Retirement approved a new mandate for an Emerging Markets Growth Fund, a fund of Capital Guardian, Inc. On October 16, 2001, \$34.8 million from Barclays Global Investors (BGI) was reinvested in the new emerging markets mandate. As these two IFC Equity Index funds held with BGI had substantially deteriorated as of trade date September 28, 2001, the KCERA therefore realized a loss of \$21.2 million dollars.

NOTE 9– 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, 2001 AND 2000

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)
12/31/00	\$1,434,873	\$1,388,984	\$(45,889)	103.3%	\$283,282	-16.2%
12/31/99	1,325,928	1,324,662	(1,267)	100.1%	297,738	-0.4%
12/31/98	1,203,670	1,179,753	(23,917)	102.0%	282,251	-8.5%
12/31/97	1,113,914	1,140,019	26,105	97.7%	266,640	9.8%
12/31/96	1,003,076	1,029,574	26,498	97.4%	273,351	9.7%
12/31/95	920,750	952,880	32,130	96.6%	270,454	11.9%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2001	\$41,067,487	100%
2000	37,575,583	100%
1999	40,159,103	100%
1998	35,420,517	100%
1997	27,902,854	100%
1996	38,569,856	661%*

*Percentage reflects pension obligation bond proceeds totaling \$224.5 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, 2001 AND 2000

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, 2000 is as follows:

Valuation date:	December 31, 2000
Actuarial cost method:	Projected unit credit method
Amortization method:	Level percent closed
Remaining amortization period: ¹	21 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	8.0%
Projected salary increases:	5.3%
Includes inflation at:	4.0%
Annual increase in system benefits cap:	2.0%

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

As a result of the December 31, 2000 actuarial valuation, changes have been made in the economic assumptions. The changes in actuarial assumptions since prior year are as follows:

Economic Assumptions:

Asset valuation method from five-year average ratio of adjusted market value to adjusted book value to a five-year spread gain method.

See accompanying independent auditors' report.

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPORTING SCHEDULES

**Schedule of Administrative Expenses
For the Years Ended June 30, 2001 and 2000**

	2001	2000
<i>Personnel Services:</i>		
Salaries & Wages	\$ 624,620	\$ 540,170
Employee Benefits	240,800	200,277
Total Personnel Services	<u>865,420</u>	<u>740,447</u>
<i>Professional Services:</i>		
Legal Counsel	447,505	304,666
Audit	41,897	38,621
Medical Hearing Officers	31,103	28,857
Data Processing	17,597	20,044
Other Professional Services	15,389	16,523
Total Professional Services	<u>553,491</u>	<u>408,711</u>
<i>Communication:</i>		
Postage	19,275	10,854
Printing	2,909	5,582
Telephone	13,952	13,908
Transportation & Travel	82,635	66,589
Publications/Legal Notifications	9,760	1,225
Total Communication	<u>128,531</u>	<u>98,158</u>
<i>Miscellaneous:</i>		
Building & Equipment Leases	15,801	43,119
Office Expense	39,350	56,521
Insurance	35,773	5,999
Maintenance	1,929	1,823
Memberships	6,901	6,354
Special Departmental Expense	2,277	1,800
Other Services	85,470	134,751
Pension Disbursements	97,843	87,683
Depreciation and Amortization	62,930	16,483
Utilities	7,710	0
Total Miscellaneous	<u>355,984</u>	<u>354,533</u>
Total Administrative Expenses	<u>\$1,903,426</u>	<u>\$1,601,849</u>

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPORTING SCHEDULES (Continued)

Schedule of Investment Expenses For the Years Ended June 30, 2001 and 2000

	2001	2000
<i>Investment Manager Fees:</i>		
Equity		
Domestic	\$ 973,273	\$ 1,890,595
International	684,814	1,145,964
Fixed Income		
Domestic	940,745	931,297
Global	164,598	46,513
Mortgage Loans	5,401	198,422
Real Estate		
Investments in Real Estate	253,827	305,088
Individual Properties	43,590	50,803
Securities (REITs)	121,250	131,614
Total Investment Manager Fees	3,187,498	4,700,296
 <i>Other Investment Expenses:</i>		
Custodian	222,130	217,494
Actuarial Valuation	56,124	50,500
Investment Consultant	139,000	125,000
Legal Fees	2,689	0
Total Other Investment Expenses	419,943	392,994
 Total Fees and Other Investment Expenses	3,607,441	5,093,290
 <i>Security Lending Rebates and Bank Charges</i>	863,243	1,256,013
 Total Investment Expenses	\$ 4,470,684	\$ 6,349,303

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, 2001 and 2000**

<i>Individual or Firm</i>	<i>Nature of Service</i>	<i>Commission / Fee</i>	
		2001	2000
Brown Armstrong	External Auditors/Tax Advisor	\$ 41,897	\$ 39,867
Morrison & Foerster, LLP	Legal Counsel	276,513	209,668
Kern County Counsel	Legal Counsel	153,154	97,471
Klein Denatale et al.	Legal Counsel	19,507	8,488
Watson Wyatt & Company	Actuarial Services	40,902	74,068
Public Pension Professionals, Inc.	Actuarial Services	37,700	0
Cortex Applied Research, Inc.	Strategic Plan Projects	71,132	71,132
Total Payments to Consultants		\$ 605,190	\$ 533,553

(A schedule of Investment Fees and Services is presented on page 50 in the Investment Section.)

See accompanying independent auditors' report.

INVESTMENT SECTION

October 15, 2001

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, 2001.

For the fiscal year ended June 30, 2001, the KCERA's retirement fund had an investment loss of 5.23% and ended the year with total assets of \$1.55 billion.

The retirement funds are managed according to guidelines codified in the KCERA's Statement of Investment Goals, Objectives, and Policies. This statement is reviewed periodically and revisions were most recently accepted by the KCERA Board of Retirement in March 2001.

At fiscal year end, the KCERA's retirement fund's asset allocation was in compliance with the target allocations selected by this Board in December 1999. In addition, all managers were in compliance with their guidelines on June 30, 2001.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Domestic Equities	40%	37%
International Equities	20%	18%
Fixed Income	35%	36%
Real Estate	5%	7%
Cash	0%	2%

Performance was acceptable, despite a turbulent year for both the fixed income and equity markets:

- The KCERA's total fund returned -5.23% for the year, versus its policy's return of -6.73%. Outperformance versus policy was largely due to the slight underweight on domestic equities and the overweight on fixed income relative to the policy targets.
- The KCERA's equity composite returned -12.43% versus a return of -15.34% for the Wilshire 5000. In a year characterized by growing economic concerns and the remarkable collapse of the technology sector, superior performance by some of the KCERA's active equity managers lessened the impact of the market trend.

