

**Kern County Employees'  
Retirement Association**

Kern County, California

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**COMPREHENSIVE  
ANNUAL  
FINANCIAL  
REPORT**

**For the Fiscal Years Ended  
June 30, 2004 and 2003**

Issued by:

Anne M. Holdren  
Executive Director

Sheryl Lawrence  
Retirement Accountant



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# INTRODUCTORY SECTION

## *THE KCERA MISSION*

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





Tony Plante, Chairman  
John DeMario, Vice Chairman  
Brad Barnes  
Sharon Lesser  
Claude Fiddler  
Phil Franey  
Barbara Patrick  
Joseph Hughes  
Lois B. Maujer, Alternate

Anne M. Holdren  
Executive Director

October 18, 2004

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, 2004 and 2003. This Letter of Transmittal is presented as a narrative introduction, overview, and analysis in conjunction with the Management's Discussion and Analysis included in the Financial Section of this Comprehensive Annual Financial Report.

The KCERA is a public employee retirement system that was established on January 1, 1945 by the County of Kern. The KCERA plan is administered by the Board of Retirement and provides retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. For fiscal year ended June 30, 2004, the KCERA paid retirements to 4,718 members and continued supplemental benefits to 1,221 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA system added 188 service retirees, 22 non service-connected disability retirees, 31 service-connected disability retirees, and 2 non service-connected death survivorship benefits 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, and a list of Professional Consultants.
- **The Financial Section** includes the opinion of the independent auditor, Brown Armstrong, Management's Discussion and Analysis, basic financial statements, certain required supplementary information, and other supplemental 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, 2004, 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**

### Funding Policy Revision

In January 2004, the Board of Retirement reviewed the KCERA Funding Policy Statement to reconcile a discrepancy concerning the timing of employer contributions for enhanced benefits. Revisions to the Funding Policy were adopted that clarified the benefits will only be included in the cost determination if the benefits become effective on or before the date of the actuarial valuation.

### Organizational Structure Changes

In April 2004, the Board of Retirement approved a new organizational structure for KCERA operations. Under the reorganization, three divisions will be established: Retirement Services, Fiscal/Investment, and Information Technology. Implementation of the revised operational structure which includes filling staff positions for a Retirement Services Representative and an Information Systems Specialist III will be completed during the next fiscal year.



### Services Benchmarking Analysis

The KCERA participated in a comprehensive benchmarking service provided by Cost Effectiveness Measurement Inc. which measured KCERA's cost effectiveness in service levels in comparison to other public retirement system. The analysis provided information on which services are more costly and insight on methods to gain efficiency and improving service levels for KCERA members and retirees in the future.

### Implementation of Ventura Settlement

The Board continues to implement the requirements of the Settlement Agreement dated January 24, 2002, *Kern Law Enforcement Association, et al., Petitioners v. Board of Retirement, Kern County Employees' Retirement Association, Respondent; County of Kern, Real Party in Interest,* Case No. 236460-NFT, providing increased benefits to qualified retirees in a lump sum for arrears to April 1, 1996 and as an increase in monthly benefits going forward, as well as implementing the terms of Agreement for all new retirees.

As of September 24, 2004, the project is approximately 99% complete and has cost a total of \$11,688,708 in retroactive payments, and increased the monthly retirement payroll by \$120,999.

### Enhanced Benefit Adopted

On August 3, 2004, the Kern County Board of Supervisors approved a Memorandum of Understanding between the County and the Central California Association of Public Employees adopting Government Code Section 31676.17. This code section provides enhanced retirement benefits, commonly known as 3% at 60, for General member employees. The enhanced benefits will become effective January 1, 2005.

## **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, 2003, the funded ratio of the system was approximately 94% using actuarial assets and actuarial liabilities of \$2,059,286,000 and \$1,927,585,000, respectively. The funded percentage increased from 83% in 2002 to 94% in 2003. This increase can be attributed to \$285.1 million in pension obligation bonds (POBs) issued by the County of Kern. The POBs were issued in May 2003 to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability.

Pursuant to provisions in the County Employees Retirement Law of 1937, the KCERA engages an independent actuarial consulting firm, Public Pension Professionals, Inc., to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. The last triennial analysis was performed as of December 31, 2002, and certain changes to economic and non-economic assumptions were adopted by the Board. A detailed discussion of funding is provided in the Financial Section of this report.

**ADDITIONS TO PLAN ASSETS**

The total additions to plan net assets for June 30, 2004, including net appreciation in fair value of investments and net of investment expenses, totaled \$355,284,854. This amount includes member and employer contributions of \$59,210,814 and net investment income of \$296,074,040. Member contributions decreased by \$2,297,920 (18%) over prior year and employer contributions decreased by \$9,486,777 (16%) over prior year. The decrease in member contributions is primarily attributable to lower member contribution rates due to the change in the Plan's mortality table. The decrease in employer contributions is attributable to the \$285.1 million in pension obligation bonds (POBs) issued by the County of Kern to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability. Net investment income increased by \$208,138,851 (237%) over prior year. The increase in investment income is a result of an increase in the net appreciation in fair value of investments and an increase in dividend and real estate income.

For the fiscal years ended June 30, 2004 and 2003:

	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Increase (Decrease) Amount</b>	<b>Increase (Decrease) Amount</b>
Member Contributions	\$10,450,868	\$12,748,788	\$(2,297,920)	(18%)
Employer Contributions	48,759,946	58,246,723	(9,486,777)	(16%)
POB Proceeds	0	285,092,130	(285,092,130)	N/A
Net Investment Income (Loss)	<u>296,074,040</u>	<u>87,935,189</u>	<u>208,138,851</u>	237%
Total	<u>\$355,284,854</u>	<u>\$444,022,830</u>	<u>\$(88,737,976)</u>	(20)%

**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, 2004, excluding investment expenses and security lending fees, were \$107,512,115, an increase of \$10,262,988 (11%) over prior year. This increase is primarily attributable to an increase in retired members and beneficiaries receiving pension benefits and an increase in the average retired members monthly benefit payment. The increase in the average monthly benefit is a result of improved benefits for Safety members and higher final compensation for KCERA members due to the includable special pays identified in the *Ventura Settlement Agreement and Judgment*.

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

For the fiscal years ended June 30, 2004 and 2003:

	June 30, 2004	June 30, 2003	Increase (Decrease) Amount	Increase (Decrease) Amount
Benefits and Refunds	\$104,960,374	\$94,302,059	\$10,658,315	11%
Administrative Expenses	2,495,754	2,166,624	329,130	15%
Other Expenses	<u>55,987</u>	<u>780,444</u>	<u>(724,457)</u>	(93%)
Total	\$107,512,115	\$97,249,127	\$10,262,988	11%

**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 2004, the investments of the plan provided a gain of 16.73% (net of fees). The KCERA’s annualized rate of return, net of fees, was 5.38% in the past three years, 3.95% in the past five years, and 9.32% in the past ten years. The investment expenses of the fund are linked to the performance of the investment portfolio and other factors, and therefore vary year to year.

## **PROFESSIONAL SERVICES**

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

An opinion from the certified public accountant and the actuary for the plan are included in this report. The consultants and investment managers retained by the Board are listed on page 52 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, 2003. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

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

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

## **ACKNOWLEDGMENTS**

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

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

Respectfully submitted,



Anne M. Holdren  
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, 2003

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



President

Executive Director

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## Members of the Board of Retirement As of June 30, 2004



### Chairman

**Tony Plante**

Fire Department. Elected by safety members.  
Present term expires 12/31/2006.



### Trustee

**Claude D. Fiddler**

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



### Vice-Chairman

**John J. DeMario**

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



### Trustee

**Sharon E. Lesser**

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



### Trustee

**Phil Franey**

County Treasurer-Tax Collector  
Ex-Officio Member



### Trustee

**Brad Barnes**

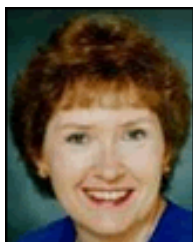
Appointed by Board of Supervisors.  
Present term expires 12/31/2004.



### Trustee

**Michael Bradley**

Sheriff Department. Alternate for all elected members.  
Present term expires 12/31/2006.



### Trustee

**Barbara Patrick**

Appointed by Board of Supervisors.  
Present term expires 12/31/2006.



### Trustee

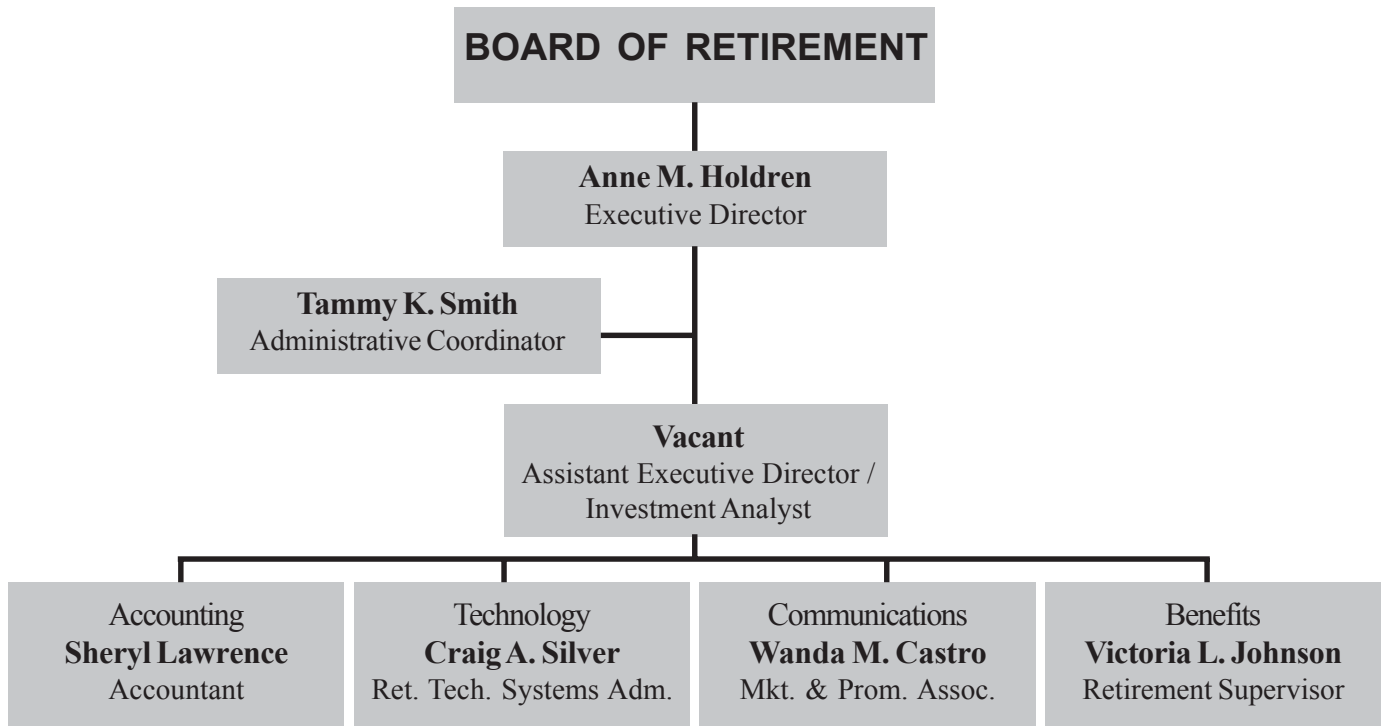
**Lois B. Maujer**

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

### Alternate Members

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**Organizational Chart  
As of June 30, 2004**



# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## List of Professional Consultants As of June 30, 2004

### **ACTUARY**

Public Pension Professionals, Inc.  
Oakland, CA

### **AUDITOR**

Brown Armstrong  
Bakersfield, CA

### **CUSTODIAN**

The Northern Trust Company  
Chicago, IL

### **LEGAL**

Kern County Counsel  
Bakersfield, CA

Morrison & Foerster, LLP  
Los Angeles, CA

Hanson Bridgett  
San Francisco, CA

Klein Denatale et al.  
Bakersfield, CA

### **INVESTMENT CONSULTANT**

Wilshire Associates, Inc.  
Santa Monica, CA

### **OTHER SPECIALIZED SERVICES**

Cortex Applied Research, Inc.  
Toronto, Ontario  
Canada

*Note: A list of Investment Professionals is located on page 52 of the Investment Section of this report.*



# FINANCIAL SECTION





**BROWN ARMSTRONG  
PAULDEN MCCOWN STARBUCK & KEETER**

**CERTIFIED PUBLIC ACCOUNTANTS**

■ Main Office  
4200 Truxtun Ave., Suite 300  
Bakersfield, California 93309  
Tel 661-324-4971  
fax 661-324-4997

■ Shafter Office  
560 Central Avenue  
Shafter, California 93263  
Tel 661-746-2145  
fax 661-746-1218

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

Eric H. Xin, MBA, CPA  
Lynn R. Krause, CPA, MST  
Bradley M. Hankins, CPA  
Melinda A. McDaniel, CPA  
Sharon Jones, CPA, MST  
Thomas M. Young, CPA  
Amanda E. Wilson, CPA  
Diana Branthoover, CPA  
Rosalea Flores, CPA  
Connie M. Perez, CPA  
Mathew Gilligan, CPA

**INDEPENDENT AUDITOR'S REPORT**

To the Members of the  
Kern County Board of Retirement

We have audited the accompanying statement of plan net assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2004 and 2003 and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of KCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Kern County Employees' Retirement Association as of June 30, 2004 and 2003 and its changes in plan net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 17 through 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplementary information. However, we did not audit the information and express no opinion on it.

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

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and other supplemental information on pages 37 through 41, and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of KCERA. The required supplementary information and other supplemental information on pages 37 through 41 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 24, 2004

See Accompanying Independent Auditor's Report.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This section presents management's discussion and analysis of the Kern County Employees' Retirement Association's (KCERA) financial statements and the significant events and conditions which affected the operations and performance during the years ended June 30, 2004 and 2003. It is presented as a narrative overview and analysis in conjunction with the Executive Director's Letter of Transmittal included in the Introductory Section of this Comprehensive Annual Financial Report.

### **Financial Highlights**

- The net assets of the KCERA increased approximately \$248.0 million during the year ended June 30, 2004. The increase was primarily from U.S. and non-U.S. equity performance.
- As of December 31, 2003, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 94%, compared to the funded ratio of 83%, as of December 31, 2002. The increase is attributable to \$285.1 million in pension obligation bonds (POBs) issued in May 2003 by the County of Kern to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability.
- During the fiscal year ended June 30, 2004, the KCERA's total fund returned 16.73%, higher than the prior fiscal year return of 6.58%.
- Contributions during the year decreased by approximately \$11 million or 17%. Member contributions decreased \$2 million or 18% and employer contributions decreased \$9.0 million or 16%.
- Pension benefits for the year increased by approximately \$11 million or 11% over the prior year. The increase is attributable to an increase in retired members and beneficiaries receiving pension benefits, an increase in the average retired members' monthly benefit, and retroactive payments determined by *Kern Law Enforcement Association, et al., Petitioners v. Board of Retirement, Kern County Employees' Retirement Association, Respondent; County of Kern, Real Party in Interest,* Case No. 236460-NFT (hereafter "*Ventura*") Settlement Agreement and Judgment. The increase in the average monthly benefit is a result of an improved benefit formula for Safety members, adopted January 1, 2001, and higher final compensation determined by the *Ventura* decision.

### **Overview of the Financial Statements and Accompanying Information**

- 1) **The Statement of Plan Net Assets** is the basic statement of position for a defined benefit pension plan under the Governmental Accounting Standard Board (GASB) Statement No. 25. This statement reflects the net assets available for future payments to retirees and their beneficiaries. Assets and current liabilities of the plan reflect full accruals. The statement reflects investments at fair value and accounting liabilities as distinct from actuarial liabilities.

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

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

- 2) The Statement of Changes in Plan Net Assets is the basic operating statement for a defined benefit pension plan under GASB Statement No. 25. Changes in plan net assets are recorded as additions or deductions from the plan. All additions and deductions are reported on a full accrual basis.
- 3) Notes to the Financial Statements are an integral part of the financial statements and provide important additional information for a user.
- 4) Required Supplementary Information consists of two schedules and related notes of long-term actuarial data. The two schedules are the Schedule of Funding Progress and the Schedule of Employer Contributions.
- 5) Other Supplemental Information includes schedules of administrative expenses, investment manager fees, other investment expenses, and payments to consultants.

## Financial Analysis

The KCERA provides pension benefits to the employees and their beneficiaries of the County of Kern and other public agencies. The KCERA's benefits are funded by member and employer contributions, and investment income. The KCERA's net assets held in trust for pension benefits at June 30, 2004 were \$2.0 billion, an increase of approximately \$247 million (14%) from June 30, 2003. The KCERA's net assets held in trust for pension benefits at June 30, 2003 were \$1.8 billion, an increase of approximately \$347 million (24%) from June 30, 2002. Key elements of the increase (decrease) in net assets are described below and in Tables 1 and 2 on Page 21.

## Contributions and Income

Additions to plan net assets include member and employer contributions, and investment income. Member contributions were approximately \$10.5 million, \$12.7 million, and \$11.3 million for the years ended June 30, 2004, 2003, and 2002, respectively. Employer contributions were \$48.8 million, \$58.2 million, and \$41.8 million for the years ended June 30, 2004, 2003, and 2002, respectively.

Member contributions decreased by approximately \$2.3 million (18%) in 2004 and increased by \$1.4 million (12%) in 2003. The decrease in member contributions in 2004 is primarily attributable to lower member contribution rates due to the change in the Plan's mortality table. The increase in member contributions in 2003 is attributable to the purchase by members of eligible service credit using rollovers from the County Deferred Compensation program (IRC Section 457 Plan) and other California 403(b) funds as first allowed in California in 2003.

Employer contributions decreased by approximately \$9.5 million (16%) in 2004 and increased by approximately \$16.4 million (39%) in 2003. The decrease in employer contributions in 2004 is primarily due from the \$285.1 million in POBs issued by the County of Kern to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability. The POB proceeds reduced the employer contributions for General and Safety members for fiscal year 2004. The increase in employer contributions in 2003 is primarily due to a combination of salary increases, investment losses, and an enhancement of benefits available to Safety members.

Net investment increases (losses) were \$296.1 million, \$87.9 million, and \$(76.2) million for the years ended June 30, 2004, 2003, and 2002, respectively. The increase in 2004 can be attributed to U.S. and non-U.S. equity performance during the year. The increase in 2003 can be attributed to U.S. equity performance in the second

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

### Contributions and Income (Continued)

quarter 2003 and from strong fixed income performance throughout fiscal year 2003. The net investment loss in 2002 was due to declining equity markets.

The KCERA's total fund return (net of fees) in fiscal year 2004 was 16.73%. For fiscal year 2004, the KCERA's U.S. equity composite returned 20.93%, the fixed income composite returned 3.78%, and the non-U.S. equity composite returned 28.98%. The \$87.9 million increase in investment income in fiscal year 2003 results from a total fund return (net of fees) of 6.58% for the year. For fiscal year 2003, the KCERA's U.S. equity composite returned 1.00%, fixed income composite returned 14.19%, and the non-U.S. equity composite returned -2.71%, (see Investment Section).

### Benefits, Refunds, and Expenses

Deductions to plan net assets include pension benefits, supplemental benefits, refunds of member contributions, and administrative expenses. The pension benefits (annuity, pension, and cost of living allowances) were \$95.2 million, \$85.2 million, and \$72.0 million for the years ended June 30, 2004, 2003, and 2002, respectively. Pension benefits increased by approximately \$10.0 million (12%) in 2004 and by \$13.2 million (18%) in 2003. These increases were mainly due to an increase in retired members and beneficiaries receiving pension benefits, an increase in the average retired members and beneficiaries monthly benefit, and retroactive lump sum payments directed by the *Ventura* Settlement Agreement and Judgment. Retired members and beneficiaries increased by 2.6% in 2004 and by 2.5% in 2003. The average monthly benefit increased by 7.5% in 2004 and 8.2% in 2003. The increase in the average monthly benefit is attributable to an improved benefit formula for Safety members and higher final compensation determined by the *Ventura* Settlement Agreement and Judgment. In fiscal year 2004, \$6.2 million and in fiscal year 2003, \$4.9 million in retroactive lump sum payments were paid to entitled retirees and their beneficiaries. These lump sum payments account for 7.7% of the 12% increase in pension benefits in 2004 and 6.8% of the 18% increase in 2003. The KCERA previously adopted California Government Code Section 31618, which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides retirees with 80% purchasing power parity and a \$1,000 death benefit. In addition to pension benefits, the supplemental retirement benefits paid were \$7.8 million, \$7.5 million and \$7.2 million for years ended June 30, 2004, 2003, and 2002, respectively. At June 30, 2004, refunds of member contributions were \$314 thousand more than fiscal year 2003, and for 2003 was \$165 thousand more than fiscal year 2002.

The KCERA administrative expenses were \$2.5 million, \$2.2 million, and \$2.2 million for the years ended June 30, 2004, 2003, and 2002, respectively. At June 30, 2004, administration expenses increased by \$356 thousand and remained consistent in fiscal year 2003. This increase is primarily due to the salaries and benefits of temporary employees hired by the KCERA to recalculate benefits in the matter of the *Ventura* Settlement Agreement and Judgment, fiduciary liability insurance, and legal services for disability issues. For fiscal year 2003, the KCERA paid attorneys' fees in the amount of \$752 thousand to the attorneys representing the petitioners and class representatives of the *Ventura* litigation. In accordance with the Settlement Agreement and Judgment, the fees were paid from system earnings in the reserve against contingencies without regard to the administrative expense limitations of Government Code Section 31580.2.



