

*Comprehensive
Annual
Financial Report*

For the years ended June 30, 2000 and 1999

Issued By

David J. Deutsch, CFA
Executive Director

Sheryl Lawrence
Accountant

Kern County Employees' Retirement Association

(A Pension Trust Fund of the County of Kern)

1115 Truxtun Ave., 1st Floor

Bakersfield, CA 93301

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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.



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
Phil Franey, Chairman
Geoffrey B. King, Vice Chairman
Sharon Clark
John DeMario
Brent Dezember
Sharon E. Lesser
Ken Peterson
Tony Plante
Mark J. Smith
Michael Bradley, Alternate

David J. Deutsch, CFA
Executive Director

Roberto L. Peña
Retirement Benefits Manager

December 5, 2000

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, 2000 and 1999.

The KCERA is a public employee retirement system that was established on January 1, 1945 by the County of Kern. The KCERA plan is administered by the Board of Retirement to provide retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. For fiscal year ended June 30, 2000, the KCERA paid retirements to 4,223 members and continued supplemental benefits to approximately 516 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA now and for the foreseeable future. The KCERA system added 146 service retirees and 52 disability retirees in the fiscal year.

STRUCTURE OF THE REPORT

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

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

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In California 800.548.0738 TTY Relay 800.735.2929

- **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, Watson Wyatt & Company, 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, 2000, 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 one alternate member. The Board is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investments of the system's assets. The Board oversees the Executive Director and the KCERA staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937 and the bylaws, procedures, and policies adopted by the KCERA Board.

MAJOR INITIATIVES

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

1. **Governance Policies:** Developing comprehensive policies for managing the business of the Board of Retirement.
2. **Human Resources Policies and Implementation plan** aimed at supplementing personnel policy, and assessing staff job descriptions, classifications and compensation.
3. **Technology Initiative** requiring the formulation of a vision statement for technology for the KCERA, and plans to utilize technology in the service of KCERA membership.

PENSIONS Benefits Administration Software

Fiscal Year 2000 represents the first full year of operation of a proprietary software system for tracking, maintaining, and calculating benefits for KCERA members. This software has permitted the KCERA to handle a record number of retirement estimates over the year.

Pre-Payment of County Contributions

The KCERA and the County of Kern agreed to institute a lump sum prepayment of County contributions at the first of each fiscal year. The KCERA Administration and the County Administrative Office worked diligently toward an agreeable funding methodology. The first prepayment transfer was scheduled for July 1, 2000.

Ventura Ruling

Whereas the decision of the California Supreme Court approved and reinforced the prior decisions of the Board of Retirement to include certain items of pay in retirement base pay prospectively, (re: KLEA vs. KCERA Board of Retirement and County of Kern) the court did not resolve the question of includability of certain items of pay and other matters of concern.

The Supplemental Benefit Plan

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

Relocation of the KCERA

The KCERA moved to larger, more efficiently designed offices on the first floor of the County Administration Building at 1115 Truxtun Ave., Bakersfield, California 93301.

ADDITIONS TO PLAN ASSETS

The total additions to plan net assets for June 30, 2000, including net appreciation in fair value of investments and net of investment expenses, totaled \$184,291,351. This amount includes member and employer contributions of \$43,721,525 and net investment income of \$140,569,826. Member contributions increased by \$699,719 (13%) over prior year and employer contributions decreased by \$2,583,520 (6%) over prior year. The increase in member contributions is attributable to higher salaries and the decrease in employer contributions is attributable to a decrease in the employer contribution rates. Net investment income decreased by \$21,313,433 (13%) over prior year. The decrease in investment income is primarily a result of a decrease in the net appreciation in fair value of investments.

For the fiscal years ended June 30, 2000 and 1999:

	June 30, 2000	June 30, 1999	Increase (Decrease) Amount	Increase (Decrease) Amount
Member Contributions	\$6,145,942	\$5,446,223	\$699,719	13%
Employer Contributions	37,575,583	40,159,103	(2,583,520)	(6)%
Net Investment Income	140,569,826	161,883,259	(21,313,433)	(13)%
Total	\$184,291,351	\$207,488,585	\$(23,197,234)	(11)%

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, 2000, excluding investment expenses and security lending fees, were \$69,232,225, an increase of \$3,214,248 (5%) over prior year. This increase was the result of benefit increases and the leasehold improvement costs for the new KCERA offices.

For the fiscal years ended June 30, 2000 and 1999:

	June 30, 2000	June 30, 1999	Increase (Decrease) Amount	Increase (Decrease) Amount
Benefits and Refunds	\$67,624,699	\$64,298,967	\$3,322,732	5%
Administrative Expenses	1,601,849	1,392,610	209,239	15%
Benefits System Expenses	5,677	323,400	(317,723)	(98)%
Total	\$69,232,225	\$66,017,977	\$3,214,248	5%

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 2000, the investments of the plan provided a 9.43% rate of return. The KCERA’s annualized rate of return over the past three years was 11.40%, and 13.62% in the past five years. This earnings record exceeds the actuarial assumed rate of return of 8.25%, the return used to value the liabilities of the plan. The investment expenses of the fund are linked to the performance of the investment portfolio and other factors, and therefore vary year to year.

FUNDING

The KCERA’s funding objective is to meet long-term benefit obligations through approximately level contributions to the system and the accrual and compounding of investment income. As of December 31, 1999, the funded ratio of the system was approximately 100.1% using actuarial assets and actuarial liabilities of \$1,325,928 and \$1,324,662, respectively.

Pursuant to provisions in the County Employees Retirement Law of 1937, the KCERA engages an independent actuarial consulting firm, Watson Wyatt & Company, to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. The last triennial analysis was performed as of December 31, 1999, and certain changes

to economic and non-economic assumptions were adopted by the Board. A detailed discussion of funding is provided in the Financial Section of this report.

PROFESSIONAL SERVICES

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

An opinion from the certified public accountant and the actuary for the plan are included in this report. The consultants and investment managers retained by the Board are listed on page 49 of this report.

CERTIFICATE OF ACHIEVEMENT

With this CAFR presentation, the KCERA seeks the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for the first time. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for the preparation of state and local government financial reports.

ACKNOWLEDGMENTS

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

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

Respectfully submitted,



David J. Deutsch, CFA
Executive Director

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Members of the Board of Retirement
As of June 30, 2000**

PHIL FRANEY, CHARIMAN
Ex-Officio Member
County Treasurer – Tax Collector

GEOFFREY B. KING, VICE-CHARIMAN
Appointed by the Board of Supervisors
Present term expires 12/31/2001

BRENT M. DEZEMBER
Appointed by the Board of Supervisors
Present term expires 12/31/2000

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

SHARON CLARK
Recorder Department
Elected by general members
Present term expires 12/31/2000

TONY PLANTE
Fire Department
Elected by safety members
Present term expires 12/31/2000

KENNETH W. PETERSON
Appointed by the Board of Supervisors
Present term expires 12/31/2000

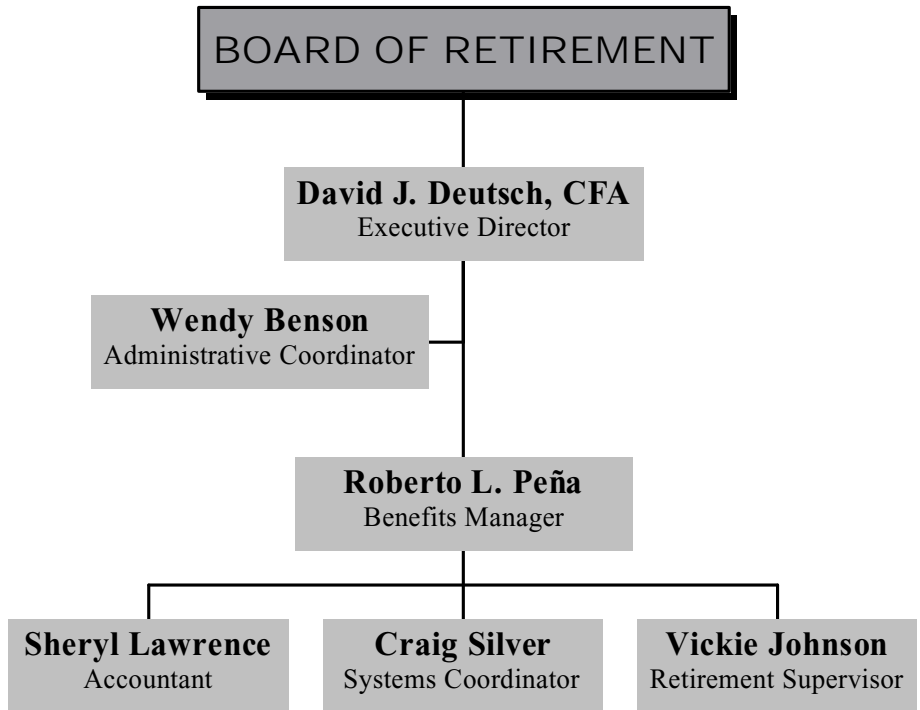
MARK J. SMITH
Appointed by the Board of Supervisors
Present term expires 12/31/2001

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

MICHAEL BRADLEY
Sheriff Department
Alternate for all elected members
Present term expires 12/31/2000

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Administrative Organization Chart
As of June 30, 2000**



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

List of Professional Consultants As of June 30, 2000

ACTUARY

Watson Wyatt & Company
Sherman Oaks, CA

AUDITOR

Brown Armstrong
Bakersfield, CA

CUSTODIAN

Bankers Trust Company
Los Angeles, CA

LEGAL

Kern County Counsel
Bakersfield, CA

Morrison & Foerster, LLP
Los Angeles, CA

INVESTMENT CONSULTANT

Wilshire Associates, Inc.
Santa Monica, CA

REAL ESTATE CONSULTANT

Heitman Capital Management Corp.
Beverly Hills, CA

OTHER SPECIALIZED SERVICES

Cortex Applied Research, Inc.
Toronto, Ontario
Canada

Note: A list of Investment Professionals is located on page 49 of the Investment Section of this report.