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



- The KCERA's fixed income composite returned 9.75% versus 11.23% for the Lehman Aggregate Bond Index. As the economy worsened and the Federal Reserve cut interest rates several times, high yield in particular dramatically underperformed the broader market, contributing to the KCERA's results.
- The KCERA's international equity composite fell -23.11% while the MSCI Europe, Australia, and Far East (EAFE) Index returned -23.61%. European markets have been substantially impacted over the last year by the deteriorating economic cycle in the United States, while Asian markets continue to be negatively impacted by the ongoing recession in Japan and renewed concerns about the Japanese banking industry.

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

Sincerely,

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

Michael C. Schlachter
Vice President

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OUTLINE OF INVESTMENT POLICIES

Adopted by the Board of Retirement March 8, 2001

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.

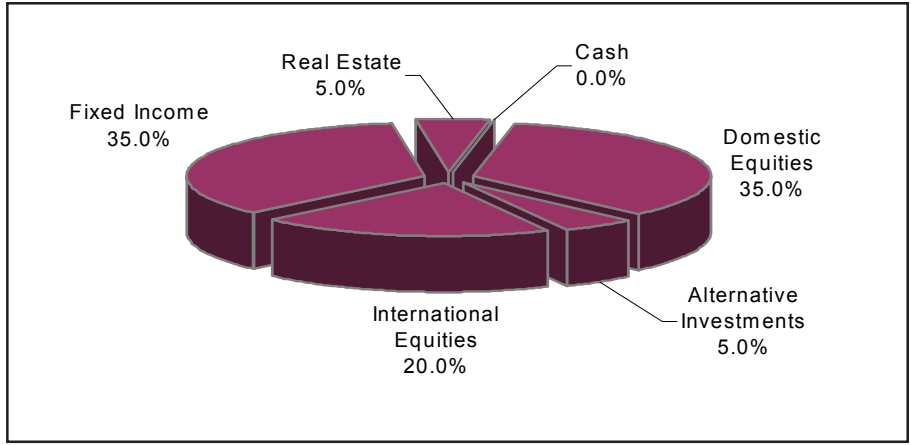
The target asset allocation and the actual asset allocation at June 30, 2001 are as follows:

	<u>Actual*</u>	<u>Target</u>	<u>Target Ranges</u>	
			<u>Minimum</u>	<u>Maximum</u>
Domestic Equities	36.6%	35.0%	31.2%	39.2%
International Equities	17.6%	20.0%	15.0%	25.0%
Fixed Income	36.0%	35.0%	33.0%	37.0%
Real Estate	6.7%	5.0%	0.0%	10.0%
Alternative Investments	1.4%	5.0%	0.0%	5.2%
Cash	1.6%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

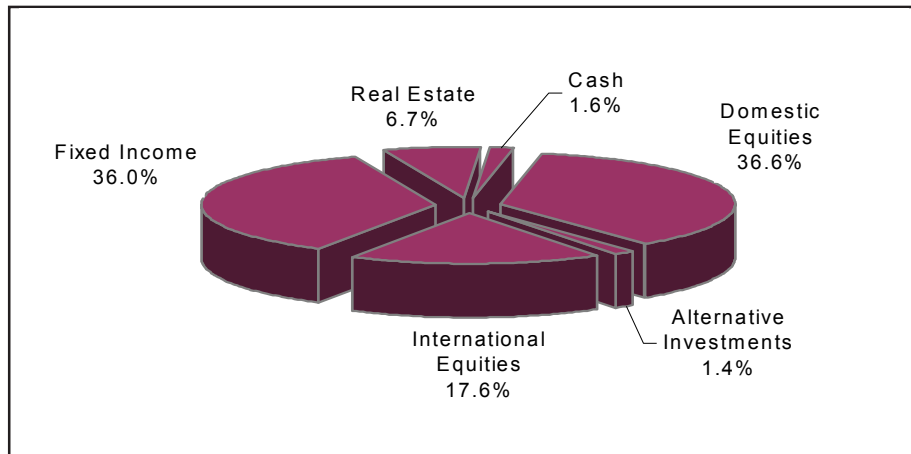
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ASSET ALLOCATION (Continued)

June 30, 2001 Target Asset Allocation



June 30, 2001 Actual Asset Allocation*



*The June 30, 2001 actual asset allocation is based upon Wilshire Associates's June 30, 2001 Kern County Employees' Retirement Association Investment Performance Analysis.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Results

Returns for Periods Ended June 30, 2001

	Current Year	Annualized		
		3-year	5-year	10-year
Total Portfolio:	-5.43	4.70	9.22	10.20
*Benchmark: Composite Policy	-6.23	4.45	8.96	11.84
TUCS Master Trust Median	-4.70	5.38	11.11	11.94
Domestic Equity:	-12.43	3.98	13.34	14.17
Benchmark: Wilshire 5000 Index	-15.34	3.50	13.06	14.57
TUCS Equity Median	-9.44	6.07	14.51	15.70
International Equity:	-23.11	0.79	2.16	6.20
**Benchmark: Custom Index	-23.82	1.20	3.19	5.82
Benchmark: MSCI ACWI ex-U.S. Index	-23.61	-1.25	2.89	6.38
TUCS International Equity Median	-21.71	2.27	5.52	8.67
Fixed Income:	9.75	5.87	7.01	7.97
Benchmark: Lehman Aggregate Index	11.23	6.25	7.48	7.87
TUCS Fixed Income Median	11.10	6.06	7.76	8.47
Real Estate:	17.07	8.18	9.55	5.15
Benchmark: 50% Wilshire Real Estate Securities Index / 50% Wilshire Real Estate Fund Index	16.79	8.72	12.00	7.60
Cash & Cash Equivalents	5.74	5.64	5.48	5.18
Benchmark: 91-Day T-Bill	5.89	5.34	5.39	5.01

*Kern County Composite Policy:

39%	Wilshire 5000
27%	Lehman Aggregate
5%	Merrill Lynch High Yield Master
15%	MSCI EAFE
5%	IFC Investable Emerging Markets Composite
8%	50% WRE Securities Fund Index / 50% WRE Fund Index
1%	91-Day T-Bills
100%	