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

	June 2004	June 2003	June 2002
Average Monthly Benefit Payments	\$8.1 Million	\$7.3 Million	\$6.6 Million
Retirees and Beneficiaries	4,718	4,599	4,485

**Reserves**

The KCERA's reserves are established under GASB 25 and in accordance with the County Employees Retirement Law of 1937. Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. The unrealized gains and losses are held in the Market Stabilization Reserve with a portion allocated to all other reserves. The KCERA uses a five-year smoothing methodology to recognize unrealized gains and losses. The five-year smoothing is calculated by subtracting the expected return of the actuarial assumed interest rate of 8% from the total fund's actual return on net assets. The Market Stabilization Reserve was \$(24) million, \$(205), and \$(250) million for the years ended June 30, 2004, 2003, and 2002, respectively.

Interest at the actuarial rate of 8.0%, or at the highest rate possible if net earnings are not sufficient to credit the full actuarial rate, is credited semiannually on December 31 and June 30. Interest is credited to all reserves except a contingency reserve. The KCERA credited the reserves 5.5% in fiscal year 2004 and 2.2% in fiscal year 2003. The credits were below the actuarial rate of 8.0% for both years.

<b>KCERA RESERVES</b>			
	2004	2003	2002
Member Reserve	\$183,949,369	\$ 178,085,995	\$ 174,731,992
Employer Reserve	612,276,862	611,980,215	427,354,873
Cost of Living Reserve	444,132,773	424,347,977	323,076,577
Retired Member Reserve	635,836,701	598,332,494	585,071,128
Supplemental Retiree Benefit Reserve	158,325,450	157,432,545	161,504,287
Contingency Reserve	20,307,194	17,432,545	14,361,730
Market Stabilization Reserve	(24,108,943)	(205,062,026)	(249,927,624)
<b>Total</b>	<b>\$2,030,719,406</b>	<b>\$1,782,946,667</b>	<b>\$1,436,172,964</b>

**Fiduciary Responsibilities**

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



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

**Net Assets  
(In thousands)**

**Table 1**

	<b>2004</b>	<b>Increase (Decrease) Amount</b>	<b>2003</b>	<b>Increase (Decrease) Amount</b>	<b>2002</b>
<b>Assets</b>					
Current Assets	\$281,616	\$(229,939)	\$511,555	\$299,165	\$212,390
Investments	1,979,744	533,297	1,446,447	17,544	1,428,903
Securities Lending Collateral	192,046	149,504	42,542	(24,063)	66,605
Capital Assets and Other Assets	75	(77)	152	(106)	258
<b>Total Assets</b>	<b>\$2,453,481</b>	<b>\$452,785</b>	<b>\$2,000,696</b>	<b>\$292,540</b>	<b>\$1,708,156</b>
<b>Liabilities</b>					
Current Liabilities	\$230,716	\$55,509	\$175,207	\$(30,171)	\$205,378
Liabilities for Security Lending	192,046	149,504	42,542	(24,063)	66,605
<b>Total Liabilities</b>	<b>\$422,762</b>	<b>\$ 205,013</b>	<b>\$217,749</b>	<b>\$(54,234)</b>	<b>\$271,983</b>
<b>Total Net Assets</b>	<b>\$2,030,719</b>	<b>\$ 247,772</b>	<b>\$1,782,947</b>	<b>\$346,774</b>	<b>\$1,436,173</b>

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

**Table 2**

	<b>2004</b>	<b>Increase (Decrease) Amount</b>	<b>2003</b>	<b>Increase (Decrease) Amount</b>	<b>2002</b>
<b>Additions</b>					
Member Contributions	\$10,451	\$(2,298)	\$12,749	\$1,462	\$11,287
Employer Contributions	48,760	(294,579)	343,339	301,457	41,882
Investment Income (Loss)	296,074	208,139	87,935	164,182	(76,247)
<b>Total Additions</b>	<b>\$355,285</b>	<b>\$(88,738)</b>	<b>\$444,023</b>	<b>\$467,102</b>	<b>\$(23,078)</b>
<b>Deductions</b>					
Pension Benefits	\$95,227	\$10,051	\$85,176	\$13,206	\$71,970
Supplemental Retirement Benefits	7,818	293	7,525	318	7,207
Refunds of Member Contributions	1,915	314	1,601	165	1,436
Administrative Expenses	2,496	329	2,167	(1)	2,168
Litigation Expenses	0	(752)	752	752	0
Benefits System Expenses	56	28	28	(20)	48
<b>Total Deductions</b>	<b>\$107,512</b>	<b>\$10,263</b>	<b>\$97,249</b>	<b>\$14,420</b>	<b>\$82,829</b>
<b>Increase (Decrease) in Net Assets</b>	<b>\$247,773</b>	<b>\$(99,001)</b>	<b>\$346,774</b>	<b>\$452,682</b>	<b>\$(105,908)</b>

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
STATEMENT OF PLAN NET ASSETS  
AS OF JUNE 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>Assets</b>		
Cash in County Pool	\$ 20,654,821	\$ 6,490,474
Short-Term Investment Funds	<u>89,807,807</u>	<u>404,857,355</u>
Total Cash and Short-Term Investment Funds	<u>110,462,628</u>	<u>411,347,829</u>
Receivables:		
Investments Sold	164,439,790	93,727,738
Interest and Dividends	5,801,153	4,061,257
Receivable for Index Futures	541,130	325
Contributions and Other Receivables	<u>371,254</u>	<u>2,418,094</u>
Total Receivables	<u>171,153,327</u>	<u>100,207,414</u>
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	637,905,659	484,817,288
International Bonds	23,826,512	13,796,499
Domestic Stocks	855,485,603	585,935,393
International Stocks	408,318,289	300,921,347
Real Estate Investments	30,560,956	41,450,930
Private Equity Funds	23,647,307	19,525,075
Collateral Held for Securities Lending	<u>192,045,519</u>	<u>42,542,001</u>
Total Investments	<u>2,171,789,845</u>	<u>1,488,988,533</u>
Prepaid Insurance	0	15,962
Property, Fixtures and Equipment, net of accumulated depreciation of \$115,051 and \$98,386, respectively	<u>75,189</u>	<u>136,416</u>
Total Assets	<u>2,453,480,989</u>	<u>2,000,696,154</u>
<b>Liabilities</b>		
Securities Purchased	226,486,501	173,363,570
Collateral Held for Securities Lent	192,045,519	42,542,001
Other Liabilities	<u>4,229,563</u>	<u>1,843,916</u>
Total Liabilities	<u>422,761,583</u>	<u>217,749,487</u>
<b>Net Assets Held in Trust for Pension Benefits</b>	<u><u>\$ 2,030,719,406</u></u>	<u><u>\$ 1,782,946,667</u></u>

(A schedule of funding progress is presented on page 37.)

*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, 2004 AND 2003**

	2004	2003
<b>Additions</b>		
Contributions		
Employer	\$ 48,759,946	\$ 343,338,853
Member	10,450,868	12,748,788
Total Contributions	59,210,814	356,087,641
Investment Income		
Net Appreciation in Fair Value of Investments	261,649,793	58,571,559
Interest	23,235,643	25,106,275
Dividends	9,003,440	4,700,462
Real Estate Investments	6,741,929	3,297,341
Other Investment Income	63,189	18,275
Total Investment Income (Loss)	300,693,994	91,693,912
Less: Investment Expenses	4,848,244	3,888,553
Net Investment Income (Loss)	295,845,750	87,805,359
Securities Lending Income		
Earnings	1,162,610	1,108,103
Less: Rebates & Bank Fees	934,320	978,273
Net Securities Lending Income	228,290	129,830
Total Additions	355,284,854	444,022,830
<b>Deductions</b>		
Retirement and Survivor Benefits	95,227,129	85,175,696
Supplemental Retirement Benefits	7,818,494	7,525,584
Refunds of Member Contributions	1,914,751	1,600,779
Administrative Expenses	2,495,754	2,166,624
Litigation Expenses	0	751,994
Benefits Administration System Expenses	55,987	28,450
Total Deductions	107,512,115	97,249,127
<b>Net Increase</b>	<b>247,772,739</b>	<b>346,773,703</b>
<b>Net Assets Held in Trust for Pension Benefits</b>		
Beginning of Year	1,782,946,667	1,436,172,964
End of Year	\$ 2,030,719,406	\$ 1,782,946,667

*See accompanying notes to the financial statements.*

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION  
JUNE 30, 2004 AND 2003  
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, 2004, employee membership data related to the pension plan was as follows:

	<u>General</u>	<u>Safety</u>	<u>Total</u>
Active employees	6,401	1,609	8,010
Terminated employees – vested	772	102	874
Retirees and beneficiaries currently receiving benefits	<u>3,584</u>	<u>1,134</u>	<u>4,718</u>
	<u>10,757</u>	<u>2,845</u>	<u>13,602</u>

**Benefit Provisions**

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

**SERVICE RETIREMENT BENEFIT**

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

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

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

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

### DEATH BENEFIT

#### Death Before Retirement

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

#### Death After Retirement

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

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

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

**DISABILITY BENEFIT**

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

**COST-OF-LIVING ADJUSTMENT**

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

**SUPPLEMENTAL BENEFIT**

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

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

**Reporting Entity**

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

**Basis of Accounting**

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

**Administrative Expenses**

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

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

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

#### Fair Valuation of Investments

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

Stocks, publicly trade bonds, issues of the Government and its agencies	Most recent sales price as of the fiscal year U.S. end; international securities reflect currency exchange rates in effect at June 30, 2004 and 2003.
Real estate investments and alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.