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
BOARD OF RETIREMENT
Phil Franey, Chairman
Geoffrey B. King, Vice Chairman
Sharon Clark
John DeMario
Brent Dezimmer
Sharon E. Lesser
Ken Peterson
Tony Plante
Mark J. Smith
Michael Bradley, Alternate

David J. Deutsch, CFA
Executive Director

December 8, 2000

Roberto L. Peña
Retirement Benefits Manager

Dear Members:

On behalf of the members of the Board of Retirement, I am pleased to present KCERA's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2000. This first Comprehensive Annual Financial Report represents a milestone for both the KCERA Board and administration in our continuing efforts to serve our members at a high standard of excellence.

This year, the KCERA Board of Retirement (Board) established governance policies for the conduct of board business. This painstaking process was guided throughout by Cortex Applied Research, Inc., retained for this purpose. The result is a common set of rules and procedures, including Board Operations Policy, Board Travel Policy, Board Education Policy, and Board Communications Policy. The Board and administration are also pursuing other initiatives in technology and human resource policies.

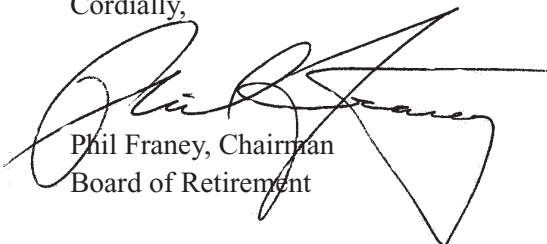
The investment fund performed well in this difficult market year. The KCERA total fund returned 9.43% as against its aggregate benchmark return of 9.16%, this excess return was buoyed by performance in the fixed income portfolio over the equity portfolio. An asset allocation study conducted for the Board by Wilshire Associates, Inc., suggested that it was prudent to retain an allocation to equity of 60% rather than increasing this allocation, and the riskiness of the fund, in the search for higher returns.

The Board distributed a record volume of benefits to KCERA members this past year. In addition, the Supplemental Benefits Program ("SRBR") continued to assure retirees of at least 80% purchasing power parity compared to the value of their benefits at the time of their retirements.

I wish to commend KCERA staff for its good work on this first Comprehensive Annual Financial Report.

Thank you.

Cordially,



Phil Franey, Chairman
Board of Retirement

1115 Truxtun Avenue, Bakersfield CA 93301.4639, Tel 661.868.3790 Fax 661.868.3779
In California 800.548.0738 TTY Relay 800.735.2929

FINANCIAL SECTION



BROWN ARMSTRONG
RANDALL REYES PAULDEN & McCOWN
CERTIFIED PUBLIC ACCOUNTANTS

■ Main Office
4200 Iruxton Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971 Fax 661-324-4997
e-mail: barrinfo@barrcpa.com
■ Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661-746-2600 Fax 661-746-1218

Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Jerry E. Randall, CPA/AEIV
Benjamin P. Reyes, CPA
Andrew J. Paulden, CPA
Harvey J. McCown, CPA
Andrea Rutherford-Hill, CPA

INDEPENDENT AUDITOR'S REPORT

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

Steven R. Starbuck, CPA
Aileen K. Keeter, CPA
Lynn R. Krausse, CPA
Stacy L. Walters, CPA
Chris M. Thornburgh, CPA
Joan M. Anderson, CPA
Bradley M. Hankins, CPA
Julianne V. Sawyer, CPA
Eric H. Xin, CPA
Melinda A. McDaniels, CPA
Thomas M. Young, CPA
Vonie L. Chronan, CPA

We have audited the accompanying statement of plan net assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2000 and 1999, and the related statement of changes in plan net assets for the years then ended. These financial statements are the responsibility of management of KCERA. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards. 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, 2000 and 1999 and its changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

The schedules on pages 34 and 35 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supporting schedules on pages 36 through 38, and the investment, actuarial and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of KCERA. The supporting schedules on pages 36 through 38 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 RANDALL
REYES PAULDEN & McCOWN
ACCOUNTANCY CORPORATION



Bakersfield, California
October 17, 2000

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2000 AND 1999

	2000	1999
Assets		
Cash in County Pool	\$ 5,787,017	\$ 6,276,600
Cash and Cash Equivalents	<u>29,828,141</u>	<u>37,378,662</u>
Total Cash and Cash Equivalents	<u>35,615,158</u>	<u>43,655,262</u>
Receivables:		
Investments Sold	76,900,571	46,706,291
Interest and Dividends	4,673,972	4,767,497
Receivable for Futures	717,100	1,743,750
Contributions and Other Receivables	<u>794,167</u>	<u>1,835,917</u>
Total Receivables	<u>83,085,810</u>	<u>55,053,455</u>
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	517,785,886	462,637,732
Global Bonds	44,094,703	42,935,865
Domestic Equity Securities	722,393,828	687,394,864
International Equity Securities	356,419,906	300,340,198
Mortgages	1,140,286	15,114,385
Real Estate	7,713,745	5,502,867
Pooled Real Estate	66,233,039	65,299,208
Alternative Investments	19,282,372	4,582,017
Collateral Held for Securities Lending	<u>23,605,906</u>	<u>24,370,809</u>
Total Investments	<u>1,758,669,671</u>	<u>1,608,177,945</u>
Property, Fixtures and Equipment, net of accumulated Depreciation of \$16,483 and \$0, respectively	<u>294,092</u>	<u>4,175</u>
Total Assets	<u>1,877,664,731</u>	<u>1,706,890,837</u>
Liabilities		
Securities Purchased	185,236,831	129,525,187
Collateral Held for Securities Lent	23,605,906	24,370,809
Other Liabilities	<u>2,077,678</u>	<u>1,309,651</u>
Total Liabilities	<u>210,920,415</u>	<u>155,205,647</u>
Net Assets Held in Trust for Pension Benefits	<u>\$ 1,666,744,316</u>	<u>\$ 1,551,685,190</u>
(A schedule of funding progress is presented on page 34.)		

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, 2000 AND 1999**

	2000	1999
Additions		
Contributions		
Employer	\$ 37,575,583	\$ 40,159,103
Member	6,145,942	5,446,223
Total Contributions	<u>43,721,525</u>	<u>45,605,326</u>
Investment Income		
Net Appreciation in Fair Value of Investments	108,346,556	132,733,652
Interest	26,386,294	24,359,203
Dividends	5,829,980	6,494,796
Real Estate Operating Income, net	446,443	716,626
Limited Partnerships Income	4,524,902	911,257
Securities Lending Revenues	1,358,066	1,153,036
Other Income	26,888	84,901
Total Investment Income	<u>146,919,129</u>	<u>166,453,471</u>
Less Investment Expenses	5,093,290	3,545,817
Less Securities Lending Rebates and Bank Charges	<u>1,256,013</u>	<u>1,024,395</u>
Net Investment Income	140,569,826	161,883,259
Total Additions	184,291,351	207,488,585
Deductions		
Retirement and Survivor Benefits	59,503,349	55,973,684
Supplemental Retirement Benefits	6,979,140	7,285,101
Refunds of Member Contributions	1,142,210	1,043,182
Administrative Expenses	1,601,849	1,392,610
Benefits Administration System Expenses	5,677	323,400
Total Deductions	<u>69,232,225</u>	<u>66,017,977</u>
Net Increase	115,059,126	141,470,608
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	<u>1,551,685,190</u>	<u>1,410,214,582</u>
End of Year	<u>\$ 1,666,744,316</u>	<u>\$ 1,551,685,190</u>

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
JUNE 30, 2000 AND 1999
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 one alternate member.

As of June 30, 2000, employee membership data related to the pension plan was as follows:

	<u>General</u>	<u>Safety</u>	<u>Total</u>
Active employees	5,582	1,527	7,109
Terminated employees – vested	811	70	881
Retirees and beneficiaries currently receiving benefits	<u>3,349</u>	<u>874</u>	<u>4,223</u>
	<u>9,742</u>	<u>2,471</u>	<u>12,213</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 chose from four optional beneficiary retirement allowances. Most retirees elect to receive the unmodified allowance which includes 60% of the allowance continued to the retirees' surviving spouse.

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

NOTE 1 – DESCRIPTION OF PLAN (Continued)

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

DEATH BENEFIT

Death Before Retirement

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

Death After Retirement

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

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

NOTE 1 – DESCRIPTION OF PLAN (Continued)

DISABILITY BENEFIT

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

COST-OF-LIVING ADJUSTMENT

- An annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted as of April 1, 1973.

SUPPLEMENTAL BENEFIT

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

Basis of Accounting

The KCERA follows the accounting principles and reporting guidelines as set forth in Statement 25 of the Governmental Accounting Standards Board (GASB). The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of the KCERA. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds of prior contributions are recognized when due and payable in accordance with the terms of the plan.

Cash and Cash Equivalents

Cash and cash equivalents consist of deposits with fiscal agents and deposits held in a pooled account with the County of Kern. International currency holdings are translated to U.S. dollars using the exchange rates in effect at June 30, 2000 and 1999.

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, 2000 and 1999.
Mortgages	Reported at the remaining principal balance and are collateralized by deeds of trust on real property.
Real estate equity	Rental properties are valued based on the most recent property appraisals.
Pooled real estate and alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.

Fixed Assets

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

Income Taxes

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

Management's Estimates

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

Reclassifications

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes.

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

NOTE 3 – CASH, INVESTMENTS, AND SECURITIES LENDING

Cash and Investments

The KCERA's deposits and investments are categorized below to give an indication of the category risk level assumed by the Plan at June 30, 2000 and 1999, as defined by GASB Statement No. 3.