**Kern County International Equity Composite:

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

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, 2001

Investment Managers

DOMESTIC EQUITY

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

Fidelity Management Trust Company
Boston, MA

Pacific Investment Management Company
Newport Beach, CA

Rothschild Asset Management, Inc.
New York, NY

Westridge Capital Management, Inc.
Santa Barbara, CA

INTERNATIONAL EQUITY

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

HSBC Asset Management, Inc.
New York, NY

REALESTATE

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
Philadelphia, 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

KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Schedule of Investment Fees and Services For the Years Ended June 30, 2001 and 2000

	2001	2000
<i>Investment Managers' Fees</i>		
Domestic Equity Managers:		
Barclays Global Investors, N.A.	\$ 52,785	\$ 57,622
Fidelity Management Trust Company	203,219	295,673
Rothschild Asset Management, Inc.	216,379	493,954
Westridge Capital Management, Inc.	<u>500,890</u>	<u>1,043,346</u>
Total Domestic Equity Managers	<u>973,273</u>	<u>1,890,595</u>
International Equity Managers:		
Barclays Global Investors, N.A.	414,897	461,141
HSBC Asset Management	<u>269,917</u>	<u>684,823</u>
Total International Equity Managers	<u>684,814</u>	<u>1,145,964</u>
Domestic Fixed Income Managers:		
Heitman Capital Management Corp.	5,401	198,422
Hyperion Asset Management, Inc.	258,114	254,093
Mellon Bank	62,504	81,826
W.R. Huff Asset Management Co., LLC	<u>620,127</u>	<u>595,378</u>
Total Domestic Fixed Income Managers	<u>946,146</u>	<u>1,129,719</u>
Global Fixed Income Managers:		
Fiduciary Trust Company International	10,602	46,513
Goldman, Sachs & Co.	<u>153,996</u>	<u>0</u>
Total Domestic Fixed Income Managers	<u>164,598</u>	<u>46,513</u>
Real Estate Managers:		
Fidelity Real Estate Asset Manager	253,827	305,088
Heitman Capital Management Corp.	43,590	50,803
LaSalle Securities Limited	<u>121,250</u>	<u>131,614</u>
Total Real Estate Managers	<u>418,667</u>	<u>487,505</u>
Total Investment Managers' Fees	<u>3,187,498</u>	<u>4,700,296</u>
<i>Custodial Fees</i>		
Bankers Trust Company	156,382	172,407
Barclays Global Investors, N.A.	0	45,087
The Northern Trust Company	<u>65,748</u>	<u>0</u>
Total Custodial Fees	<u>222,130</u>	<u>217,494</u>
<i>Actuarial Fees</i>		
Watson Wyatt & Company	18,424	50,500
Public Pension Professionals, Inc.	<u>37,700</u>	<u>0</u>
Total Actuarial Fees	<u>56,124</u>	<u>50,500</u>
<i>Investment Consultant Fees</i>		
Wilshire Associates, Inc.	<u>139,000</u>	<u>125,000</u>
<i>Legal Fees</i>		
Kern County Counsel	<u>2,689</u>	<u>0</u>
<i>Security Lending Fees</i>		
Bankers Trust Company	812,216	1,256,013
The Northern Trust Company	<u>51,027</u>	<u>0</u>
Total Security Lending Fees	<u>863,243</u>	<u>1,256,013</u>
Total Investment Fees and Services	<u>\$ 4,470,684</u>	<u>\$ 6,349,303</u>

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Fees and Commissions For the Year Ended June 30, 2001

Fees:

	Assets under management	Fees
Investment managers' fees:		
Domestic equity managers	\$ 482,516,952	\$ 973,273
International equity managers	272,566,755	684,814
Fixed income managers	547,784,689	1,110,744
Real estate managers	104,409,828	418,667
Total investment managers' fees	<u>\$ 1,407,278,224</u>	<u>\$ 3,187,498</u>
Other investment service fees:		
Custodial fees	-	\$ 222,130
Actuarial fees	-	56,124
Investment consultant fees	-	139,000
Legal fees	-	2,689
Security lending fees	-	863,243
Total investment service fees	-	<u>\$ 1,283,186</u>

Commissions:

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
A.B. WATLEY, INC.	0.00	10,000.000	0.0000
ABD SECURITIES CORPORATION	280.00	5,600.000	0.0500
ABEL NOSER CORP.	1,623.80	97,280.000	0.0167
ABN AMRO	567.30	27,431.000	0.0207
ABN AMRO ASIA HONG KONG	2,024.01	92,000.000	0.0220
ABN AMRO ASIA SERVICES (SINGAPORE)	319.82	25,200.000	0.0127
ABN AMRO AUSTRALIA, SYDNEY	146.00	4,533.000	0.0322
ABN AMRO SECURITIES (USA) INC	1,186.00	30,100.000	0.0394
ADAMS HARKNESS & HILL; INC	95.00	6,400.000	0.0148
BAIRD (ROBERT W.) & CO.; INC.	3,322.00	83,650.000	0.0397
BANCAMERICA ROBERTSON STEPHENS	1,677.00	33,200.000	0.0505
BARING SECURITIES INC	1,812.00	36,100.000	0.0502
BEAR, STEARNS, SECURITIES CORP	2,044.40	114,800.000	0.0178
BERNSTEIN (SANFORD C) & CO INC	1,573.00	38,600.000	0.0408
BLAIR, WILLIAM & CO.	10.00	200.000	0.0500
B-TRADE SERVICES LLC	344.15	40,445.000	0.0085
BUCKINGHAM RESEARCH	4,038.00	67,300.000	0.0600
BUNTING	67.20	2,100.000	0.0320
CANTOR; FITZGERALD & CO.; INC.	2,429.00	243,100.000	0.0100