#### Capital Assets

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

#### Income Taxes

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

#### Management's Estimates

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

### NOTE 3 – CASH AND INVESTMENTS

At June 30, 2004, \$20,654,821 and at June 30, 2003, \$6,490,474 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, 2004 and 2003 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, 2004 are classified as follows:

	Category 1	Category 3	Uncategorized	Total Fair Value
U.S. Government and agency securities				
Not on securities loan	\$ 246,316,957	\$ 8,661,894	\$	\$ 254,978,851
On securities loan for securities collateral	25,848,625			25,848,625
On securities loan for cash collateral			75,964,289	75,964,289
Domestic corporate fixed-income securities				
Not on securities loan	235,773,952			235,773,952
On securities loan for securities collateral	3,857,511			3,857,511
On securities loan for cash collateral			41,423,709	41,423,709
International bonds				
Not on securities loan	23,826,512			23,826,512
Domestic equity securities				
Not on securities loan	123,817,879			123,817,879
On securities loan for cash collateral			27,091,826	27,091,826
International equity securities				
Not on securities loan	137,587,603			137,587,603
On securities loan for securities collateral	2,107,578			2,107,578
On securities loan for cash collateral			42,593,104	42,593,104
Common / collective investment funds			692,673,764	692,673,764
Limited partnerships			187,527,781	187,527,781
Loans			104,612,619	104,612,619
Swaps			17,073	17,073
Securities lending short-term collateral investment pool			192,045,519	192,045,519
Cash and cash equivalents	41,650	1,151,513	88,656,294	89,849,457
<b>Total</b>	<b>\$ 799,178,267</b>	<b>\$ 9,813,407</b>	<b>\$ 1,452,605,978</b>	<b>\$2,261,597,652</b>

Reconciliation of the summary of the KCERA's investments above to total investments per the Statement of Plan Net Assets available as of June 30, 2004, is as follows:

Total investments per Statement of Plan Net Assets	\$ 2,171,789,845
Plus cash and short-term investments	89,807,807
<b>Total investments summarized above</b>	<b>\$ 2,261,597,652</b>



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

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

Based on the categories listed above, KCERA's cash and investments as of June 30, 2003 are classified as follows:

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

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

Total investments per Statement of Plan Net Assets	\$ 1,488,988,533
Plus cash and short-term investments	404,857,355
<b>Total investments summarized above</b>	<b>\$ 1,893,845,888</b>

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

**NOTE 4 – PORTFOLIO CONCENTRATION**

The Board of Retirement's investment policies and guidelines limits exposure to any single manager or product. The maximum allocation to a single active manager is up to 30% of the aggregate market value of the Fund. The maximum allocation to a single active management product is 15%. This limitation applies to any non-index investment vehicle. The KCERA's investment portfolio contained no concentration of investments in any one organization greater than 5% of plan net assets as of June 30, 2004 (other than U.S. Government securities).

**NOTE 5 – SECURITIES LENDING**

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

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

At June 30, 2004, the KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% plus accrued interest. At June 30, 2004 and 2003, the securities lending transactions collateralized by cash had a fair value of \$187,072,928 and \$41,386,397, respectively, and a collateral value of \$192,045,519 and \$42,542,001, respectively. At June 30, 2004 and 2003, the securities lending transactions collateralized by securities or letters of credit had a fair value of \$31,813,714 and \$4,747,548, respectively, and a collateral value of \$32,477,358 and \$4,855,744, respectively, which was not reported as assets and liabilities in the accompanying Statement of Plan Net Assets.

**NOTE 6 – DERIVATIVES**

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

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

**NOTE 6 – DERIVATIVES (Continued)**

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

The KCERA utilizes forward currency contracts for the purpose of hedging against adverse movement in currency exchange rates and to facilitate settlement of transactions in foreign securities. While such hedging is expected to net out to zero impact on the fund in the long term, in the short term, gains and losses are included in net investment income from foreign currency transactions. The net foreign currency gains (losses) in fiscal years 2004 and 2003 are \$4,690,931 and \$(455,163), respectively. Such contracts are commonly traded through an informal network of bank and brokers, or a currency futures market.

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

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

The fair value of the KCERA's derivatives are as follows:

(in thousands)

	June 30, 2004	June 30, 2003
Forward Currency Contracts (Receivables)	\$ 3,646	\$ 2,506
Forward Currency Contracts (Payables)	(3,637)	(2,530)
Mortgage-Backed Securities	179,996	129,377
Asset-Backed Securities	31,390	23,045
Collateralized Mortgage Obligation Securities	12,429	42,506
Swaps	5,247	0
Call Options	11	0
Total Derivatives	\$229,082	\$194,904

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

**NOTE 7 – FUNDING POLICY**

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

For fiscal year 2004, the employer contribution rates are actuarially determined by using the Entry Age Funding method. The employer contribution rates are made up of two parts:

1. The Normal Cost, or the cost of the portion of the benefit that is allocated to the current year.
2. The payment to amortize the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is the excess of the Plan's accrued liability over its assets. Most of the UAAL is currently amortized over 24 years, except for the additional liabilities due to granting Golden Handshake benefits, which are amortized over three years from the year in which they were granted.

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

On April 1, 1973, an annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted. The 2% COLA was funded entirely from the unreserved fund balance until February 5, 1983. After this date and prior to fiscal year 2003, funding the 2% COLA was included in the employers' contributions. In fiscal year 2002, the County of Kern activated Government Code Section 31617 which provides that COLAs shall be funded first from excess earnings, to the extent of such excess, and thereafter from employer contributions. In fiscal year 2004, the Plan had no excess earnings and the current funding for the cost-of-living reserve is included in the employers' contributions.

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

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

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

The following table summarizes the required contribution rates in effect at June 30, 2004. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rate	Employer Rates
General Members	3.44% - 8.85%	10.96%
Safety Members	5.06% - 10.78%	21.03%
Special Districts (Electing MOU)	3.44% - 8.85%	15.88%
Special Districts (Not Electing MOU)	3.44% - 8.85%	14.26%

Total contributions made during fiscal years 2004 and 2003, respectively, amounted to \$59,210,814 and \$70,995,511 of which \$48,759,946 and \$58,246,723 were contributed by the County of Kern and Special Districts, and \$10,450,868 and \$12,748,788 were contributed by members. On May 29, 2003, the KCERA received \$285,092,130 of pension obligation bond (POB) proceeds from the County of Kern to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability. The POB proceeds reduced General and Safety members employer contribution rates for fiscal year 2004 by 3.60% and 10.80%, respectively for the County of Kern.

**Supplemental Retirement Benefits**

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

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

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

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

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

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

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

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

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

*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, 2004, 1% of the Plan's net assets are reserved for contingencies.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2004 and 2003 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	<b>2004</b>	<b>2003</b>
Members' deposit reserve, general	\$ 120,247,681	\$ 114,398,150
Members' deposit reserve, safety	53,182,418	53,921,828
Members' deposit reserve, special district	10,519,270	9,766,017
Employer's advance reserve, general	341,990,282	330,395,734
Employer's advance reserve, safety	257,791,850	270,483,096
Employer's advance reserve, special district	12,494,730	11,101,385
Cost of living reserve, general	242,640,686	232,379,550
Cost of living reserve, safety	192,433,709	183,839,184
Cost of living reserve, special district	9,058,378	8,129,243
Retired members' reserve, general	357,053,167	348,164,234
Retired members' reserve, safety	278,783,534	250,168,260
Supplemental retiree benefit reserve (SRBR)	158,325,450	157,432,545
Contingency reserve	20,307,194	17,829,467
 Total reserves at five-year smoothed market actuarial valuation	 2,054,828,349	 1,988,008,693
Market stabilization reserve*	(24,108,943)	(205,062,026)
 Total net assets held in trust for pension benefits	 \$ 2,030,719,406	 \$ 1,782,946,667

\*This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2004 and 2003.



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

### NOTE 9– COMMITMENTS AND CONTINGENCIES

#### Capital Commitments

The KCERA allocates 6% of assets to private equity markets. As of June 30, 2004 the KCERA's Board of Retirement committed \$105 million to four private equity fund-of-funds managed by Pantheon Ventures, Inc. (\$32.5 million) and Abbott Capital Management (\$72.5 million). Private equity investments have a long life cycle involving commitment, drawdowns, maturation, and stock distribution. For each fund, effective exposure reaches maximum at about four to six years and the effective allocation over the life cycle generally does not exceed 65% of the total commitment. As of June 30, 2004, the KCERA provided \$29.55 million in drawdowns.

#### Litigation

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

#### Contingent Liability

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

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

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

The KCERA is in the process of evaluating past service records in order to recalculate benefit levels in accordance with the Settlement Agreement and Judgment, and this process is expected to be completed by the end of 2004. The cost of the recalculated benefits will not be known until the recalculation process is complete. From August 16, 2002 to September 24, 2004, 1,659 retirees or their beneficiaries have received retroactive payments in the amount of \$11,688,708, and the monthly retiree payroll increased by \$120,999. The liability of the recalculated benefits paid on or before December 31, 2003 and the additional 0.5% cost of living allowance was included in the most recent actuarial valuation, dated December 31, 2003.

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

**NOTE 10– REQUIRED SUPPLEMENTARY INFORMATION**

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



**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**REQUIRED SUPPLEMENTARY INFORMATION**

**FOR THE YEARS ENDED JUNE 30, 2004 AND 2003**

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

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (3) – (2)</b>	<b>Funded Ratio (2)/(3)</b>	<b>Annual Covered Payroll</b>	<b>UAAL as % of Annual Payroll (4)/(6)</b>
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/03	\$1,927,585	\$2,059,286	\$131,701	93.6%	\$353,444	37.3%
12/31/02	1,570,278	1,899,031	328,753	82.7%	344,871	95.3%
12/31/01	1,508,291	1,611,960	103,669	93.6%	333,791	31.1%
12/31/00	1,434,873	1,388,984	(45,889)	103.3%	283,282	-16.2%
12/31/99	1,325,928	1,324,662	(1,267)	100.1%	297,738	-0.4%
12/31/98	1,203,670	1,179,753	(23,917)	102.0%	282,251	-8.5%

**Schedule of Employer Contributions**

<b>Fiscal Year Ended June 30,</b>	<b>Annual Required Contribution</b>	<b>Percentage Contributed</b>
2004	\$48,759,946	100%
2003	58,246,723	*682%
2002	41,881,569	100%
2001	41,067,487	100%
2000	37,575,583	100%
1999	40,159,103	100%
1998	35,420,517	100%

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

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

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

### FOR THE YEARS ENDED JUNE 30, 2004 AND 2003

#### 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, 2003 is as follows:

Valuation date:	December 31, 2003
Actuarial cost method:	Entry age funding method
Amortization method:	Level percent closed
Remaining amortization period: <sup>1</sup>	24 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	8.0%
Projected salary increases:	Rates varying by service
Includes inflation at:	4.0%
Annual increase in system benefits cap:	2.5%

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

##### *Demographics:*

Total payments to retirees and their beneficiaries increased by approximately 10.7% during 2003. The number of retired members and their beneficiaries receiving pension checks increased from 4,516 to 4,657. The average monthly benefit check increased from \$1,457 to \$1,564.

The number of active members increased by 0.6% from 8,055 to 8,104, while the average pay increased by 2.4% from \$3,568 per month to \$3,654 per month, resulting in an increase in total covered payroll of approximately 3.0%.