Deposits

Category 1 – Insured or collateralized with securities held by the entity or by its agent in the entity's name.

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the entity's name.

Investments

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, INVESTMENTS, AND SECURITIES LENDING (Continued)

Based on the categories listed above, KCERA's deposits as of June 30, 2000 are classified as follows:

Description	Category 1	Not Categorized	Bank Balance and Carrying Amount
Cash in county pool	\$ 0	\$ 5,787,017	\$ 5,787,017
Cash and cash equivalents with fiscal agent	3,109,329	26,718,812	29,828,141
Total cash and cash equivalents	<u>\$ 3,109,329</u>	<u>\$ 32,505,829</u>	<u>\$ 35,615,158</u>

Based on the categories listed above, KCERA's investments as of June 30, 2000 are classified as follows:

	Category 1	Total Fair Value
Investments – Categorized		
U.S. Government and agency securities		
Not on securities loan	\$ 190,337,670	\$ 190,337,670
On securities loan	493,984	493,984
Repurchase agreements	44,000,000	44,000,000
Domestic corporate fixed-income securities		
Not on securities loan	120,391,671	120,391,671
On securities loan	763,413	763,413
Global bonds	44,094,703	44,094,703
Domestic equity securities		
Not on securities loan	180,317,187	180,317,187
On securities loan	510,469	510,469
International equity securities		
Not on securities loan	66,452,827	66,452,827
On securities loan	1,418,510	1,418,510
Subtotal	<u>\$ 648,780,434</u>	<u>\$ 648,780,434</u>
Investments – Not categorized		
Investments held by broker-dealers under securities loans		
U.S. Government and agency securities		5,740,794
Domestic corporate fixed-income securities		6,850,975
Domestic equity securities		3,743,522
International equity securities		6,122,245
U.S. Government and corporate fixed-income index fund		149,207,379
Domestic equity collective investment funds		359,549,875
International equity collective investment funds		282,426,324
Mortgages and other loans		79,076,990
Real estate equity		7,713,745
Limited partnerships		166,569,110
Alternative investments		19,282,372
Securities lending short-term collateral investment pool		23,605,906
Total		<u>\$1,758,669,671</u>

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

NOTE 3 – CASH, INVESTMENT, AND SECURITIES LENDING (Continued)

Based on the categories listed above, KCERA's deposits as of June 30, 1999 are classified as follows:

Description	Category 1	Not Categorized	Bank Balance and Carrying Amount
Cash in county pool	\$ 0	\$ 6,276,600	\$ 6,276,600
Cash and cash equivalents with fiscal agent	9,758,663	27,619,999	37,378,662
Total cash and cash equivalents	<u>\$ 9,758,663</u>	<u>\$ 33,896,599</u>	<u>\$ 43,655,262</u>

Based on the categories listed above, KCERA's investments as of June 30, 1999 are classified as follows:

	Category 1	Total Fair Value
Investments – Categorized		
U.S. Government and agency securities	\$ 128,815,206	\$ 128,815,206
Repurchase agreements	62,400,000	62,400,000
Domestic corporate fixed-income securities		
Not on securities loan	105,329,340	105,329,340
On securities loan	2,318,375	2,318,375
Global bonds	42,935,865	42,935,865
Domestic equity securities		
Not on securities loan	255,516,586	255,516,586
On securities loan	879,963	879,963
International equity securities		
Not on securities loan	53,170,534	53,170,534
On securities loan	1,049,734	1,049,734
Subtotal	<u>\$ 652,415,603</u>	<u>\$ 652,415,603</u>
Investments – Not categorized		
Investments held by broker-dealers under securities loans		
U.S. Government and agency securities		9,265,570
Domestic corporate fixed-income securities		9,280,945
Domestic equity securities		1,139,413
International equity securities		3,780,548
U.S. Government and corporate fixed-income index fund		145,228,297
Domestic equity collective investment funds		263,659,293
International equity collective investment funds		242,339,381
Mortgages and other loans		86,517,214
Real estate equity		5,502,867
Limited partnerships		160,095,988
Alternative investments		4,582,017
Securities lending short-term collateral investment pool		24,370,809
Total		<u>\$1,608,177,945</u>

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

NOTE 3 – CASH, INVESTMENT, AND SECURITIES LENDING (Continued)

The fair value of securities with any one organization greater than 5% of plan net assets as of June 30, 2000 (other than U.S. Government securities) is presented in the following table:

Organization	Amount (in thousands)
Corporate Bonds: W.R. Huff Asset Management	\$ 87,443
Domestic Equities: Barclay Global Investors Pacific Investment Management Company Fidelity Management Trust Company Westridge Capital Management, Inc.	359,550 100,336 84,993 77,937
International Equities: Barclay Global Investors	282,426

Securities Lending

State statutes and the KCERA's Board of Retirement permit the plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The KCERA's custodial bank, Bankers Trust Company (BT), is authorized to lend U.S. Government and agency, domestic fixed income, domestic equity, international equity, and global bond securities that are being held in custody to various borrowers, such as, banks and brokers.

Securities on loan must be collateralized with a value equal to 102%, in the case of securities of United States issuers, and 105%, in the case of securities on non-United State issuers, of the fair value of any security loaned, plus any accrued interest. 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 the Institutional Daily Assets Fund at BT.

At June 30, 2000 and 1999, the securities lending transactions collateralized by cash had a fair value of \$22,457,236 and \$23,466,476, respectively, and a collateral value of \$23,605,906 and \$24,370,809, respectively. At June 30, 2000 and 1999, the securities lending transactions collateralized by securities or letters of credit had a fair value of \$3,186,376 and \$4,248,072, respectively, and a collateral value of \$3,217,598 and \$4,360,740, respectively, which was not reported as assets and liabilities in the accompanying Statement of Plan Net Assets.

BT has agreed to hold the KCERA harmless for borrower default from the loss of securities or income, or from any litigation arising from these loans. The KCERA had no losses resulting from a default of the borrowers of BT for the years ended June 30, 2000 and 1999.

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

NOTE 4 – DERIVATIVES

The KCERA utilizes derivative instruments to hedge its exposure to certain risks and to manage cash assets. In accordance with GASB, these derivative instruments include forward currency contracts, call options, and repurchase agreements. The risks of using derivative instruments include the risk that a counterparty to a contract will be unable to meet the terms of the contracts, and adverse movements in exchange rates or interest rates. The KCERA utilizes forward currency contracts for the purpose of hedging against adverse movements in exchange rates and to facilitate settlement of transactions in foreign securities. Gains and losses from the currency hedging are included in net investment income from foreign currency transactions. The net foreign currency gain (loss) in fiscal year 2000 and 1999 are \$1,095,083 and \$(1,738,043), respectively. The KCERA mitigates counterparty risk through the use of highly-liquid, exchange-traded securities for which the clearing house guarantees performance.

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

	June 30, 2000	June 30, 1999
Forward Currency Contracts (Receivables)	\$66,750	\$42,067
Forward Currency Contracts (Payables)	(67,391)	(42,663)
Call Options	7,687	0
Repurchase Agreements	44,000	62,400
 Total Derivatives	 \$51,046	 \$61,804

In \$ Thousands

NOTE 5 – FUNDING POLICY

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

The employer contribution rates have been determined using the Projected Unit Credit Cost method. The employer contribution is made up of two parts:

1. The Normal Cost, or the cost of the portion of the benefit that is allocated to the current year.
2. The payment to amortize the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is the excess of the Plan's accrued liability over its assets. Most of the UAAL is currently amortized over 23 years, except for the additional liabilities due to granting Golden Handshake benefits, which are amortized over three years from the year in which they were granted.

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

NOTE 5 – FUNDING POLICY (Continued)

Employer contributions are based on total compensation. For valuation purposes, total compensation is estimated to be base pay plus 2.4% for General Members, and base pay plus 9.7% for Safety Members. Participating Special Districts did not participate in the funding provided by a pension obligation bond of \$224.5 million issued by the County of Kern in November 1995. Therefore, different employer contribution rates are required to fund the unfunded liabilities for each class of participation.

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

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

The rate of contributions for Special Districts changed on September 27, 1997, to reflect the impact of the County of Kern MOU, applicable to county members. Ten out of twelve Special Districts adopted provisions parallel to the MOU. Two Special Districts did not adopt the MOU, Buttonwillow Recreation and Park District and San Joaquin Valley Unified Air Pollution Control District.

The following table summarizes the required contribution rate in effect at June 30, 2000. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rate	Employer Rates
General Members	4.42% - 10.78%	11.62%
Safety Members	4.36% - 10.24%	14.69%
Special Districts (Electing MOU)	4.42% - 10.78%	13.50%
Special Districts (Not Electing MOU)	4.42% - 10.78%	9.39%

Total contributions made during fiscal years 2000 and 1999, respectively, amounted to \$43,721,525 and \$45,605,326 of which \$37,575,583 and \$40,159,103 were contributed by the County of Kern and Special Districts, and \$6,145,942 and \$5,446,223 were contributed by members.

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

NOTE 5 – FUNDING POLICY (Continued)

Supplemental Retirement Benefits

A supplemental benefits program currently provides enhancement to benefits payable to retirees and their beneficiaries such as to bring all eligible recipients up to 80% of dollar purchasing power as of their retirement date. The program is contingently funded from one half of “excess” i.e. earnings greater than the assumed actuarial rate of interest. While the impact on the fund of paying supplemental benefits is difficult to project, the supplemental program is an additional cost of the plan. For fiscal years 2000 and 1999, respectively, \$18,190,033 and \$15,586,209 of excess earnings were added to the Supplemental Retiree Benefit Reserve (SRBR) and were not available for the regular benefits program.