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
CAPITAL INSTITUTIONAL SVC	240.00	9,000.000	0.0267
CHAPMAN & CO	450.00	9,000.000	0.0500
CHICAGO CORPORATION	3,197.00	56,000.000	0.0571
CIBC OPPENHEIMER CORP	4,706.60	93,600.000	0.0503
CIBC WOODGUNDY	137.60	4,300.000	0.0320
CIMB SECS BERHAD KUALA LUMPUR	72.57	29,000.000	0.0025
CITATION GROUP	965.00	24,500.000	0.0394
CORRESPONDENT SERVICES CORP	3.00	100.000	0.0300
COUNTY SECURITIES CORP USA	1,280.00	31,500.000	0.0406
COWEN & CO	6,999.00	195,200.000	0.0359
CREDIT LYONNAIS SECS SINGAPORE	1,423.13	310,800.000	0.0046
CSFB AUSTRALIA EQUITIES LTD MELBOUR	794.67	11,247.000	0.0707
DAIN RAUSCHER	145.00	2,900.000	0.0500
DAIWA SECS CO LTD TOKYO	497.69	3,000.000	0.1659
DAIWA SECS HONG KONG	465.84	6,700.000	0.0695
DAVIDSON (D.A.) & CO., INC.	1,446.00	38,300.000	0.0378
DEUTSCHE BANC ALEX, BROWN INC.	2,205.00	52,000.000	0.0424
DEUTSCHE BANK AG SYDNEY	912.98	63,608.000	0.0144
DEUTSCHE BANK HONG KONG	1,267.18	13,000.000	0.0975
DEUTSCHE SECURITIES ASIA LTD, H.K.	1,882.26	110,000.000	0.0171
DOMINION SECURITIES / AMES INC	763.20	22,800.000	0.0335
DONALDSON LUFKIN & JENRETTE SECURITIES CORP	2,700.00	45,000.000	0.0600
DRESDNER KLEINWORT BENSON	3,696.93	319,515.000	0.0116
DRESDNER SECURITIES	60.00	1,200.000	0.0500
EBERSTADT (F.) & CO., INC.	2,321.00	39,900.000	0.0582
EDWARDS (A.G.) & SONS, INC.	7,091.00	143,500.000	0.0494
ELKINS-MCSHERRY	12.00	600.000	0.0200
EQUITABLE SECURITIES CORP	1,956.00	32,600.000	0.0600
ERNST & CO	373.00	18,650.000	0.0200
FACTSET DATA SYSTEMS; INC	345.00	6,900.000	0.0500
FIRST ALBANY CORPORATION	135.00	2,700.000	0.0500
FIRST BOSTON CORPORATION	2,086.60	56,932.000	0.0367
FIRST MARATHAN SECURITIES	9.60	300.000	0.0320
FIRST OPTIONS OF CHICAGO	0.00	7,800.000	0.0000
FIRST TENNESSEE SECURITIES	735.00	12,300.000	0.0598
FIRST UNION CAPITAL MARKETS CLEARANCE	4,032.00	87,000.000	0.0463
FOX-PITT BELTON LONDON	4,294.00	84,300.000	0.0509
GERARD KLAUER	15.00	300.000	0.0500
GOLDMAN SACHS & CO NW YK DTC 005	1,384.06	50,700.000	0.0273
GOLDMAN SACHS & CO.	7,640.60	240,200.000	0.0318
GOLDMAN SACHS & CO. / HONG KONG	780.00	13,000.000	0.0600
GOLDMAN SACHS INTL LTD LONDON	1,440.60	37,000.000	0.0389
GREEN LINE INVESTORS SERVICE	92.80	2,900.000	0.0320

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
GREEN STREET ADVISORS INC.	3,600.00	102,400.000	0.0352
HAMBRECHT & QUIST INCORPATION	110.00	2,200.000	0.0500
HERZOG; HEINE; GEDULD; INC.	0.00	68,300.000	0.0000
HOENIG & CO	715.00	15,100.000	0.0474
IBJ TOKYO	0.00	24,000.000	0.0000
INDOSUEZ W.I. CARR PBT LTD HONG KONG	108.68	2,500.000	0.0435
ING BARING SECURITIES (JAPAN) TOKYO	355.41	9,400.000	0.0378
ING BARINGS INT'L	1,304.50	44,590.000	0.0293
ING BARINGS SECS HK LTD, HONG KONG	1,867.46	131,200.000	0.0142
INSTINET CORPORATION	3,553.00	136,300.000	0.0261
INTERSTATE SECURITIES CORP	275.00	5,500.000	0.0500
INVESTMENT TECHNOLOGY GRP INC.	19,590.94	1,080,617.000	0.0181
ITG AUSTRALIA LTD, MELBOURNE	32.69	5,237.000	0.0062
JP MORGAN SEC EQUITY GROUP	814.00	19,200.000	0.0424
JANNEY; MONTGOMERY; SCOTT INC	2,334.00	38,900.000	0.0600
JARDINE FLEMING HONG KONG	2,468.13	108,700.000	0.0227
JB WERE & SON MELBOURNE	2,163.41	159,021.000	0.0136
JEFFERIES & COMPANY; INC	4,255.25	253,905.000	0.0168
JONES & ASSOCIATES	4,149.00	112,200.000	0.0370
JP MORGAN SECURITIES AUSTRALIA LTD	1,078.23	70,445.000	0.0153
JP MORGAN SECURITIES NW YK DTC 60	0.00	1,120,000.000	0.0000
JP MORGAN SYDNEY	71.35	4,550.000	0.0157
KEEFE BRUYETTE & WOODS INC	3,096.00	64,400.000	0.0481
KING (C.L.) & ASSOCIATES; INC.	4,191.00	72,300.000	0.0580
KLEINWORT BENSON SECS (ASIA) HONG KONG	979.81	44,600.000	0.0220
KLEINWORT BENSON SECS LONDON	929.30	4,066.000	0.2286
KNIGHT SECURITIES L.P.	0.00	39,700.000	0.0000
LAZARD FRERES & CO	220.00	4,400.000	0.0500
LEGG MASON	2,870.00	56,750.000	0.0506
LEHMAN BROTHERS INC.	7,944.00	183,300.000	0.0433
LEWCO SEC AGT/WERTHEIM	102.00	46,400.000	0.0022
LYNCH JONES	35,459.27	1,058,177.000	0.0335
MCDONALD & COMPANY SECURITIES	13,502.40	264,240.000	0.0511
MCLEOD YOUNG WEIR INC	208.00	6,500.000	0.0320
MERRILL LYNCH	3,778.86	588,412.000	0.0064
MERRILL LYNCH & CO HONG KONG	28.55	6,000.000	0.0048
MERRILL LYNCH EQ AUSTRALIA MELBOURNE	1,446.06	62,734.000	0.0231
MERRILL LYNCH EQUITIES SYDNEY	603.58	36,232.000	0.0167
MERRILL LYNCH FAR EAST HONG KONG	4,758.38	1,114,600.000	0.0043
MERRILL LYNCH INTERNATIONAL LONDON	137.08	4,840.000	0.0283
MERRILL LYNCH PIERCE FENNER & SMITH	6,346.22	178,784.000	0.0355
MERRILL LYNCH PROF CLR CRP	720.00	14,400.000	0.0500
MIDWEST	540.00	9,000.000	0.0600