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

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OTHER SUPPLEMENTAL INFORMATION

### Schedule of Administrative Expenses For the Years Ended June 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<i>Personnel Services:</i>		
Salaries & Wages	\$1,055,009	\$ 913,745
Employee Benefits	407,819	358,525
Total Personnel Services	1,462,828	1,272,270
<i>Professional Services:</i>		
Legal Counsel	258,231	186,339
Audit	47,372	50,746
Medical/Hearing Officers	55,328	52,349
Information Technology Services	36,371	30,029
Other Professional Services	106,214	135,802
Total Professional Services	503,516	455,265
<i>Communication:</i>		
Postage	23,268	24,281
Printing	3,137	2,927
Telephone	9,471	10,670
Education & Professional Development	46,285	63,026
Publications/Legal Notifications	10,245	8,323
Total Communication	92,406	109,227
<i>Miscellaneous:</i>		
Equipment Leases	19,932	18,170
Building Lease	32,356	0
Office Expense	54,397	49,022
Insurance	110,481	58,483
Maintenance	4,786	4,340
Memberships	6,695	7,829
Special Departmental Expense	3,419	2,901
Other Services	18,074	2,422
Pension Disbursement Fees	108,828	108,699
Depreciation and Amortization	70,156	68,681
Utilities	7,880	9,315
Total Miscellaneous	437,004	325,310
<b>Total Administrative Expenses</b>	<b>\$2,495,754</b>	<b>\$2,166,624</b>

*See accompanying independent auditors' report.*

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### OTHER SUPPLEMENTAL INFORMATION (Continued)

#### Schedule of Investment Expenses For the Years Ended June 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<i>Investment Manager Fees:</i>		
Equity		
Domestic	\$ 1,405,362	\$ 1,398,906
International	981,091	945,031
Fixed Income		
Domestic	462,922	474,388
Global	1,072,695	203,944
Real Estate		
Investments in Real Estate	18,986	98,479
Individual Properties	75,000	35,000
Securities (REITs)	180,175	135,175
Total Investment Manager Fees	4,196,231	3,290,923
<i>Other Investment Expenses:</i>		
Custodian	243,682	172,174
Actuarial Valuation	34,200	77,250
Investment Consultant	168,957	168,257
Legal Fees	20,799	13,474
Due Diligence	9,771	0
Policy Implementation Overlay Strategy	174,604	166,475
Total Other Investment Expenses	652,013	597,630
<b>Total Fees and Other Investment Expenses</b>	<b>4,848,244</b>	<b>3,888,553</b>
<i>Security Lending Rebates and Bank Fees</i>	934,320	978,273
<b>Total Investment Expenses</b>	<b>\$ 5,782,564</b>	<b>\$ 4,866,826</b>

*See accompanying independent auditors' report.*

**KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION**

**OTHER SUPPLEMENTAL INFORMATION (CONTINUED)**

**Schedule of Payments to Consultants  
For the Years Ended June 30, 2004 and 2003**

<i>Individual or Firm</i>	<i>Nature of Service</i>	<i>Commission / Fee</i>	
		<b>2004</b>	<b>2003</b>
Brown Armstrong	External Auditors	\$ 47,372	\$ 50,747
Kern County Counsel	Legal Counsel	180,797	146,348
Morrison & Foerster, LLP	Legal Counsel	9,674	14,556
Hanson Bridgett	Legal Counsel	13,447	13,705
Klein Denatale et al.	Legal Counsel	54,313	20,217
Public Pension Professionals, Inc.	Actuarial Services	3,000	115,050
MAXIMUS, Inc.	Personnel Consultants	0	23,500
Cortex Applied Research, Inc.	Policy Consultants	45,086	27,964
<b>Total Payments to Consultants</b>		<b>\$353,689</b>	<b>\$412,087</b>

(A schedule of Investment Fees and Services is presented on pages 53 and 54 in the Investment Section.)

*See accompanying independent auditors' report.*



# INVESTMENT SECTION





October 4, 2004

Anne Holdren  
 Executive Director  
 Kern County Employees' Retirement Association  
 1115 Truxtun Avenue  
 Bakersfield, CA 93301

Dear Ms. Holdren,

I am pleased to provide you with our report on the Kern County Employees' Retirement Association (KCERA) for the year ending June 30, 2004.

For the fiscal year ended June 30, 2004, the KCERA's retirement fund had an investment gain of 16.73% and ended the year with total assets of \$2.034 billion.

The retirement funds are managed according to guidelines codified in the KCERA's Statement of Investment Goals, Objectives, and Policies. This statement is reviewed periodically and revisions were most recently accepted by the KCERA Board of Retirement in June 2004.

At fiscal year end, the KCERA's retirement fund's actual asset allocation was within reasonable rebalancing bands of the target allocations adopted by the KCERA Board of Retirement. The most notable difference from target is for Real Estate, which is currently underweighted for two reasons: 1, the Board adopted a higher target last year for Real Estate, and 2, KCERA's policy of investing in direct, private real estate requires a long lead time to become fully invested. Although the KCERA is also underweight relative to its policy target for Hedge Funds, a search for a Fund of Hedge Funds manager is currently underway and the allocation should be corrected in the next several months. All managers were in compliance with their guidelines on June 30, 2004.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Domestic Equities	40%	42.1%
International Equities	20%	20.3%
Fixed Income	31%	31.3%
Real Estate	6%	3.9%
Hedge Funds	3%	0.0%
Cash	0%	2.4%

The strong investment performance over the last year helped to reverse the effects of the stock market declines in 2001 and 2003. Some highlights follow below:

- The KCERA's total fund returned 16.73% for the year, versus the policy return of 15.92%. Outperformance versus policy was largely due to superior manager performance from several managers and the slight overweight to domestic and international equities as a temporary proxy for the pending investments in real estate and hedge funds. The KCERA's median peer in our database

returned 15.80%, indicating that the KCERA was better positioned than the majority of its peers for the ongoing economic and market rebound.

- The KCERA's Equity composite returned 20.93% versus a return of 21.24% for the Wilshire 5000. In a year characterized by continued economic concerns, ongoing warfare in Iraq and Afghanistan, record prices for oil and gasoline, and significant market volatility, superior performance by some of the KCERA's active equity managers kept the overall portfolio's return close to that of the index, net of all fees and expenses. Slight underperformance versus the benchmark was largely due to underperformance by some active managers and the impact of replacing the small cap growth portfolio shortly before the end of the year. The median Equity return for KCERA's peers was 21.30%.
- The KCERA's fixed income composite returned 3.78% versus 0.32% for the Lehman Aggregate Bond Index. As the economy has started to recover over the last year, increasing fears of inflation and future rate increases by the Federal Reserve forced rates higher and bond prices lower. In addition, continued strength in the High Yield markets caused these bonds to show a return for the year of 9.93% and led the performance of the overall KCERA Fixed Income portfolio. The median Fixed Income return for KCERA's peers was 1.10%.
- The KCERA's international equity composite rose 28.98% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned 32.50%. Despite a slower economic recovery for the global markets than for the United States, international equity markets performed extremely well, signaling the potential for solid future economic growth. It should be noted, however, that approximately 10% of the year's rise in non-US markets was due to the continuing slide in the value of the US dollar relative to other major currencies. Illustrating the broad nature of the market recovery, European stocks rose 28.87% over the last year, Pacific Basin stocks (including Japan) soared 41.12%, and the Japanese market climbed 46.22% -- hopefully a sign that the decade-long Japanese recession is finally behind us. The KCERA's Emerging Markets Equities portfolio also contributed to the year's results, with a return of 27.90%.

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

Sincerely,



Michael C. Schlachter, CFA  
Managing Director

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## OUTLINE OF INVESTMENT POLICIES

Adopted by the Board of Retirement June 9, 2004

### 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, 2004 are as follows:

	<u>Actual*</u>	<u>Target</u>	<u>Target Ranges</u>	
			<u>Minimum</u>	<u>Maximum</u>
Domestic Equities	40.9%	34.0%	30.0%	38.0%
International Equities	20.3%	20.0%	17.0%	23.0%
Fixed Income	31.3%	31.0%	28.0%	34.0%
Real Estate	3.9%	6.0%	0.0%	10.0%
Alternative Investments	1.2%	6.0%	0.0%	6.0%
Hedge Funds	0.0%	3.0%	0.0%	5.0%
Cash / Other	2.4%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

*\*The June 30, 2003 asset allocation is based upon Wilshire Associates's June 30, 2004 Kern County Employees' Retirement Association Investment Performance Analysis.*

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

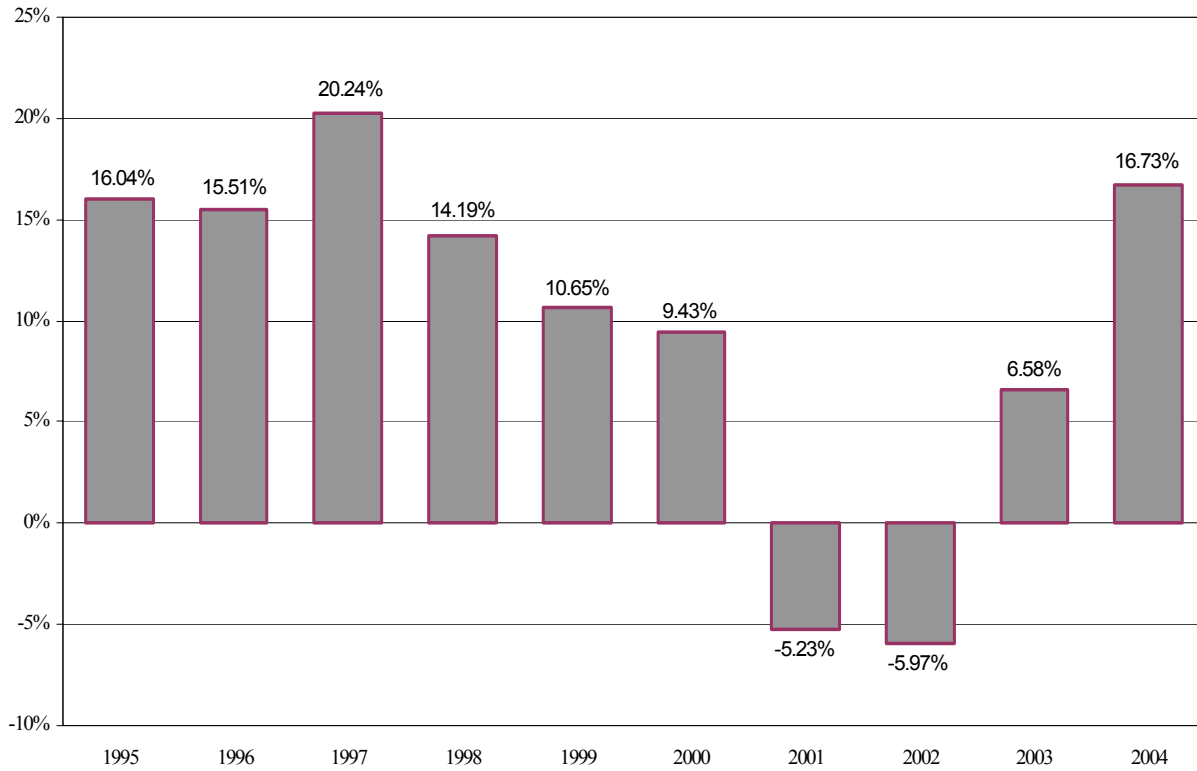
### Investment Summary For the Year Ended June 30, 2004