NOTE 6 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS

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

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

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

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

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

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

Contingency Reserve – excess income to supplement deficient earnings. The contingency reserve satisfies the Government Code Section 31616 requirement for the KCERA to reserve at least 1% of assets, up to a maximum of 3% of assets. At fiscal year ended June 30, 2000, the Board of Retirement designated 2% of the Plan's assets to be reserved for contingencies.

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

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

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2000 and 1999 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are, as follows:

	<u>2000</u>	<u>1999</u>
Members' deposit reserve, general	\$ 97,453,892	\$ 89,658,790
Members' deposit reserve, safety	58,319,390	55,696,681
Members' deposit reserve, special district	8,284,672	7,638,722
Employer's advance reserve, general	191,714,108	138,070,274
Employer's advance reserve, safety	181,581,785	133,789,230
Employer's advance reserve, special district	12,677,187	8,869,835
Cost of living reserve, general	189,409,737	215,161,227
Cost of living reserve, safety	154,339,532	174,274,205
Cost of living reserve, special district	2,884,250	2,952,705
Retired members' reserve, general	305,734,637	285,791,492
Retired members' reserve, safety	162,874,571	147,064,249
Supplemental retiree benefit reserve (SRBR)	155,079,380	132,578,252
Contingency reserve	<u>33,334,886</u>	<u>31,030,265</u>
Total Reserves at Five-Year Smoothed Market Asset Valuation	1,553,688,027	1,422,575,927
Unrealized Investment Portfolio Appreciation*	<u>113,056,289</u>	<u>129,109,263</u>
Total Reserves at Fair Value	<u>\$ 1,666,744,316</u>	<u>\$ 1,551,685,190</u>

*This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2000 and 1999.

Note: The employers advanced reserves and the cost-of-living reserves at June 30, 2000 have been adjusted per the actuarial valuation as of December 31, 1999.

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

NOTE 7 – 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. The following budget to actual analysis of administrative expenses is based upon the budget, as approved by the Board of Retirement, and reflects actual administrative expenses:

For the Fiscal Year Ended June 30, 2000

* Total Asset Base as of June 30, 2000 at Fair Value	<u>\$1,854,058,825</u>
Maximum Allowable for Administrative Expenses (.0018 X \$1,854,058,825)	<u>3,337,306</u>
** Operating Budget for Fiscal Year 1999-00	<u>1,722,417</u>
** Actual Administrative Expenses for Fiscal Year Ended June 30, 2000	<u>1,585,366</u>
Under Expended Operating Budget	<u>\$ 137,051</u>

For the Fiscal Year Ended June 30, 1999

* Total Asset Base as of June 30, 1999 at Fair Value	<u>\$1,682,520,028</u>
Maximum Allowable for Administrative Expenses (.0018 X \$1,682,520,028)	<u>3,028,536</u>
** Operating Budget for Fiscal Year 1998-99	<u>1,513,227</u>
** Actual Administrative Expenses for Fiscal Year Ended June 30, 1999	<u>1,302,588</u>
Under Expended Operating Budget	<u>\$ 210,639</u>

* Collateral held for securities lending is excluded from the total asset base for fiscal years 2000 and 1999 but is included in the amounts classified as total assets for the KCERA's financial statements.

** Pension disbursement expense for fiscal year 1999 and depreciation expense for fiscal year 2000 and 1999 are excluded from the operating budget and actual administrative expenses but are included in the amounts classified as administrative expenses for the KCERA's financial statements.

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

NOTE 8– COMMITMENTS AND CONTINGENCIES

Capital Commitments

On February 11, 1998, the KCERA's Board of Retirement approved a \$20 million allocation to two private equity fund-of-funds managers', Pantheon Ventures, Inc. (\$5 million) and Abbott Capital Management (\$15 million). On April 15, 1998, the Board of Retirement revised the allocation to private equity fund-of-funds from \$20 million to \$30 million (\$22.5 million to Abbott Capital Management and \$7.5 million to Pantheon Ventures, Inc.). Private equity investments have a long life cycle involving commitment, drawdowns, maturation, and stock distribution. Effective exposure will likely reach maximum at four to six years and the effective allocation over this time is about 65% of the total commitment. As of June 30, 2000, the KCERA funded \$19,282,372 of these capital commitments.

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. 236460-7NFT (hereafter "KLEA") was filed on June 9, 1998. The KLEA case arises from the California Supreme Court decision entitled *Ventura County Deputy Sheriffs' Association v. Board of Retirement of Ventura County Employees' Retirement Association* (hereafter, "*Ventura*"). In the *Ventura* case, the court provided guidance on the elements of pay, which form the compensation base (also known as "compensation earnable") ultimately included in a member's "final compensation" for purposes of calculating the member's retirement allowance.

As a consequence of *Ventura*, the Board of Retirement of the Kern County Employees' Retirement Association ("KCERA Board") adopted a resolution specifying which elements of pay are included in "compensation earnable". The KCERA Board further determined that inclusion of the elements of pay previously excluded would be effective on a prospective basis commencing October 1, 1997, which was the day on which the *Ventura* decision became final. The cost of the expanded definition of "compensation earnable" adopted by the KCERA Board was estimated by its actuary at \$26.4 million and is recognized in the KCERA's most recent actuarial valuation dated December 31, 1999.

The KLEA litigation seeks inclusion of additional items of pay not included by the KCERA Board in its resolution implementing the *Ventura* decision. Specifically, petitioners ask that the following items be included in a member's compensation base when calculating a retirement allowance: (i) "separation pay", representing cash payments for accruals of sick and vacation leave at retirement; (ii) the cash value of the member's health insurance benefits provided by the employer; and (iii) the amount of member contributions paid by the employer on behalf of the member. (There are additional items requested in the KLEA litigation; however, the other items requested are of much smaller financial impact.) In addition, the KLEA litigation asks that the *Ventura* decision be made retroactive to require a recalculation of retirement allowances for members retired prior to October 1, 1997 and include all approved pay items in the recalculated retirement benefit. That increased benefit would be paid retroactively for a three-year period and into the future. The KLEA litigation has been coordinated with other lawsuits brought against other counties and retirement systems operating under the same law as the KCERA.

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

NOTE 8– COMMITMENTS AND CONTINGENCIES (Continued)

The KCERA Board has asked its actuary to estimate the potential financial impacts in the event petitioners are successful on all claims. The preliminary amount estimated by the actuary is in excess of \$500.0 million. The likelihood that petitioners will succeed on all counts is less than probable. After a hearing on June 1, 2000, the trial court found for the retirement systems and counties in its holding that separation pay, the cash value of health insurance benefits, and employer-paid employee contributions to the retirement fund are not required to be included when calculating a member's final compensation. If that decision is not appealed, but petitioners are successful in obtaining retroactive application of the *Ventura* decision, the cost to the KCERA, as estimated by KCERA's actuary, will be an additional \$22.6 million. The outcome of the litigation is not determinable at this time. Accordingly, neither the \$500.0 million nor the \$22.1 million estimate has been included in the actuarial valuation dated December 31, 1999.

NOTE 9– REQUIRED SUPPLEMENTARY INFORMATION

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) (3) – (2)	Funded Ratio (2)/(3)	Annual Covered Payroll	UAAL as % of Annual Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
12/31/99	\$1,325,928	\$1,324,662	\$(1,267)	100.1%	\$297,738	-0.4%
12/31/98	1,203,670	1,179,753	(23,917)	102.0%	282,251	-8.5%
12/31/97	1,113,914	1,140,019	26,105	97.7%	266,640	9.8%
12/31/96	1,003,076	1,029,574	26,498	97.4%	273,351	9.7%
12/31/95	920,750	952,880	32,130	96.6%	270,454	11.9%
12/31/94	620,181	851,616	231,436	72.8%	255,428	90.6%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2000	\$37,575,583	100%
1999	40,159,103	100%
1998	35,420,517	100%
1997	27,902,854	100%
1996	38,569,856	661%*
1995	35,950,004	100%

*Percentage reflects pension obligation bond proceeds totaling \$224.5 million.

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2000 AND 1999

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, 1999 is as follows:

Valuation date:	December 31, 1999
Actuarial cost method:	Projected unit credit method
Amortization method:	Level percent closed
Remaining amortization period: ¹	22 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	8.0%
Projected salary increases:	5.5% - 6.0%
Includes inflation at:	4.0%
Annual increase in system benefits cap:	2.0%

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

As a result of the January 1, 1997 to December 31, 1999 experience study, changes have been made in both demographic and economic assumptions. The changes in actuarial assumptions since prior year are as follows:

Demographic Assumptions:

- Ordinary disability rates to reflect recent experience.
- Service disability rates to reflect recent experience.
- Vested termination rates to reflect recent experience.
- Changed mortality table from 1983 Group Annuity Mortality Table (for regular retirement) to 1994 Group Annuity Mortality Table.

Economic Assumptions:

- Investment rate of return from 8.25% to 8.0%.
- Inflation rate from 4.5% to 4.0%.

See accompanying independent auditors' report.