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
MILLER TABAK HIRSCH	16.00	400.000	0.0400
MIZUHO INTL LONDON	0.00	18,000.000	0.0000
MIZUHO SECURITIES ASIA LTD HONG KONG	513.49	108,000.000	0.0048
MIZUHO SECURITIES CO LTD TOKYO	259.63	8,000.000	0.0325
MONTGOMERY SECURITIES	2,253.00	54,600.000	0.0413
MORGAN GRENFELL (EQUITIES) LONDON	1,893.54	84,500.000	0.0224
MORGAN STANLEY & CO.; INC	5,819.72	154,050.000	0.0378
MORGAN STANLEY INTL LONDON	0.00	35,700.000	0.0000
MORGAN; KEEGAN & COMPANY INC.	468.00	7,800.000	0.0600
NATIONAL INVESTOR SERVICES	134.40	4,200.000	0.0320
NATIONS BANC MONT SEC LLC SAN F	2,332.00	74,200.000	0.0314
NDB CAPITAL MARKETS	0.00	49,200.000	0.0000
NESBITT BURNS SECURITIES	188.80	5,900.000	0.0320
NEUBERGER & BERMAN	440.00	17,600.000	0.0250
NOMURA INTERNATIONAL LTD HONG KONG	624.79	6,614.000	0.0945
OPPENHEIMER & CO. INC.	3,215.00	55,000.000	0.0585
PAINE WEBBER JACKSON & CURTIS	2,645.00	47,900.000	0.0552
PIPER;JAFFRAY & HOPWOOD INC	2,645.00	77,000.000	0.0344
PRUDENTIAL BACHE SECURITIES	6,942.00	155,800.000	0.0446
RAYMOND; JAMES & ASSOCIATES INC	3,103.00	65,400.000	0.0474
ROBERTSON STEPHENS & CO. L.R.	845.00	28,100.000	0.0301
ROBINSON HENDERSON	97.50	3,900.000	0.0250
ROBINSON HUMPHREY	1,025.00	20,500.000	0.0500
SALOMON BROS INTL LTD LONDON	0.00	20,740.000	0.0000
SALOMON BROTHERS NEW YORK	31,222.04	1,777,161.000	0.0176
SALOMON SMITH BARNEY NY DTC 418	229.45	46,000.000	0.0050
SBC WARBURG ASIA LTD	468.22	42,422.000	0.0110
SBC WARBURG D/R AUS. EQU. MELBOURNE	2,444.51	116,215.000	0.0210
SBC WARBURG DILLON READ INC	6,447.00	128,812.000	0.0500
SCOTIA MCLEOD INC.	249.60	7,800.000	0.0320
SCOTT & STRINGFELLOW INVESTMENT	2,015.00	73,600.000	0.0274
SG SECURITIES SINGAPORE	216.78	6,400.000	0.0339
SHERWOOD SECURITIES CORP	220.00	289,273.000	0.0008
SMITH BARNEY INC.	5,130.00	125,100.000	0.0410
SOUNDVIEW FINANCIAL GROUP	85.00	8,000.000	0.0106
STANDARD AND POORS SECURITIES	720.00	14,400.000	0.0500
STATE STREET BROKERAGE SERVICE	130.00	2,600.000	0.0500
THE CITATION GROUP	1,602.40	32,048.000	0.0500
THOMAS WEISEL PARTNERS LLC	365.00	9,300.000	0.0392
TROSTER SINGER STEVENS ROTHCH.	0.00	52,500.000	0.0000
UBS (AUSTRALIA) LTD MELBOURNE	1,335.54	100,630.000	0.0133
UBS AG LONDON	552.00	27,600.000	0.0200
UBS SECURITIES	155.00	8,700.000	0.0178

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
UBS WARBURG (ASIA) LTD HONG KONK	17,211.55	964,507.000	0.0178
UBS WARBURG DILLON READ LLC	3,015.00	68,900.000	0.0438
UBS WARBURG PTE LTD SING	37.76	700.000	0.0539
Unassigned Broker	8,916.09	286,131.910	0.0312
UNDERWOOD; NEUHAUS & COMPANY	648.00	10,800.000	0.0600
US CLEARING INSTITUTIONAL TRADING	18.00	1,100.000	0.0164
WACHOVIA SECURITIES	330.00	11,600.000	0.0284
WATERHOUSE SECURITIES INC.	41.60	1,300.000	0.0320
WEEDEN & CO.	0.00	700.000	0.0000
WEISS PECK AND GREER	115.00	2,300.000	0.0500
WEST LB SEC HONG KONG	722.47	15,800.000	0.0457
WESTDEUTSCHE LANDESBANK GIROZENT HK	81.97	2,000.000	0.0410
WOOD GUNDY	395.60	10,900.000	0.0363
TOTAL	\$351,900.60	15,970,394.91	

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Largest Stock Holdings (By Market Value)

As of June 30, 2001

Shares	Stocks	Market Value
67,900	General Electric Co. (U.S.)	\$ 3,310,125
38,100	Microsoft Corp.	2,781,300
69,805	Starwood Hotels & Resorts Worldwide, Inc.	2,602,330
77,400	Pub Storage, Inc.	2,294,910
51,225	Pfizer, Inc.	2,051,561
34,060	CitiGroup, Inc.	1,799,730
19,202	Amer. Int'l. Group, Inc.	1,651,372
37,587	SBC Communications, Inc.	1,505,735
149,000	Hutchison Whampoa HKD0.25	1,504,346
28,200	AOL Time Warner, Inc.	1,494,600

Largest Bond Holdings (By Market Value)