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
<i>Domestic Equities</i>		
Large Cap Index Fund	\$ 236,843	11.6%
Large Cap Synthetic Strategies	401,155	19.7%
Small Cap Value Securities	98,335	4.8%
Small Cap Growth Fund	<u>96,289</u>	4.7%
Total Domestic Equities	<u>832,622</u>	40.9%
<i>International Equities</i>		
Active EAFE Securities	378,394	18.6%
Emerging Markets Growth Fund	<u>34,138</u>	1.7%
Total International Equities	<u>412,532</u>	20.3%
<i>Fixed Income</i>		
Core Plus Global Fixed-Income	513,722	25.3%
High Yield Bonds	116,727	5.7%
Mortgage-Backed Securities	132	0.0%
Co-Investments in Commercial Mortgages	<u>6,876</u>	0.3%
Total Fixed Income	<u>637,457</u>	31.3%
<i>Real Estate</i>		
Public / Private Real Estate Investments	23,660	1.2%
Securities (REITs)	<u>56,054</u>	2.8%
Total Real Estate	<u>79,714</u>	3.9%
<i>Alternative Investments</i>	23,416	1.2%
<i>Cash &amp; Short-Term Cash Investment Funds</i>	26,340	1.3%
<i>Policy Implementation Overlay Strategy</i>	22,204	1.1%
<b>Total Investments</b>	<b><u>\$ 2,034,285</u></b>	<b>100.0%</b>

The June 30, 2004 investment summary is based upon Wilshire Associates's June 30, 2004 Kern County Employees' Retirement Association Investment Performance Analysis.

# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Investment Results

#### Returns for Periods Ended June 30, 2004

	Current Year	Annualized		
		3-year	5-year	10-year
<b>Total Portfolio:</b>	16.73	5.38	3.95	9.32
*Benchmark: Composite Policy	15.92	4.67	3.01	8.77
TUCS Master Trust Median	15.80	4.09	3.76	10.16
<b>U.S. Equity:</b>	20.93	1.44	-0.25	11.94
Benchmark: Wilshire 5000 Index	21.24	0.79	-1.04	11.53
TUCS Equity Median	21.30	1.15	1.97	12.56
<b>Non U.S. Equity:</b>	28.98	5.45	0.98	4.35
**Benchmark: Custom Index	32.50	5.25	0.96	4.65
TUCS International Equity Median	30.83	5.45	2.96	7.10
<b>Fixed Income:</b>	3.78	7.61	7.55	7.54
Benchmark: Lehman Aggregate Index	0.32	6.36	6.95	7.39
TUCS Fixed Income Median	1.10	6.78	7.08	7.54
<b>Real Estate:</b>	24.10	12.89	12.94	9.30
Benchmark: 50% Wilshire Real Estate Securities Index / 50% Wilshire Real Estate Fund Index	19.50	11.47	11.79	10.84
<b>Cash &amp; Cash Equivalent</b> s	1.90	3.28	4.18	4.92
Benchmark: 91-Day T-Bill	0.98	1.71	3.24	4.32

\*Kern County Composite Policy:

40%	DJ Wilshire 5000 +
34%	Lehman Aggregate +
20%	MSCI ACWI Fr ex US (G) +
2.5%	WRE Securities Index +
2.5%	NCREIF

\*\*Kern County Non U.S. Equity Composite:

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

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

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Investment Professionals As of June 30, 2004

#### Investment Managers

##### DOMESTIC EQUITY

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

Pacific Investment Management Company  
Newport Beach, CA

Rothschild Asset Management, Inc.  
New York, NY

Westridge Capital Management, Inc.  
Santa Barbara, CA

##### INTERNATIONAL EQUITY

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

Capital International, Inc.  
Los Angeles, CA

JP Morgan Fleming Asset Management  
London, England

##### REALESTATE

Fidelity Real Estate Asset Manager  
Boston, MA

LaSalle Securities Limited  
Baltimore, MD

##### ALTERNATIVE INVESTMENTS

AbbottCapital 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

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

##### GLOBAL FIXED INCOME

Goldman, Sachs & Co.  
New York, NY

Western Asset Management Co.  
Pasadena, CA

#### Consultant

Wilshire Associates, Inc.  
Santa Monica, CA

#### Actuary

Public Pension Professionals, Inc.  
Oakland, CA

#### Custodian

The Northern Trust Company  
Chicago, IL

#### Policy Implementation Overlay Strategy

The Clifton Group  
Minneapolis, MN



## KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

### Schedule of Investment Fees and Services For the Years Ended June 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<i>Investment Managers' Fees</i>		
U.S. Equity Managers:		
Barclays Global Investors, N.A.	463,157	581,428
Fidelity Management Trust Company	0	30
Putnam Investments	512,856	0
Rothschild Asset Management, Inc.	226,784	596,656
Westridge Capital Management, Inc.	202,565	220,792
Total U.S. Equity Managers	1,405,362	1,398,906
Non U.S. Equity Managers:		
Barclays Global Investors, N.A.	523,932	880,402
HSBC Asset Management	17,532	64,628
JP Morgan Fleming Asset Management	439,628	0
Total Non U.S. Equity Managers	981,092	945,030
U.S. Fixed Income Managers:		
Hyperion Asset Management, Inc.	180,810	229,900
Mellon Bank	54,704	60,177
W.R. Huff Asset Management Co., LLC	227,408	184,312
Total U.S. Fixed Income Managers	462,922	474,389
Global Fixed Income Managers:		
Goldman Sachs Asset Management	993,090	203,944
Western Asset Management	79,602	0
Total Global Fixed Income Managers	1,072,692	203,944
Real Estate Managers:		
Fidelity Real Estate Asset Manager	18,986	98,479
Heitman Capital Management Corp.	75,000	35,000
LaSalle Securities Limited	180,175	135,175
Total Real Estate Managers	274,161	268,654
 <b>Total Investment Managers' Fees</b>	 <b>4,196,229</b>	 <b>3,290,923</b>

## KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

### Schedule of Investment Fees and Services (Continued) For the Years Ended June 30, 2004 and 2003

	<b>2004</b>	<b>2003</b>
<i>Custodial Fees</i>		
The Northern Trust Company	243,682	172,174
<i>Policy Implementation Overlay Strategy</i>		
The Clifton Group	174,605	166,475
<i>Actuarial Fees</i>		
Public Pension Professionals, Inc.	34,200	77,250
<i>Investment Consultant Fees</i>		
Wilshire Associates, Inc.	168,957	168,257
<i>Legal Fees</i>		
Kern County Counsel	20,799	13,474
<i>Due Diligence</i>		
Trustees / KCERA Management	9,772	0
<i>Security Lending Fees</i>		
The Northern Trust Company	<u>934,320</u>	<u>978,273</u>
 <b>Total Investment Fees and Services</b>	 <b><u><u>\$ 5,782,564</u></u></b>	 <b><u><u>\$ 4,866,826</u></u></b>

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Largest Stock Direct Holdings (By Market Value) As of June 30, 2004

Shares	Stocks	Market Value
40,290	Total SA	\$ 7,681,250
335,000	ENI	6,651,669
2,686,660	Vodafone Group	5,883,251
362,800	HSBC Holdings	5,465,397
88,415	NTL, Inc.	5,094,472
223,480	GlaxoSmithKline	4,522,936
55,700	UBS AG	3,924,884
87,000	Novartis AG	3,838,031
788,010	Tesco	3,804,862
71,000	Canon, Inc.	3,741,465

### Largest Bond Direct Holdings (By Market Value) As of June 30, 2004

Par	Bonds	Market Value
34,300,000	FNMA TBA 30 Year Pass-Throughs 6.5% 30 Years July	\$35,704,173
30,000,000	FHLMC Gold TBA Pool 6.5% due 7/01/2030	31,256,250
25,200,000	GNMA I Single Family Mortgage 5.5% 30 Years July	25,152,750
17,000,000	FNMA Single Family Mortgage 5.0% 15 Years August	16,957,500
16,300,000	FNMA Single Family Mortgage 5.5% 15 Years July	16,666,750
14,900,000	U.S. Treasury Notes 4.25% due 11/15/2013	14,502,468
12,000,000	U.S. Treasury Notes 2.625% due 11/15/2006	11,916,564
11,000,000	FHLMC 30 Year CTF 5.0% 30 Years July	10,615,000
10,400,000	U.S. Treasury Notes Inflation Indexed 2.0% due 1/15/2014	10,540,763
9,300,000	FHLMC 6.625% due 9/15/2009	10,135,125

*A complete list of portfolio holdings is available upon request.*

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Fees and Commissions For the Year Ended June 30, 2004

#### Fees:

	Assets under management	Fees
<b>Investment managers' fees:</b>		
U.S. equity managers	\$ 699,302,584	\$ 1,405,362
Non U.S. equity managers	378,394,577	981,092
Fixed income managers	630,581,730	1,535,614
Real estate managers	56,205,445	274,161
Total investment managers' fees	\$ 1,764,484,336	\$ 4,196,229
<b>Other investment service fees:</b>		
Custodial fees	-	\$ 243,682
Policy implementation overlay strategy	-	174,605
Actuarial fees	-	34,200
Investment consultant fees	-	168,957
Legal fees	-	20,799
Due diligence	-	9,772
Security lending fees	-	934,320
Total investment service fees	-	\$ 1,586,335

#### Commissions:

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
ABEL NOSER CORPORATION	\$4,115	82,290	0.05000
ABNAMRO EQUITIES LTD. LONDON	2,091	112,400	0.01860
BANC AMERICA SECUR. MONTGOMERY DIV.	5,255	105,000	0.05005
BEAR, STEARNS, SECURITIES CORP	3,072	62,800	0.04892
BERNSTEIN, SANFORD C. & CO	5,475	109,350	0.05007
BRIDGE TRADING COMPANY	85	1,700	0.05000
BUCKINGHAM RESEARCH GROUP	1,729	34,500	0.05011
CANTOR FITZGERALD & CO	2,224	44,400	0.05009
CAZENOVE & CO	3,267	583,102	0.00560
CIBC WORLD MARKETS CORP. NEW YORK	3,564	71,000	0.05020
CITIGROUP GLOBAL LTD BROKER	1,774	57,100	0.03106
CITIGROUP GLOBAL MARKETS INC	2,279	67,900	0.03356
CITIGROUP GLOBAL MKTS INC/SMITH BARNEY	10,999	221,000	0.04977
CITIGROUP GLOBAL MKTS ASIA LTD HK	832	89,500	0.00930
CL KING & ASSOCIATES	828	16,550	0.05001
CREDIT LYONNAIS SECS ASIA LTD H.K	148	9,000	0.01644
CREDIT SUISSE FIRST BOSTON CORPORATION	80	1,600	0.05000
CSFB (EUROPE) LIMITED LONDON	10,695	111,238	0.09614
CSFB (HK) SEC LTD	219	44,000	0.00497
CSFB HONG KONG LIMITED	228	4,100	0.05565
D. A. DAVIDSON & CO. INC.	1,800	36,000	0.05000