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPORTING SCHEDULES

Schedule of Administrative Expenses For the Years Ended June 30, 2000 and 1999

	2000	1999
<i>Personnel Services:</i>		
Salaries & Wages	\$ 540,170	\$ 568,730
Employee Benefits	200,277	204,876
Total Personnel Services	740,447	773,606
<i>Professional Services:</i>		
Legal Counsel	304,666	141,563
Audit	38,621	33,731
Medical Hearing Officers	28,857	29,523
Data Processing	20,044	27,029
Other Professional Services	16,523	11,282
Total Professional Services	408,711	243,128
<i>Communication:</i>		
Postage	10,854	8,040
Printing	5,582	1,005
Telephone	13,908	17,408
Transportation & Travel	66,589	83,717
Publications/Legal Notifications	1,225	801
Total Communication	98,158	110,971
<i>Miscellaneous:</i>		
Building & Equipment Leases	43,119	52,868
Office Expense	56,521	69,483
Insurance	5,999	2,576
Maintenance	1,823	3,458
Memberships	6,354	5,320
Special Departmental Expense	1,800	1,379
Other Services	134,751	41,560
Pension Disbursements	87,683	90,022
Depreciation and Amortization	16,483	0
Other	0	(1,761)
Total Miscellaneous	354,533	264,905
Total Administrative Expenses	\$1,601,849	\$1,392,610

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPORTING SCHEDULES (Continued)

**Schedule of Investment Expenses
For the Years Ended June 30, 2000 and 1999**

	2000	1999
<i>Investment Manager Fees:</i>		
Equity		
Domestic	\$ 1,890,595	\$ 1,076,489
International	1,145,964	850,699
Fixed Income		
Domestic	931,297	364,090
Global	46,513	70,648
Mortgage Loans	198,422	81,028
Real Estate		
Investments in Real Estate	305,088	280,099
Individual Properties	50,803	143,971
Securities (REITs)	131,614	133,655
Total Investment Manager Fees	<u>4,700,296</u>	<u>3,000,679</u>
 <i>Other Investment Expenses:</i>		
Custodian	217,494	338,531
Actuarial Valuation	<u>50,500</u>	<u>91,607</u>
Investment Consultant	<u>125,000</u>	<u>115,000</u>
Total Other Investment Expenses	<u>392,994</u>	<u>545,138</u>
 Total Fees and Other Investment Expenses	 <u>5,093,290</u>	 <u>3,545,817</u>
 <i>Security Lending Rebates and Bank Charges</i>	 <u>1,325,783</u>	 <u>1,024,395</u>
 Total Investment Expenses	 <u>\$ 6,419,073</u>	 <u>\$ 4,570,212</u>

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPORTING SCHEDULES (Continued)

**Schedule of Payments to Consultants
For the Years Ended June 30, 2000 and 1999**

<i>Individual or Firm</i>	<i>Nature of Service</i>	<i>Commission / Fee</i>	
		2000	1999
Brown Armstrong	External Auditors/Tax Advisor	\$ 39,867	\$ 33,731
Morrison & Foerster, LLP	Legal Counsel	209,668	38,284
Kern County Counsel	Legal Counsel	97,471	103,279
Klein Denatale et al.	Legal Counsel	8,488	0
Watson Wyatt & Company	Actuarial Services	74,068	91,607
Carolyn Ford & Associates	Technology Consultants	3,402	60,548
KPMG, LLP	Technology Consultants	0	40,571
Cortex Applied Research, Inc.	Strategic Planning Consultant	71,132	0
Total Payments to Consultants		\$ 533,553	\$ 407,358

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

See accompanying independent auditors' report.



BROWN ARMSTRONG
RANDALL REYES PAULDEN & McCOWN
CERTIFIED PUBLIC ACCOUNTANTS

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e-mail: barrinfo@barrcpa.com
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Peter C. Brown, CPA
Burton H. Armstrong, CPA, MST
Jerry E. Randall, CPA/AEIV
Benjamin P. Reyes, CPA
Andrew J. Paulden, CPA
Harvey J. McCown, CPA
Andrea Rutherford-Hill, CPA

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

Steven R. Starbuck, CPA
Aileen K. Keeter, CPA
Lynn R. Krausse, CPA
Stacy L. Walters, CPA
Chris M. Thornburgh, CPA
Joan M. Anderson, CPA
Bradley M. Hankins, CPA
Julianne V. Sawyer, CPA
Eric H. Xin, CPA
Melinda A. McDaniels, CPA
Thomas M. Young, CPA
Vonie L. Chronan, CPA

We have audited the financial statements of the Kern County Employees' Retirement Association as of and for the year ended June 30, 2000, and have issued our report thereon dated October 17, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Kern County Employees' Retirement Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Kern County Employees' Retirement Association's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the management and the Board of Retirement. However, this report is a matter of public record and its distribution is not limited once it has been approved by the Board of Retirement.

BROWN ARMSTRONG RANDALL
REYES PAULDEN & McCOWN
ACCOUNTANCY CORPORATION



Bakersfield, California
October 17, 2000

INVESTMENT SECTION

December 7, 2000

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

Dear Mr. Deutsch,

I am pleased to provide you with our report on the Kern County Employees' Retirement Association (KCERA) for the year ending June 30, 2000.

For the fiscal year ended June 30, 2000, the KCERA's retirement fund had an investment gain of 9.43% and ended the year with total assets of \$1.66 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 this Board in March 2000. The statement was appended in August 2000 to provide guidelines for the recently retained fixed income manager, Goldman Sachs Asset Management.

At fiscal year end, the KCERA's retirement fund's asset allocation was in the process of being rebalanced to new target allocations adopted by this Board in December 1999. In addition, all managers were in compliance with their guidelines on June 30, 2000.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Domestic Equities	40%	44%
International Equities	20%	21%
Fixed Income	35%	28%
Real Estate	5%	7%
Cash	0%	1%

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

- The KCERA's total fund returned 9.43% for the year, versus its policy's return of 9.16%. Outperformance versus policy was largely due to the slight overweight on domestic equities and the underweight on fixed income relative to the new policy targets.
- The KCERA's equity composite returned 8.02% versus a return of 9.52% for the Wilshire 5000. In a year characterized by growing economic concerns and the stellar growth of the emerging technology sector, underperformance by some of the KCERA's active equity managers negatively impacted results.

WILSHIRE ASSOCIATES
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- The KCERA's fixed income composite returned 5.24% versus 4.56% for the Lehman Aggregate Bond Index. While events in the fixed income markets took a toll on many managers as the Federal Reserve raised interest rates several times and the U.S. Government embarked on a program of repurchasing its issued debt, the KCERA's managers added value over the year.
- The KCERA's international equity composite grew 16.47% while the MSCI Europe, Australia, and Far East (EAFE) Index returned 17.18%. European markets have been substantially impacted over the last year by the continued deterioration in the value of the Euro while Asian markets faltered in the rebound from the crises of 1997 and 1998 due to increased concerns about the Japanese financial industry. Despite these macroeconomic issues, however, the KCERA's developed markets managers appear to have fared well, while the KCERA's emerging markets manager underperformed its benchmark by a wide margin.

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
Senior Associate

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OUTLINE OF INVESTMENT POLICIES

Adopted by the Board of Retirement March 8, 2000

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 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 one alternate member. 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 trustee.
- 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.
- Formal reviews of every aspect of the investment program shall be conducted on a regular basis.

KERN COUNTY EMPLOYEES' RETIEMENT ASSOCIATION

OUTLINE OF INVESTMENT POLICIES (Continued)

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.

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 material 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 current 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.

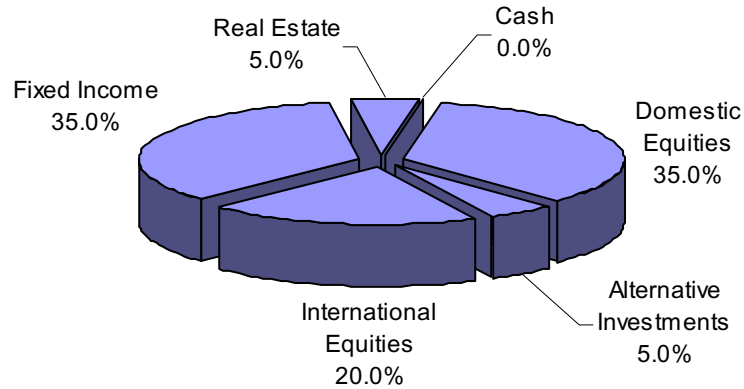
The target asset allocation and the actual asset allocation at June 30, 2000 are as follows:

	<u>Actual*</u>	<u>Target</u>	<u>Target Ranges</u>	
			<u>Minimum</u>	<u>Maximum</u>
Domestic Equities	42.5%	35.0%	31.2%	39.2%
International Equities	21.4%	20.0%	15.0%	25.0%
Fixed Income	27.5%	35.0%	33.0%	37.0%
Real Estate	6.5%	5.0%	0.0%	10.0%
Alternative Investments	1.0%	5.0%	0.0%	5.2%
Cash	1.1%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

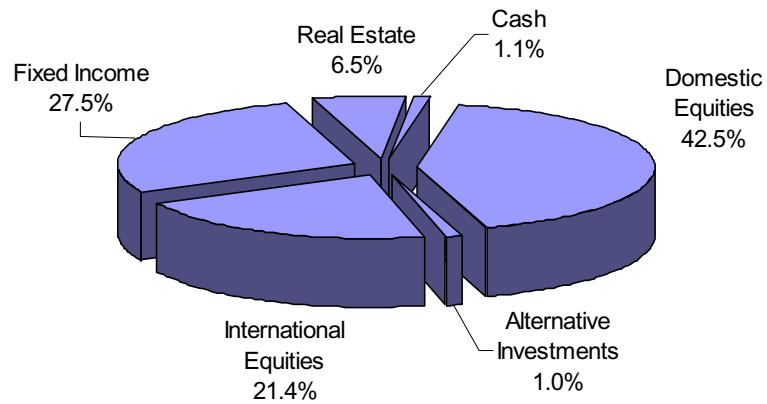
KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ASSET ALLOCATION (Continued)

June 30, 2000 Target Asset Allocation



June 30, 2000 Actual Asset Allocation*



*The June 30, 2000 actual asset allocation is based upon Wilshire Associates's June 30, 2000 Kern County Employees' Retirement Association Investment Performance Analysis.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Results