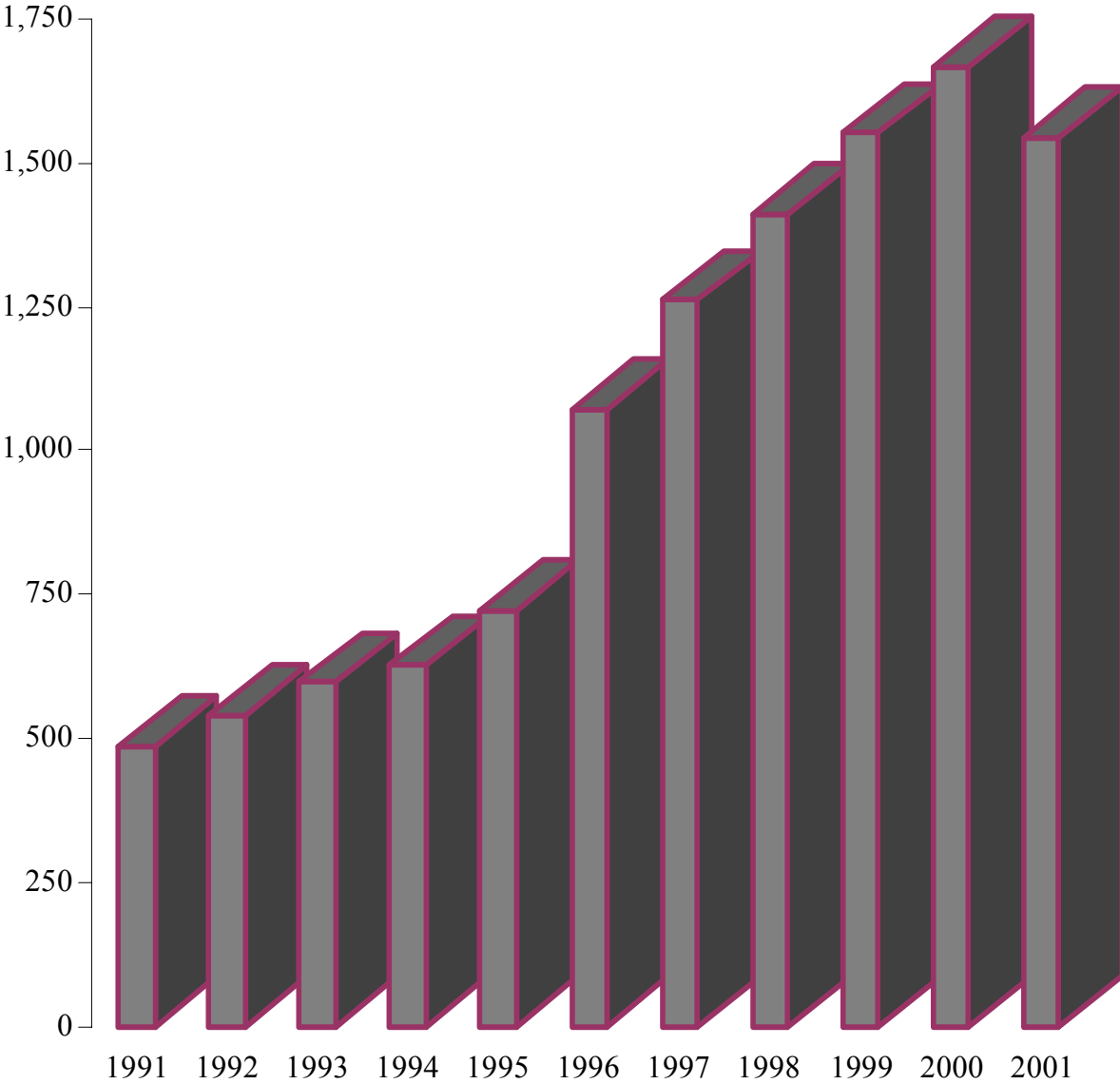
As of June 30, 2001

Par	Bonds	Market Value
28,000,000	FNMA 15 Years Pass-Throughs 6.500% Settles July	\$ 28,070,000
10,000,000	GNMA TBA Pool 7.500% 30 Years July	10,253,100
6,600,000	U.S. Treasury Bonds 8.750% due 8/15/2020	8,739,852
8,282,932	FHLMC Group C46534 8.500% due 1/01/2031	8,691,777
8,500,000	Sears CR A/C Master TR II Ser 2000-4 due 10/18/2011	8,505,270
7,882,090	FHLMC Group C47520 8.000% due 2/01/2031	8,156,072
7,254,156	FHLMC Group C48567 8.000% due 3/01/2031	7,506,311
7,100,000	FNMA TBA Pool 6.500% 30 Years July	6,986,826
6,200,000	U.S. Treasury Bonds 6.875% due 8/15/2025	6,948,602
5,677,116	FNMA Pool #562512 8.000% due 2/01/2031	5,867,811

A complete list of portfolio holdings is available upon request.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Market Value Growth of Plan Assets
For Ten Years Ended June 30, 2001**



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Summary For the Year Ended June 30, 2001

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
<i>Equities</i>		
Common Stock	\$ 142,234	9.0%
S&P 500 Index Fund	202,479	12.9%
Small Cap Growth Index Fund	48,307	3.1%
Synthetic S&P 500 Strategies	166,882	10.6%
International Equities	47,630	3.0%
International Equity Index Funds	177,393	11.3%
Emerging Markets Index Funds	44,834	2.8%
Total Equities	829,759	52.7%
<i>Fixed Income</i>		
U.S. Treasuries & Agencies	116,752	7.4%
Call Options	1	0.0%
Corporate Bonds	82,851	5.3%
Government / Corporate Bond Index	113,186	7.2%
Agency Mortgage Backed Securities	156,529	9.9%
Asset Backed Securities	39,635	2.5%
Commercial Mortgage Backed Securities	41,105	2.6%
Co-Investments in Commercial Mortgages	9,031	0.6%
International Bonds	16,995	1.1%
Total Fixed Income	576,085	36.6%
<i>Real Estate</i>		
Public / Private Real Estate Investments	55,932	3.6%
Securities (REITs)	48,139	3.1%
Total Real Estate	104,071	6.6%
<i>Alternative Investments</i>	19,555	1.2%
<i>Cash & Short-Term Cash Investment Funds</i>	45,532	2.9%
Total Investments	\$ 1,575,002	100.0%

ACTUARIAL SECTION



**Public Pension
Professionals, Inc**

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

December 1, 2001

Board of Retirement
Kern County Employees' Retirement Association
1115 Truxtun Avenue
Bakersfield, CA 933014639
(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, 2000 by Public Pension Professionals, Incorporated. In preparing this valuation, we have employed generally accepted actuarial assumptions and methods to determine a sound value for the KCERA's assets, liabilities and future contribution requirements. In our opinion, the combined operation of the assumptions and methods applied in this valuation fairly represent past and anticipated future experience of KCERA and meet the parameters required by Government Accounting Standards Board Statement 25.