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
D.KLEINWORT WASSERSTEIN N.AMERICA	44,033	2,903,034	0.01517
DAIWA SECS HONG KONG	282	44,800	0.00630
DEUTSCHE BANK SECURITIES INC	24,377	2,138,169	0.01140
DEUTSCHE BK,AG LONDON INTL EQUITIES	19,124	1,359,580	0.01407
DONALDSON & CO. INCORPORATED\	35	700	0.05000
DONALDSON LUFKIN & JENRETTE 539	1,134	18,900	0.06000
DRESDNER KLEINWORT WASSERSTEIN SECS	25,716	699,000	0.03679
EDWARDS. A.G.	4,590	91,800	0.05000
FACTSET DATA SYSTEMS	621	13,800	0.04500
FOX PITT KELTON	340	6,800	0.05000
FRIEDMAN BILLING AND RAMSEY	2,105	42,100	0.05000
G G E T LLC	860	17,200	0.05000
GARDNER RECH & CO.	324	7,200	0.04500
GOLDMAN SACHS & CO NW YK DTC 005	1,419	277,000	0.00512
GOLDMAN SACHS & COMPANY	9,204	183,600	0.05013
GOLDMAN SACHS INTL LDN (CST IB01)	10,122	223,680	0.04525
GREEN STREET ADVISORS 443	6,127	123,506	0.04961
GREEN STREET ADVISORS INC	620	12,400	0.05000
INVESTMENT TECHNOLOGY GROUP INC	372	8,200	0.04540
ISI GROUP INC.	935	18,700	0.05000
J.P. MORGAN SECURITIES INC	1,635	32,400	0.05046
JANNEY MONTGOMERY SCOTT	1,562	31,100	0.05021
JEFFERIES & COMPANY	3,230	64,600	0.05000
JOHNSON RICE & CO.	696	13,900	0.05004
JONES & ASSOCIATES	3,290	73,100	0.04500
JP MORGAN SECURITIES AUSTRALIA LTD	500	31,182	0.01602
KEEFE BRUYETTE AND WOODS INC.	2,810	58,000	0.04845
LEGG MASON WOOD WALKER INC	8,711	179,112	0.04863
LEHMAN BROTHERS INC	15,693	313,638	0.05004
LEHMAN BROTHERS INTERNATIONAL EUR.	1,230	15,400	0.07989
LYNCH JONES & RYAN	57,577	1,265,235	0.04551
MAXCOR FINANCIAL INC.	325	6,500	0.05000
MCDONALD AND COMPANY	4,752	94,657	0.05020
MERRILL LYNCH FAR EAST HONG KONG	233	24,000	0.00973
MERRILL LYNCH FENNER & SMITH INC	1,355	27,100	0.05000
MERRILL LYNCH INTER NEW YK DTC 161	0	1	0.05000
MERRILL LYNCH INTL LTD EQUITIES	7,531	243,200	0.03097
MERRILL LYNCH PIERCE FENNER & SMITH	8,652	183,374	0.04718
MIDWEST RESEARCH SECURITIES	556	11,100	0.05007
MKM PARTNERS	275	5,500	0.05000
MORGAN KEEGAN AND COMPANY	2,313	46,200	0.05007
MORGAN STANLEY & CO INC. NEW YORK	6,650	133,000	0.05000
MORGAN STANLEY AND CO NW YK DTC 050	1,015	20,300	0.05000
MORGAN STANLEY DW INC	1,115	22,300	0.05000
MORGAN STANLEY INT. LDN (CST 50701)	158	2,500	0.06302
MSDW AUSTRALIAN SECURITIES LTD	1,203	89,719	0.01341
NOMURA INTERNATIONAL LTD HONG KONG	541	30,000	0.01803
PERCIVAL FINANCIAL	240	4,800	0.05000

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
PERSHING DIV/DONALDSON LUFKIN/JE	695	13,900	0.05000
PERSHING LLC FORMERLY DLJ\	13,642	252,200	0.05409
PRUDENTIAL EQUITY GROUP	3,436	69,100	0.04973
PXP SECURITIES CORP	420	8,400	0.05000
RAYMOND JAMES	3,859	77,100	0.05005
ROBERT W. BAIRD & CO INC MILWAUKEE USA	4,074	81,300	0.05010
SALOMON BROS UK EQUITY LTD LONDON	398	12,400	0.03213
SANFORD C. BERNSTEIN LTD	4,946	31,500	0.15701
SCHWAB, CHARLES	26	24,400	0.00107
SCOTT & STRINGFELLOW INVESTMENT	5,277	105,300	0.05011
SG COWEN AND COMPANY	6,089	121,600	0.05007
SG COWEN SECURITIES	170	3,400	0.05000
SIDOTI CO LLC	460	9,200	0.05000
STANDARD & POORS MERRILL	275	6,100	0.04500
STANDARD AND POORS SECURITIES	486	10,800	0.04500
STEPHENS INC	1,075	21,500	0.05000
SUNTRUST ROBINSON HUMPHREY	3,055	61,100	0.05000
U.S. BANCORP PIPER JAFFRAY INC	1,676	33,400	0.05019
UBS AG, (LONDON EQUITIES)	10,880	276,620	0.03933
UBS AUSTRALIA GROUP LTD. SYDNEY	1,454	62,334	0.02332
UBS SECURITIES ASIA	6,243	324,825	0.01922
UBS WARBURG LLC	70	1,400	0.05000
UBS/WARBURG SECURITIES LLC NEW YORK\	495	9,900	0.05000
UFJ INTERNATIONAL PLC LONDON	211	5,800	0.03642
UNION BANK OF SWIT NEW YK DTC 642	440	8,800	0.05000
VANDHAM SECURITIES CORP	8,070	268,688	0.03004
WACHOVIA CAPITAL MARKETS 46171	7,856	157,500	0.04988
WAVE SECURITIES LLC	1,048	52,400	0.02000
WEEDEN AND & CO	180	3,599	0.05000
WELLS FARGO SECURITIES LLC	1,050	21,000	0.05000
WILSHIRE ASSOCIATES INCORPORATED	85	1,700	0.05000
<b>TOTAL</b>	<b>\$435,180</b>	<b>15,215,783</b>	

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

# ACTUARIAL SECTION







**Public Pension  
Professionals, Inc**

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

August 30, 2004

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

Members of the Board:

The annual actuarial valuation required for the Kern County Employees Retirement Association (KCERA) has been prepared as of December 31, 2003 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 24-year period commencing with the December 31, 2003 valuation, while maintaining contribution rates that remain relatively level, as a percentage of payroll, from generation to generation.

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

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

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

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

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

Board of Retirement  
August 30, 2004  
Page 2

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

Sincerely,

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

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

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

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary of Actuarial Assumptions and Methods

<b>Interest Rate:</b>	8.0%
<b>Salary Increase - Individual:</b>	As shown in Table I.
<b>Inflation Assumption:</b>	4.0%
<b>Asset Valuation Method:</b>	The market value of assets is adjusted to recognize, over a five-year period, investment earnings greater than (or less than) the assumed investment return.
<b>Funding Method:</b>	Entry Age Funding Method. The Unfunded Actuarial Accrued Liability is amortized over 24 years beginning in 2004. The additional liability incurred through the granting of Golden Handshake benefits are amortized over three years from the year in which they were granted.
<b>Amortization Method:</b>	Level percent closed.
<b>Post-Retirement Mortality:</b>	
A) General Members and Beneficiaries:	RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers.
B) Safety Members:	RP-2000 Healthy Annuitant Mortality Table, with adjustment for blue collar workers.
C) Pensioners on Disability Retirement:	RP-2000 Disabled Annuitant Mortality Table.
<b>Proportion of Members with Spouses at Retirement:</b>	80% of male employees and 50% of female employees are assumed married at retirement. Wives are assumed four years younger than their husbands.
<b>Rate of Termination of Employment:</b>	As shown in Table II.

The above methods and assumptions were selected by the actuary as being appropriate for the plan and were used in the latest actuarial valuation dated December 31, 2003.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Assumed Rate of Salary Increase As of December 31, 2003

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

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

Age Nearest	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Service Disability	Service Death	Death While Eligible	Vested Termination
<b>General Members - Male</b>								
20	1,050	10	0	0	0	0	0	200
30	1,327	12	2	0	3	0	0	200
40	1,311	30	8	0	13	0	0	200
50	1,004	60	26	500	39	0	0	200
60	593	66	65	2,000	98	0	0	200
70	0	0	0	10,000	0	0	0	0
<b>General Members - Female</b>								
20	930	3	1	0	1	0	0	190
30	1,238	4	2	0	2	0	0	190
40	1,353	10	12	0	18	0	0	190
50	1,211	24	24	500	36	0	0	190
60	884	56	28	1,700	42	0	0	190
70	0	0	0	10,000	0	0	0	0
<b>Safety Members - All</b>								
20	300	9	0	0	3	2	0	70
30	348	12	0	0	28	2	0	70
40	404	28	0	0	78	2	0	70
50	469	56	0	1,000	198	2	0	70
60	0	0	0	10,000	0	0	0	0

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/98	General	5,522	\$199,250,420	\$36,083	2.9%
	Safety	1,474	72,335,699	49,074	5.5%
	<b>Total</b>	<b>6,996</b>	<b>271,586,119</b>	<b>38,820</b>	<b>3.7%</b>
12/31/99	General	5,642	\$211,804,416	\$37,541	4.0%
	Safety	1,496	75,446,382	50,432	2.8%
	<b>Total</b>	<b>7,138</b>	<b>287,250,798</b>	<b>40,242</b>	<b>3.7%</b>
12/31/00	General	5,903	\$207,229,836	\$35,106	-6.5%
	Safety	1,581	76,052,708	48,104	-4.6%
	<b>Total</b>	<b>7,484</b>	<b>283,282,544</b>	<b>37,822</b>	<b>-5.9%</b>
12/31/01	General	6,397	\$250,670,766	\$39,186	11.6%
	Safety	1,658	83,120,619	50,133	4.2%
	<b>Total</b>	<b>8,055</b>	<b>333,791,385</b>	<b>41,439</b>	<b>9.6%</b>
12/31/02	General	6,414	\$261,061,804	\$40,702	3.9%
	Safety	1,641	83,809,133	51,072	1.9%
	<b>Total</b>	<b>8,055</b>	<b>344,870,937</b>	<b>42,815</b>	<b>3.3%</b>
12/31/03	General	6,446	\$270,440,100	\$41,955	3.1%
	Safety	1,658	84,871,617	51,189	0.3%
	<b>Total</b>	<b>8,055</b>	<b>355,311,717</b>	<b>43,844</b>	<b>2.4%</b>