Returns for Periods Ended June 30, 2000

	Current Year	Annualized		
		3-year	5-year	10-year
Total Portfolio:	9.43	11.40	13.62	11.53
*Benchmark: Composite Policy	9.16	11.73	13.73	13.26
TUCS Master Trust Median	9.96	13.36	15.80	13.27
Domestic Equity:	8.02	18.23	21.86	16.49
Benchmark: Wilshire 5000 Index	9.52	19.07	22.47	17.29
TUCS Equity Median	8.95	17.90	21.63	17.11
International Equity:	16.47	8.15	10.31	7.75
**Benchmark: Custom Index	18.11	9.46	11.12	8.28
Benchmark: MSCI ACWI ex-U.S. Index	17.18	10.18	11.32	7.96
TUCS International Equity Median	18.98	11.02	14.35	10.47
Fixed Income:	5.24	5.88	6.16	8.09
Benchmark: Lehman Aggregate Index	4.56	6.03	6.25	7.82
TUCS Fixed Income Median	4.61	6.06	6.59	8.42
Real Estate:	9.11	5.03	6.54	4.08
Benchmark: 50% Wilshire Real Estate Securities Index / 50% Wilshire Real Estate Fund Index	8.08	7.63	10.83	5.12
Cash & Cash Equivalents	5.36	5.57	5.60	5.37
Benchmark: 91-Day T-Bill	5.18	5.18	5.33	5.17

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

**Kern County International Equity Composite:	
Inception – 2Q99	50% MSCI Europe / 50% MSCI Pacific Basin (unhedged)
2Q99 – Present	MSCI ACWI Fr X US (G)

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Professionals

Investment Managers

DOMESTIC EQUITY

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

Fidelity Management Trust Company
Boston, MA

Pacific Investment Management Company
Newport Beach, CA

Rothschild Asset Management, Inc.
New York, NY

Westridge Capital Management, Inc.
Santa Barbara, CA

FIXED INCOME

FFCA Institutional Advisors, Inc.
Scottsdale, AZ

Heitman Capital Management Corp.
Chicago, IL

Hyperion Capital Management, Inc.
New York, NY

Mellon Bank
Philadelphia, PA

W.R. Huff Asset Management Co., LLC
Hyperion Capital Management, Inc.
New York, NY

GLOBAL FIXED INCOME

Fiduciary Trust Company International
New York, NY

Investment Managers (Continued)

REAL ESTATE

Fidelity Real Estate Asset Manager
Boston, MA

Heitman Capital Management Corp.
Chicago, IL

LaSalle Securities Limited
Baltimore, MD

ALTERNATIVE INVESTMENTS

Abbott Capital Management, LLC
Boston, MA

Pantheon Ventures, Inc.
San Francisco, CA

Consultant

Wilshire Associates, Inc.
Santa Monica, CA

Actuary

Watson Wyatt & Company
Sherman Oaks, CA

Custodian

Bankers Trust Company
Los Angeles, CA

KERN COUNTY EMPLOYEES RETIREMENT ASSOCIATION

Schedule of Investment Fees and Services For the Years Ended June 30, 2000 and 1999

	2000	1999
<i>Investment Managers' Fees</i>		
Domestic Equity Managers:		
Barclays Global Investors, N.A.	\$ 57,622	\$ 54,446
Fidelity Management Trust Company	295,673	315,790
Rothschild Asset Management, Inc.	493,954	449,162
Westridge Capital Management, Inc.	1,043,346	257,091
Total Domestic Equity Managers	1,890,595	1,076,489
International Equity Managers:		
Barclays Global Investors, N.A.	461,141	321,192
HSBC Asset Management	684,823	405,828
Phillips & Drew	0	123,679
Total International Equity Managers	1,145,964	850,699
Domestic Fixed Income Managers:		
Heitman Capital Management Corp.	198,422	81,028
Hyperion Asset Management, Inc.	254,093	123,728
Mellon Bank	81,826	90,565
W.R. Huff Asset Management Co., LLC	595,378	149,797
Total Domestic Fixed Income Managers	1,129,719	445,118
Global Fixed Income Managers:		
Fiduciary Trust Company International	46,513	70,648
Real Estate Managers:		
Fidelity Real Estate Asset Manager	305,088	280,099
Heitman Capital Management Corp.	50,803	143,971
LaSalle Securities Limited	131,614	133,655
Total Real Estate Managers	487,505	557,725
Total Investment Managers' Fees	4,700,296	3,000,679
<i>Custodial Fees</i>		
Bankers Trust Company	172,407	221,083
Barclays Global Investors, N.A.	45,087	117,448
Total Custodial Fees	217,494	338,531
<i>Actuarial Fees</i>		
Watson Wyatt & Company	50,500	91,607
<i>Investment Consultant Fees</i>		
Wilshire Associates, Inc.	125,000	115,000
<i>Security Lending Fees</i>		
Bankers Trust Company	1,325,783	1,024,395
Total Investment Fees and Services	\$ 6,419,073	\$ 4,570,212

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Fees and Commissions For the Year Ended June 30, 2000

Fees:

	Assets under management	Fees
Investment managers' fees:		
Domestic equity managers	\$ 606,455,699	\$ 1,890,595
International equity managers	356,749,054	1,145,964
Fixed income managers	448,395,579	1,176,232
Real estate managers	107,775,834	487,505
Total investment managers' fees	<u>\$ 1,519,376,167</u>	<u>\$ 4,700,296</u>
Other investment service fees:		
Custodial fees	-	\$ 217,494
Actuarial fees	-	50,500
Investment consultant fees	-	125,000
Security lending fees	-	1,325,783
Total investment service fees	-	<u>\$ 1,718,777</u>

Commissions:

Brokerage Firm	Total Commissions	Shares Traded	Commissions Per Share
A.B. WATLEY; INC.	130.00	2,600.00	0.0500
ABEL NOSER CORP.	5,388.90	151,200.00	0.0356
ANDRAS RESEARCH CAP	25.60	800.00	0.0320
BAIRD (ROBERT W.) & CO.; INC.	5,842.00	97,700.00	0.0598
BANCAMERICA ROBERTSON STEPHENS	2,283.00	45,000.00	0.0507
BARING SECURITIES INC	162.00	2,800.00	0.0579
BEAR; STEARNS & CO	8,303.18	611,549.00	0.0136
BERNSTEIN (SANFORD C) & CO INC	1,416.00	23,700.00	0.0597
BRADFORD (J.C.) & CO.	414.00	6,900.00	0.0600
BRIDGE TRADING CO	250.00	5,000.00	0.0500
BROWN BROTHERS HARRIMAN & CO	4,261.00	71,600.00	0.0595
B-TRADE SERVICES LLC	131.00	13,100.00	0.0100
BUCKINGHAM RESEARCH	744.00	12,400.00	0.0600
BUNTING WARBURG INC	2,156.80	67,400.00	0.0320
CANTOR; FITZGERALD & CO.; INC.	2,462.80	49,376.00	0.0499
CAPEL JAMES; SECURITIES INC	727.36	22,730.00	0.0320

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Commissions: (Continued)

Brokerage Firm	Total Commissions	Shares Traded	Commissions Per Share
CHAPMAN & CO	80.00	1,600.00	0.0500
CHICAGO CORPORATION	5,448.00	100,750.00	0.0541
CIBC OPPENHEIMER CORP WG	166.40	5,200.00	0.0320
CIBS OPPENHEIMER CORP	967.20	26,400.00	0.0366
CORRESPONDENT SERVICES CORP	9.00	300.00	0.0300
COUNTY SECURITIES CORP USA	1,945.00	38,900.00	0.0500
COWEN & CO	4,140.00	79,800.00	0.0519
DAVIDSON (D.A.) & CO.; INC.	2,535.00	42,500.00	0.0596
DEACON CAPITAL	16.00	500.00	0.0320
DOMINION SECURITIES / AMES INC	345.60	10,800.00	0.0320
EBERSTADT (F.) & CO.; INC.	6,535.00	127,800.00	0.0511
EDWARDS (A.G.) & SONS; INC.	5,469.75	94,795.00	0.0577
ELKINS-MCSHERRY	16.00	800.00	0.0200
EQUITABLE SECURITIES CORP	7,638.00	127,300.00	0.0600
ERNST & CO	8.00	400.00	0.0200
EXECUTION SERVICES INCORP	315.00	6,300.00	0.0500
FACTSET DATA SYSTEMS; INC	2,895.00	57,900.00	0.0500
FIRST ALBANY CORPORATION	2,535.60	54,060.00	0.0469
FIRST MARATHON SECURITIES LTD.	476.80	14,900.00	0.0320
FOX-PITT KELTON INC.	2,553.06	42,601.00	0.0599
FURMAN SELZ MAGER DIETZ BIRNEY	3,216.00	53,600.00	0.0600
GANT J W & CO	40.00	800.00	0.0500
GOLDMAN SACHS & CO.	3,983.60	92,100.00	0.0433
GREENSTREET ADVISORS	2,365.00	42,300.00	0.0559
GRIFFITHS MCBURNEY & PARTNERS	6.40	200.00	0.0320
HAMBRECHT & QUIST INCORPATION	520.00	8,900.00	0.0584
HOENIG & CO. INC.	2,430.00	48,600.00	0.0500
INSTINET CORP	2,898.00	118,200.00	0.0245
INVESTMENT TECHNOLOGY GRP INC.	30,499.10	1,552,975.00	0.0196
J P MORGAN SEC EQUITY GROUP	1,275.00	25,500.00	0.0500
JANNEY; MONTGOMERY; SCOTT INC	4,092.00	68,200.00	0.0600
JEFFERIES & COMPANY; INC	1,228.50	45,800.00	0.0268
JONES & ASSOCIATES	2,481.00	56,300.00	0.0441
KEEFE BRUYETTE & WOODS INC	1,350.00	22,500.00	0.0600
KING (C.L.) & ASSOCIATES; INC.	5,034.00	83,900.00	0.0600
LAZARD FRERES & CO	1,705.00	34,100.00	0.0500
LEGG MASON	9,697.35	188,247.00	0.0515
LEHMAN BROTHERS INC.	4,596.00	88,000.00	0.0522
LEWCO SEC AGT/WERTHEIM	5,084.00	97,500.00	0.0521