The financing objective of the system has been to reduce the unfunded actuarial accrued liability (UAAL) to zero over a 29-year period commencing with the December 31, 1992 valuation, while maintaining contribution rates that remain relatively level, as a percentage of payroll, from generation to generation. As of December 31, 2000, assets exceeded the accrued liabilities for benefits payable under the System. In other words, the UAAL is less than zero.

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 from past years was prepared by the prior actuary for KCERA.

P³ *Actuaries you can understand*

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.

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,



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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary of Actuarial Assumptions and Methods

Interest Rate:	8.0%
Salary Increase - Individual:	As shown in Table I.
Inflation Assumption:	4.0%
Asset Valuation Method:	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.
Funding Method:	The Projected Unit Credit Funding Method. The Unfunded Actuarial Accrued Liability is amortized over 29 years beginning in 1992. The additional liability incurred through the granting of Golden Handshake benefits are amortized over three years from the year in which they were granted.
Amortization Method:	Level percent closed.
Post-Retirement Mortality:	
A) General Members and Beneficiaries of General and Safety Members:	1994 Group Annuity Mortality Table, with ages set forward two years for male and female members.
B) Safety Members:	1994 Group Annuity Mortality Table, male, with no age adjustments.
C) Pensioners on Disability Retirement:	1981 Disability Mortality Table.
Proportion of Members with Spouses at Retirement:	80% of male employees and 50% of female employees are assumed married at retirement. Wives are assumed four years younger than their husbands.
Rate of Termination of Employment:	As shown in Table II.
Recent Changes adopted from the December 31, 2000 Actuarial Valuation:	Economic Assumption: Asset valuation method from five-year average ratio of adjusted market value to adjusted book value to a five-year spread gain method.

The KCERA retained a new actuary, Public Pension Professionals, Inc., to serve as actuary to the plan. 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, 2000.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**Assumed Rate of Salary Increase
As of December 31, 2000**

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/95	General	5,555	\$185,645,148	\$33,419	5.6%
	Safety	1,363	60,450,962	44,351	4.4%
	Total	6,918	246,096,110	35,573	6.4%
12/31/96	General	5,539	\$187,370,586	\$33,828	1.2%
	Safety	1,373	62,475,608	45,503	2.6%
	Total	6,912	249,846,194	36,147	1.6%
12/31/97	General	5,421	\$190,146,200	\$35,076	3.7%
	Safety	1,422	66,131,203	46,506	2.2%
	Total	6,843	256,277,403	37,451	3.6%
12/31/98	General	5,522	\$199,250,420	\$36,083	2.9%
	Safety	1,474	72,335,699	49,074	5.5%
	Total	6,996	271,586,119	38,820	3.7%
12/31/99	General	5,642	\$211,804,416	\$37,541	4.0%
	Safety	1,496	75,446,382	50,432	2.8%
	Total	7,138	287,250,798	40,242	3.7%
12/31/00	General	5,903	\$207,229,836	\$35,106	-6.5%
	Safety	1,581	76,052,708	48,104	-4.6%
	Total	7,484	283,282,544	37,822	-5.9%

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
1995	3,623	184	128	3,744	43,825,459	10.7%	11,706
1996	3,744	198	148	3,919	49,301,764	12.5%	12,580
1997	3,919	224	111	4,219	54,465,028	10.5%	12,909
1998	4,219	186	161	3,990	53,537,214	-1.7%	13,418
1999	3,990	213	132	4,159	58,467,114	9.2%	14,058
2000	4,159	222	148	4,233	62,656,284	7.2%	14,802

Solvency Test

Valuation Date	Aggregate Accrued Liabilities				Portion of Accrued Liabilities Covered by Reported Assets			
	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)
12/31/95	112,764,677	474,274,987	365,840,724	952,880,388	920,749,995	100%	100%	91%
12/31/96	125,406,170	536,613,809	367,554,164	1,029,574,143	1,003,075,890	100%	100%	93%
12/31/97	137,690,425	594,568,260	407,760,403	1,140,019,088	1,113,914,418	100%	100%	94%
12/31/98	147,543,099	585,569,646	446,640,502	1,179,753,247	1,203,670,449	100%	100%	100%
12/31/99	159,632,656	670,212,529	494,816,546	1,324,661,731	1,325,928,243	100%	100%	100%
12/31/00	152,866,205	689,790,937	546,326,563	1,388,983,705	1,434,872,718	100%	100%	100%

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	2000	1999	1998
Investment Performance Greater (Less) than Expected	\$30,711,362	\$42,603,978	\$16,880,143
New Entrants into System (Greater) Less than Expected	(2,203,016)	(2,507,511)	(1,955,189)
Individual Salary Increases (Greater) Less than Expected	46,256,288	14,520,247	2,834,084
Demographic Changes Greater (Less) than Expected	(20,031,534)	(10,686,247)	3,733,874
Change in Assumptions	(2,672,105)	(44,912,359)	(2,424,294)
Golden Handshake Benefits		(62,361)	
Data Corrections			32,799,713
Composite Gain (or Loss) During Year	\$52,060,995	\$(1,044,253)	\$51,868,331

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 1/60 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 1/50 of final compensation for each year of service, multiplied by Section 31664 law factors. This will change to 31664.1 beginning January 1, 2001. The change will be reflected in the 12/31/01 actuarial valuation.

For Members integrated with Social Security, the benefit is reduced by 1/60 for General Members, and 1/50 for Safety Members, of one-third of the first \$4,200 of Final Compensation for each year of Social Security coverage, multiplied by the applicable law factors.

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%).

Supplemental Retire Benefits Reserve (SRBR) Benefits

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

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		
2001	\$ 9,173,557	\$ 41,067,487	13.09%	\$ (99,791,394)	\$(49,550,350)
2000	6,145,942	37,575,583	12.45%	140,569,826	\$184,291,351
1999	5,446,223	40,159,103	14.06%	161,883,259	207,488,585
1998	4,403,959	35,420,517	13.07%	171,314,190	211,138,666
1997	9,725,046	27,902,854	10.58%	204,885,085	242,512,985
1996	9,600,352	*254,610,505	13.62%	135,927,858	400,138,715

* The employer contributions include advanced funding of County liabilities through the issuance of Pension Obligation Bonds totaling \$224.5 million.