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

Plan Year Ending December 31	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Retiree Payroll	% Increase in Annual Retiree Payroll	Average Annual Allowance
1998	4,219	186	161	3,990	53,537,214	-1.7%	13,418
1999	3,990	213	132	4,159	58,467,114	9.2%	14,058
2000	4,159	222	148	4,233	62,656,284	7.2%	14,802
2001	4,233	269	130	4,372	69,567,864	11.0%	15,912
2002	4,372	248	104	4,516	79,057,729	13.6%	17,506
2003	4,516	255	114	4,657	87,402,579	10.6%	18,768

### Solvency Test

Valuation Date	Aggregate Accrued Liabilities			Total	Portion of Accrued Liabilities Covered by Reported Assets			
	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)		Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
12/31/98	147,543,099	585,569,646	446,640,502	1,179,753,247	1,203,670,449	100%	100%	100%
12/31/99	159,632,656	670,212,529	494,816,546	1,324,661,731	1,325,928,243	100%	100%	100%
12/31/00	152,866,205	689,790,937	546,326,563	1,388,983,705	1,434,872,718	100%	100%	100%
12/31/01	179,904,379	771,375,980	660,679,843	1,611,960,202	1,508,291,483	100%	100%	84%
12/31/02	184,313,063	964,393,657	750,324,334	1,899,031,054	1,570,277,657	100%	100%	56%
12/31/03	182,161,145	1,067,016,084	810,108,722	2,059,285,951	1,927,584,527	100%	100%	84%

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	2003	2002	2001
Investment Performance Greater (Less) than Expected	\$(45,687,403)	\$(133,288,517)	\$(8,316,670)
New Entrants into System (Greater) Less than Expected		(2,101,441)	(6,946,979)
Individual Salary Increases (Greater) Less than Expected	(11,746,890)	(29,814,488)	(20,228,653)
Demographic Changes Greater (Less) than Expected	(27,967,366)	21,223,199	(43,684,720)
Change in Benefits		(21,969,100)	(70,891,864)
Change in Assumptions		(586,622,302)	
<b>Composite Gain (or Loss) During Year</b>	<b>\$(85,401,659)</b>	<b>\$(224,572,649)</b>	<b>\$(150,891,864)</b>



# KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

## Summary of Major Plan Provisions

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

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

### Membership

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

### Final Average Salary

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

### Vested

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

### Member Contribution Rates

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

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

### Return of Contributions

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

### Service Retirement Benefit

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

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

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

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary of Major Plan Provisions (Continued)

#### Disability Benefit

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

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

#### Death Benefit (Before Retirement)

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

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

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

#### Death Benefit (After Retirement)

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

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

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

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

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

#### Supplemental Retiree Benefits Reserve (SRBR) Benefits

The Board of Retirement adopted Section 31618 on April 23, 1984 which provides for the establishment of the SRBR. The SRBR shall be used only for the benefit of retired members and beneficiaries. The distribution of the SRBR shall be determined by the Board of Retirement. These benefits are financed from excess earnings of the fund. Tier 3 benefits are provided only after Tier 1, Tier2, and Tier 3 benefits already granted, and \$1,000 death benefits are funded.

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Summary of Major Plan Provisions (Continued)

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

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



# STATISTICAL SECTION



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Revenues by Source

Fiscal Year Ending 6/30	Member Contributions	Employer		Investment Income	Total
		Dollars	% of Annual Covered Payroll		
2004	\$10,450,868	\$ 48,759,946	13.60%	\$296,074,040	\$355,284,854
2003	12,748,788	343,338,853*	16.96%	87,935,189	444,022,830
2002	11,287,597	41,881,569	12.89%	(76,247,977)	(23,078,811)
2001	9,173,557	41,067,487	13.09%	(99,791,394)	(49,550,350)
2000	6,145,942	37,575,583	12.45%	140,569,826	184,291,351
1999	5,446,223	40,159,103	14.06%	161,883,259	207,488,585

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

### Schedule of Expenses by Type

Fiscal Year Ending 6/30	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
2004	\$103,045,623	\$2,495,754	\$1,914,751	\$55,987	\$107,512,115
2003	92,701,280	2,166,624	1,600,779	780,444	97,249,127
2002	79,177,249	2,167,965	1,435,764	48,290	82,829,268
2001	71,897,363	1,903,426	1,222,707	89,427	75,112,923
2000	66,482,489	1,601,849	1,142,210	5,677	69,232,225
1999	63,258,785	1,392,610	1,043,182	323,400	66,017,977

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Benefit Expenses by Type For Fiscal Years 1999-2004 (in thousands)

	2004	2003	2002	2001	2000	1999
<i>Service Retirement Benefits</i>						
General	\$44,539	\$41,497	\$38,542	\$36,675	\$34,123	\$32,826
Safety	26,029	22,616	18,436	14,614	13,168	12,297
Total	<u>70,568</u>	<u>64,113</u>	<u>56,978</u>	<u>51,289</u>	<u>47,291</u>	<u>45,123</u>
<i>Disability Benefits</i>						
General	6,381	5,684	5,482	5,136	4,928	4,600
Safety	9,035	8,187	7,508	6,932	6,249	5,906
Total	<u>15,416</u>	<u>13,871</u>	<u>12,990</u>	<u>12,068</u>	<u>11,177</u>	<u>10,506</u>
<i>Beneficiary Benefits</i>						
General	6,109	5,724	5,394	5,151	4,832	4,598
Safety	4,386	3,901	3,630	3,224	3,027	2,857
Total	<u>10,495</u>	<u>9,625</u>	<u>9,024</u>	<u>8,375</u>	<u>7,859</u>	<u>7,455</u>
<i>Retroactive Payments</i>						
General	2,730	2,097	0	0	0	0
Safety	3,454	2,775	0	0	0	0
Total	<u>6,184</u>	<u>4,872</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<i>Lump Sum Death Benefits</i>						
	<u>382</u>	<u>220</u>	<u>185</u>	<u>165</u>	<u>155</u>	<u>175</u>
<b>Total Benefit Payments</b>	<b>103,045</b>	<b>92,701</b>	<b>79,177</b>	<b>71,897</b>	<b>64,482</b>	<b>63,259</b>
<i>Refunds</i>	<u>1,915</u>	<u>1,601</u>	<u>1,436</u>	<u>1,223</u>	<u>1,142</u>	<u>1,043</u>
<b>Total Benefit Expenses</b>	<b><u>\$104,960</u></b>	<b><u>\$94,303</u></b>	<b><u>\$80,613</u></b>	<b><u>\$73,120</u></b>	<b><u>\$67,624</u></b>	<b><u>\$64,302</u></b>



## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Schedule of Retired Members by Type of Benefit As of June 30, 2004

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
\$1-500	547	143	5	0	210	70	33	37	30	19
501-1,000	1,016	475	73	41	188	93	43	51	38	14
1,001-1,500	850	443	51	135	72	65	16	29	28	11
1,501-2,000	616	297	22	171	22	41	6	24	22	11
2,001-3,000	797	425	7	235	18	41	6	22	38	5
3,001-4,000	403	277	2	93	11	6	0	4	6	4
4,001-5,000	172	154	0	12	2	0	2	1	1	0
5,001-6,000	124	122	0	0	1	1	0	0	0	0
Over 6,000	193	185	1	7	0	0	0	0	0	0
Totals	4,718	2,521	161	694	524	317	106	168	163	64

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
\$1-500	547	15	6	0	0	213	312	1
501-1,000	1,016	10	20	1	0	398	566	21
1,001-1,500	850	18	15	1	0	310	421	85
1,501-2,000	616	5	4	0	0	212	285	110
2,001-3,000	797	9	13	1	0	290	305	179
3,001-4,000	403	4	8	0	0	210	104	77
4,001-5,000	172	2	1	1	0	135	22	11
5,001-6,000	124	1	2	1	0	103	17	0
Over 6,000	193	0	1	0	0	172	13	7
Totals	4,718	64	70	5	0	2,043	2,045	491

#### 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 12/31/98</i>								
Average Monthly Benefit								
General	1,264	1,120	872	654	484	399	254	171
Safety	2,135	2,175	1,821	1,595	1,112	880	577	0
Number of Active Retirants								
General	956	683	569	465	325	154	34	3
Safety	271	152	137	101	82	54	4	0
<i>Valuation date 12/31/99</i>								
Average Monthly Benefit								
General	1,346	1,327	958	744	498	413	292	146
Safety	2,580	2,480	2,039	1,666	1,126	888	729	0
Number of Active Retirants								
General	803	658	535	521	429	259	81	11
Safety	208	159	163	112	120	85	15	0
<i>Valuation date 12/31/00</i>								
Average Monthly Benefit								
General	1,341	1,393	1,048	794	534	398	292	213
Safety	2,441	2,480	2,007	1,743	1,196	953	686	1,476
Number of Active Retirants								
General	840	700	507	540	437	264	86	11
Safety	191	222	163	125	120	84	30	1
<i>Valuation date 12/31/01</i>								
Average Monthly Benefit								
General	1,375	1,469	1,126	837	582	409	364	311
Safety	3,290	2,739	2,363	2,054	1,376	1,020	792	0
Number of Active Retirants								
General	833	745	506	514	448	282	94	19
Safety	226	188	151	124	110	101	37	0
<i>Valuation date 12/31/02</i>								
Average Monthly Benefit								
General	1,516	1,517	1,184	911	624	451	394	357
Safety	3,946	2,763	2,363	2,200	1,466	1,146	837	0
Number of Active Retirants								
General	789	796	528	522	440	281	118	24
Safety	270	200	156	133	99	111	49	0
<i>Valuation date 12/31/03</i>								
Average Monthly Benefit								
General	1,645	1,505	1,358	973	714	487	398	315
Safety	4,144	2,823	2,768	2,298	1,713	1,239	940	916
Number of Active Retirants								
General	792	814	570	515	425	302	127	31
Safety	318	213	140	135	101	103	69	2

## KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

### Participating Employers and Active Members As of June 30, 2004

<hr/>		
<i>County of Kern:</i>		
General Members		6,011
Safety Members		1,609
	Total	7,620
<hr/>		
<i>Participating Agencies (General Membership):</i>		
Berrenda Mesa Water District		12
Buttonwillow Recreation and Park District		3
East Kern Cemetery District		1
Inyokern Community Services District		2
Kern County Water Agency		70
Kern Mosquito & Vector Control District		18
North of the River Sanitation District		8
San Joaquin Valley Unified Air Pollution Control District		250
Shafter Recreation and Park District		1
West Side Cemetery District		6
West Side Mosquito Abatement District		8
West Side Recreation and Park District		11
	Total	390
<hr/>		
<i>Total Active Membership</i>		
General Members		6,401
Safety Members		1,609
<hr/>		
	<b>Total</b>	<b>8,010</b>