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Commissions: (Continued)

Brokerage Firm	Total Commissions	Shares Traded	Commissions Per Share
LYNCH JONES	22,569.56	699,852.00	0.0322
MCDONALD & COMPANY SECURITIES	8,937.18	148,953.00	0.0600
MCLEOD YOUNG WEIR INC	3.20	100.00	0.0320
MERRILL LYNCH	26,582.92	1,316,915.00	0.0202
MERRILL LYNCH PROF CLR CRP	85.00	1,700.00	0.0500
MERRILL LYNCH; PIERCE;	4,178.00	97,700.00	0.0428
MIDWEST	3,696.00	63,000.00	0.0587
MILLER TABAK	60.00	1,500.00	0.0400
MORGAN STANLEY & CO.; INC	7,827.00	141,400.00	0.0554
MORGAN; KEEGAN & COMPANY INC.	3,044.40	49,930.00	0.0610
NATIONAL INVESTOR SERVICES	720.00	22,500.00	0.0320
NATIONSBANC MONT SEC LLC SAN F	4,201.00	82,200.00	0.0511
NEUBERGER & BERMAN	232.50	9,300.00	0.0250
NOMURA SECURITIES	1,228.11	32,300.00	0.0380
PAINE WEBBER JACKSON & CURTIS	9,395.00	168,900.00	0.0556
PERSHING	1,138.00	20,600.00	0.0552
PIPER;JAFFRAY & HOPWOOD INC	606.00	10,100.00	0.0600
PRUDENTIAL BACHE SECURITIES	7,591.00	138,200.00	0.0549
RAYMOND;JAMES & ASSOCIATES INC	3,474.00	57,900.00	0.0600
ROBINSON HUMPHREY	490.00	9,800.00	0.0500
SBC WARBURG DILLON READ INC	5,524.00	100,800.00	0.0548
SEAPORT SECURITIES	172.50	6,900.00	0.0250
SIMMONS FIRST NATIONAL BANK	45.00	900.00	0.0500
SMITH BARNEY INC.	6,355.00	124,100.00	0.0512
STANDARD & POORS	1,115.00	22,300.00	0.0500
STATE STREET BROKERAGE SERVICE	90.00	1,800.00	0.0500
STEPHENS INC.	65.00	1,300.00	0.0500
THE CITATION GROUP	670.60	17,300.00	0.0388
UNDERWOOD; NEUHAUS & COMPANY	1,188.00	19,800.00	0.0600
WEEDEN & CO	128.00	3,200.00	0.0400
WEISS; PECK & GREER L L C	15.00	300.00	0.0500
WOOD GUNDY	1,552.00	48,500.00	0.0320
TOTAL	\$284,271.97	8,065,233.00	

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Largest Stock Holdings (By Market Value) As of June 30, 2000

Shares	Stocks	Market Value
70,400	General Electric Co. (U.S.)	\$ 3,731,200
23,700	Intel Corp.	3,168,394
47,300	Cisco Systems	3,006,506
33,000	Microsoft Corp.	2,640,000
108,440	Duke Realty Investment, Inc.	2,426,345
56,197	Avalonbay Cmmtys, Inc.	2,346,225
39,300	Wal Mart Stores, Inc. Com	2,264,663
27,532	Exxon Mobil Corp.	2,161,262
65,805	Starwood Hotels & Resorts Worldwide, Inc.	2,142,775
44,700	Spieker Pptys, Inc.	2,056,200

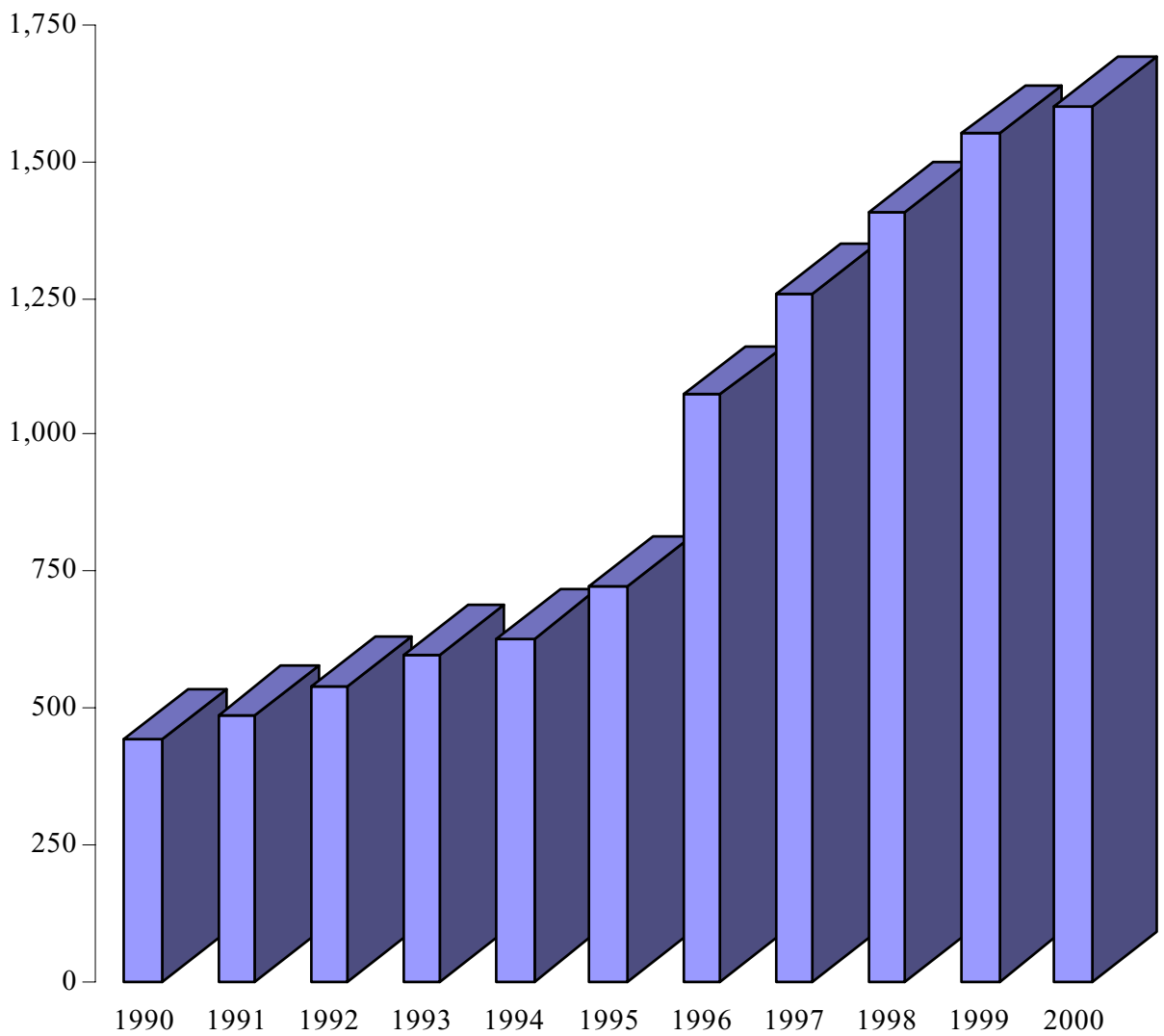
Largest Bond Holdings (By Market Value) As of June 30, 2000

Par	Bonds	Market Value
12,887,026	FNMA MTG Pass Through 6.000% due 9/01/2013	\$ 12,206,333
11,754,776	FNMA MTG Pass Through 6.000% due 8/01/2013	11,133,889
7,606,054	FNMA MTG Pass Through 6.000% due 5/01/2029	6,961,897
5,590,000	U.S. Treasury Bills DTD 8/19/1999 8/17/2000	5,550,535
6,005,387	FNMA MTG Pass Through 6.000% due 7/01/2029	5,496,791
5,774,356	FNMA MTG Pass Through 6.000% due 12/01/2028	5,285,326
4,653,211	GNMA 6.500% DTD 11/01/1998 due 11/15/2028	4,417,619
4,575,000	Emmis Broadcasting Corp. 8.125% due 3/15/2009	4,117,500
4,488,559	Federal Home Loan MTG Corp. 6.000% due 8/01/2028	4,112,643
4,009,484	FNMA MTG Pass Through 6.500% due 3/15/2028	3,807,767

A complete list of portfolio holdings is available upon request.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Market Value Growth of Plan Assets
For Ten Years Ended June 30, 2000**



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Summary For the Year Ended June 30, 2000

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
<i>Equities</i>		
Common Stock	\$ 142,452	8.0%
S&P 500 Index Fund	288,761	16.3%
Small Cap Growth Index Fund	70,789	4.0%
Enhanced S&P 500 Strategies	193,757	10.9%
International Equities	73,993	4.2%
International Equity Index Funds	224,460	12.7%
Emerging Markets Index Funds	57,966	3.3%
Total Equities	1,052,178	59.4%
<i>Fixed Income</i>		
U.S. Treasuries & Agencies	4,456	0.3%
Corporate Bonds	87,443	4.9%
Government / Corporate Bond Index	149,207	8.4%
Agency Mortgage Backed Securities	230,610	13.0%
Asset Backed Securities	2,829	0.2%
Commercial Mortgage Backed Securities	27,757	1.6%
Co-Investments in Commercial Mortgages	8,775	0.5%
Mortgage Loans	1,140	0.1%
Global Bonds	44,095	2.5%
Total Fixed Income	556,312	31.4%
<i>Real Estate</i>		
Public / Private Real Estate Investments	57,457	3.2%
Individual Properties	7,714	0.4%
Securities (REITs)	42,120	2.4%
Total Real Estate	107,291	6.1%
<i>Alternative Investments</i>	19,282	1.1%
<i>Cash & Cash Equivalents</i>	35,615	2.0%
Total Investments	\$ 1,770,678	100.0%

ACTUARIAL SECTION

July 17, 2000

Board of Retirement
Kern County Employees' Retirement Association
1115 Truxtun Avenue, First Floor
Bakersfield, California 93301-4839

Members of the Board:

The actuarial valuation report for the Kern County Employees' Retirement System, completed as of December 31, 1999, reveals that the Retirement System is an actuarially sound system based on current actuarial assumptions.