Schedule of Expenses by Type

Fiscal Year Ending 6/30	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
2001	\$71,897,363	\$ 1,903,426	\$ 1,222,707	\$ 89,427	\$75,112,923
2000	66,482,489	1,601,849	1,142,210	5,677	69,232,225
1999	63,258,785	1,392,610	1,043,182	323,400	66,017,977
1998	58,877,153	1,349,468	1,392,290	3,571	61,622,482
1997	52,537,006	1,126,490	1,070,534		54,734,030
1996	46,977,021	1,051,416	1,001,574		49,030,011

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Schedule of Benefit Expenses by Type
For Fiscal Years 1996-2001
(in thousands)**

	2001	2000	1999	1998	1997	1996
<i>Service Retirement Benefits</i>						
General	\$36,675	\$34,123	\$32,826	\$31,135	\$27,654	\$24,876
Safety	14,614	13,168	12,297	11,779	10,837	9,972
Total	<u>47,291</u>	<u>45,123</u>	<u>42,914</u>	<u>38,491</u>	<u>34,848</u>	<u>31,528</u>
<i>Disability Benefits</i>						
General	5,136	4,928	4,600	3,836	3,863	3,223
Safety	6,932	6,249	5,906	5,703	4,666	4,215
Total	<u>12,068</u>	<u>11,177</u>	<u>10,506</u>	<u>9,539</u>	<u>8,529</u>	<u>7,438</u>
<i>Beneficiary Benefits</i>						
General	5,151	4,832	4,598	3,963	3,384	2,861
Safety	3,224	3,027	2,857	2,252	1,898	1,693
Total	<u>8,375</u>	<u>7,859</u>	<u>7,455</u>	<u>6,215</u>	<u>5,282</u>	<u>4,554</u>
<i>Lump Sum Death Benefits</i>						
	165	155	175	209	234	137
Total Benefit Payments	71,897	66,482	63,259	58,877	52,536	46,977
<i>Refunds</i>	1,223	1,142	1,043	1,392	1,071	1,002
Total Benefit Expenses	<u>\$73,120</u>	<u>\$67,624</u>	<u>\$64,302</u>	<u>\$60,269</u>	<u>\$53,607</u>	<u>\$47,979</u>

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Retired Members by Type of Benefit As of June 30, 2001

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
\$1-250	217	43	1	0	104	27	19	8	7	8
251-500	592	230	12	1	155	51	33	63	37	10
501-750	623	352	20	19	84	46	29	46	19	8
751-1,000	540	284	35	58	57	30	13	36	18	9
1,001-1,250	461	280	14	80	19	25	5	18	15	5
1,251-1,500	378	188	4	101	12	25	8	15	20	5
1,501-1,750	307	154	5	93	11	19	2	11	9	3
1,751-2,000	285	151	1	98	1	9	2	15	5	3
Over 2,000	940	712	3	162	13	10	3	17	15	5
Totals	4,343	2,394	95	612	456	242	114	229	145	56

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
\$1-250	217	8	2	0	0	102	104	1
251-500	592	13	6	0	0	247	323	3
501-750	623	13	3	1	0	267	326	13
751-1,000	540	13	7	1	0	223	256	40
1,001-1,250	461	9	6	1	0	191	203	51
1,251-1,500	378	3	2	0	0	139	168	66
1,501-1,750	307	2	1	0	0	114	125	65
1,751-2,000	285	6	3	1	0	99	96	80
Over 2,000	940	8	11	2	1	591	191	136
Totals	4,343	75	41	6	1	1,973	1,792	455

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 12/31/95</i>								
Average Monthly Benefit								
General	901	1,002	772	523	416	294	200	14
Safety	1,768	2,014	1,866	1,281	979	765	0	0
Number of Active Retirants								
General	1,172	501	528	418	251	88	13	2
Safety	359	137	99	89	69	18	0	0
<i>Valuation date 12/31/96</i>								
Average Monthly Benefit								
General	1,300	934	765	513	441	353	242	47
Safety	2,114	1,823	1,717	1,329	938	728	0	0
Number of Active Retirants								
General	971	622	592	482	311	114	22	1
Safety	291	171	130	100	87	25	0	0
<i>Valuation date 12/31/97</i>								
Average Monthly Benefit								
General	1,287	960	827	564	469	415	241	262
Safety	2,200	1,977	1,850	1,400	1,050	807	0	0
Number of Active Retirants								
General	992	720	617	507	337	148	31	2
Safety	252	212	159	99	107	36	0	0
<i>Valuation date 12/31/98</i>								
Average Monthly Benefit								
General	1,264	1,120	872	654	484	399	254	171
Safety	2,135	2,175	1,821	1,595	1,112	880	577	0
Number of Active Retirants								
General	956	683	569	465	325	154	34	3
Safety	271	152	137	101	82	54	4	0
<i>Valuation date 12/31/99</i>								
Average Monthly Benefit								
General	1,346	1,327	958	744	498	413	292	146
Safety	2,580	2,480	2,039	1,666	1,126	888	729	0
Number of Active Retirants								
General	803	658	535	521	429	259	81	11
Safety	208	159	163	112	120	85	15	0
<i>Valuation date 12/31/00</i>								
Average Monthly Benefit								
General	1,341	1,393	1,048	794	534	398	292	213
Safety	2,441	2,480	2,007	1,743	1,196	953	686	1,476
Number of Active Retirants								
General	840	700	507	540	437	264	86	11
Safety	191	222	163	125	120	84	30	1

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Participating Employers and Active Members As of June 30, 2001

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<i>County of Kern:</i>		
General Members		5,624
Safety Members		1,620
	Total	7,244
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<i>Participating Agencies (General Membership):</i>		
Berrenda Mesa Water District		12
Buttonwillow Recreation and Park District		2
East Kern Cemetery District		2
Inyokern Community Services District		2
Kern County Water Agency		59
Kern Mosquito & Vector Control District		20
North of the River Sanitation District		9
San Joaquin Valley Unified Air Pollution Control District		198
Shafter Recreation and Park District		0
West Side Cemetery District		5
West Side Mosquito Abatement District		7
West Side Recreation and Park District		12
	Total	328
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<i>Total Active Membership</i>		
General Members		5,952
Safety Members		1,620
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	Total	7,572