We perform an actuarial valuation every year to determine the System contribution rates and monitor the plan's funded status. The financing objective of the plan has been to amortize the unfunded actuarial accrued liability (UAAL) over a 29-year period commencing with the December 31, 1992 valuation, while maintaining contribution rates that remain approximately equal, as a percentage of payroll, from generation to generation. As of December 31, 1999, assets exceeded the accrued liabilities for benefits payable under the System, i.e., there was a negative UAAL.

The most recent valuation is based on the plan provisions and assumptions in effect on December 31, 1999. KCERA and Bankers Trust provided the participant data, and KCERA provided the asset information. Although we did not audit the data, we compared the data to that of the prior year and tested for reasonableness. Based on our tests, we believe the data to be sufficiently accurate for purposes of our calculations.

We prepared the trend data shown in the Financial Section of the Comprehensive Annual Financial Report. KCERA staff prepared the schedules in the Actuarial Section of the Comprehensive Annual Financial Report based on information contained in our actuarial valuation report.



A study of plan experience is performed every three years, during which an analysis is made of the appropriateness of all economic and noneconomic assumptions. The most recent study was performed for the period January 1, 1997 through December 31, 1999. We recommended and the Board adopted changes to the following assumptions for the December 31, 1999 valuation:

- Ordinary disability rates
- Service disability rates
- Vested termination rates
- Post-retirement mortality rates
- Interest rate
- Payroll growth assumption
- Cost-of-living assumption

All other actuarial assumptions and methods remain unchanged since the last valuation. In our opinion, the assumptions are internally consistent and are reasonably based on the actuarial experience of KCERA.

We certify that this valuation was performed in accordance with generally accepted actuarial principles and practices, and with the Actuarial Standards of Practice issued by the Actuarial Standards Board of the American Academy of Actuaries. The assumptions and actuarial methods meet the parameters of Governmental Accounting Standards Board Statement No. 25.

I am a Fellow of the Society of Actuaries and an Enrolled Actuary. I am a Member of the American Academy of Actuaries and have experience in performing valuations for public retirement systems.

Sincerely,

Lawrence B. Di Fiore, FSA, EA, MAAA
Consulting Actuary

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary of Actuarial Assumptions and Methods

Interest Rate:	8.0%
Salary Scale:	As shown in Table I.
Inflation Assumption:	4.0%
Cost-of-Living Adjustments:	Benefit increases are capped at 2% per year.
Asset Valuation Method:	Book value adjusted for the five-year average ratio of the adjusted market value to the adjusted book value (net of the Supplemental Retirement Benefit Reserve and the Contingency Reserve).
Actuarial Cost Method:	The Projected Unit Credit Cost Method. The Unfunded Actuarial Accrued Liability is amortized over 29 years beginning in 1992. The additional liability incurred through the granting of Golden Handshake benefits are amortized over three years from the year in which they were granted.
Amortization Method:	Level percent closed.
Post-Retirement Mortality:	
A) General Members and Beneficiaries of General and Safety Members:	1994 Group Annuity Mortality Table, sex - distinct, with a two year set forward for both males and females.
B) Safety Members:	1994 Group Annuity Mortality Table, male, with no adjustments.
C) Pensioners on Disability Retirement:	1981 Disability Mortality Table
Rehire for Former Employees:	All former employees are assumed not to be rehired.
Proportion of Members with Spouses at Retirement:	80% of male employees and 50% of female employees are assumed married at retirement. Wives are assumed four years younger than their husbands.
Rate of Termination of Employment:	As shown in Table II.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary of Actuarial Assumptions and Methods (Continued)

Recent Changes adopted from the
December 31, 1999 Actuarial Study of
Plan Experience:

Demographic Assumptions:

Service disability rates to reflect recent experience.
Vested termination rates to reflect recent experience.
Changed mortality table from 1983 Group Annuity
Mortality Table (for regular retirement) to 1994 Group
Annuity Mortality Table.

Economic Assumptions:

Reducing the asset rate of return from 8.25% to 8.00
Reducing the payroll growth assumption from 4.5 %
to 4.0%
Reducing the cost-of living assumption from 4.5% to
4.0%

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, 1999.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Ratio of Current Compensation to Compensation Anticipated at Retirement
As of December 31, 1999**

Age	General Members	Safety Members
20	0.060	0.113
25	0.091	0.161
30	0.132	0.220
35	0.180	0.294
40	0.230	0.375
45	0.294	0.479
50	0.375	0.612
55	0.479	0.782
60	0.612	1.000
65	0.782	
70	1.000	

Based upon salary scale of merit and longevity plus 4.0% for inflation

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Probabilities of Separation from Active Service

Age Nearest	Ordinary Withdrawal	Ordinary Death	Ordinary Disability	Service Retirement	Service Disability	Service Death	Death While Eligible	Vested Termination
General Members - Male								
20	0.2340	0.0003	0.0000	0.0000	0.0001	0.0001	0.0000	0.0125
30	0.1026	0.0004	0.0002	0.0000	0.0002	0.0001	0.0001	0.0125
40	0.0585	.00007	0.0012	0.0000	0.0012	0.0001	0.0003	0.0125
50	0.0300	0.0017	0.0026	0.0500	0.0038	0.0002	0.0014	0.0125
60	0.0150	0.0035	0.0065	0.2000	0.0062	0.0004	0.0039	0.0125
70	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
General Members - Female								
20	0.2385	0.0002	0.0000	0.0000	0.0002	0.0000	0.0000	0.0125
30	0.1269	0.0003	0.0004	0.0000	0.0002	0.0000	0.0001	0.0125
40	0.0729	0.0004	0.0014	0.0000	0.0006	0.0000	0.0001	0.0125
50	0.0300	0.0017	0.0038	0.0500	0.0029	0.0000	0.0002	0.0125
60	0.0150	0.0034	0.0106	0.01700	0.0054	0.0000	0.0009	0.0125
70	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000
Safety Members - All								
20	0.1000	0.0002	0.0000	0.0000	0.0010	0.0002	0.0000	0.0035
30	0.0348	0.0003	0.0010	0.0000	0.0030	0.0003	0.0002	0.0035
40	0.0238	0.0004	0.0029	0.0000	0.0074	0.0005	0.0005	0.0035
50	0.0122	0.0007	0.0048	0.0800	0.0128	0.0006	0.0013	0.0035
60	0.0000	0.0000	0.0000	1.0000	0.0000	0.0000	0.0000	0.0000

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
12/31/94	General	5,795	\$183,318,200	\$31,634	2.4%
	Safety	1,154	49,002,824	42,463	3.5%
	Total	6,949	232,321,024	33,432	2.6%
12/31/95	General	5,555	\$185,645,148	\$33,419	5.6%
	Safety	1,363	60,450,962	44,351	4.4%
	Total	6,918	246,096,110	35,573	6.4%
12/31/96	General	5,539	\$187,370,586	\$33,828	1.2%
	Safety	1,373	62,475,608	45,503	2.6%
	Total	6,912	249,846,194	36,147	1.6%
12/31/97	General	5,421	\$190,146,200	\$35,076	3.7%
	Safety	1,422	66,131,203	46,506	2.2%
	Total	6,843	256,277,403	37,451	3.6%
12/31/98	General	5,522	\$199,250,420	\$36,083	2.9%
	Safety	1,474	72,335,699	49,074	5.5%
	Total	6,996	271,586,119	38,820	3.7%
12/31/99	General	5,642	\$211,804,416	\$37,541	4.0%
	Safety	1,496	75,446,382	50,432	2.8%
	Total	7,138	287,250,798	40,242	3.7%

KERN COUNTY EMPLOYEES' RETIEMENT 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
1994	3,431	182	114	3,623	\$39,602,680	10.9%	\$10,931
1995	3,623	184	128	3,744	43,825,459	10.7%	11,706
1996	3,744	198	148	3,919	49,301,764	12.5%	12,580
1997	3,919	224	111	4,219	54,465,028	10.5%	12,909
1998	4,219	186	161	3,990	53,537,214	-1.7%	13,418
1999	3,990	213	132	4,159	58,467,114	9.2%	14,058

Solvency Test

Valuation Date	Aggregate Accrued Liabilities				Portion of Accrued Liabilities Covered by Reported Assets			
	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
12/31/94	\$100,820,162	\$423,721,897	\$327,074,227	851,616,283	\$613,904,421	100%	100%	27%
12/31/95	112,764,677	474,274,987	365,840,724	952,880,388	920,749,995	100%	100%	91%
12/31/96	125,406,170	536,613,809	367,554,164	1,029,574,143	1,003,075,890	100%	100%	93%
12/31/97	137,690,425	594,568,260	407,760,403	1,140,019,088	1,113,914,418	100%	100%	94%
12/31/98	147,543,099	585,569,646	446,640,502	1,179,753,247	1,203,670,449	100%	100%	100%
12/31/99	159,632,656	670,212,529	494,816,546	1,324,661,731	1,325,928,243	100%	100%	100%

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	1999	1998	1997
Investment Performance Greater (Less) than Expected	\$42,603,978	\$16,880,143	\$53,309,012
New Entrants into System (Greater) Less than Expected	(2,507,511)	(1,955,189)	(1,545,487)
Individual Salary Increases (Greater) Less than Expected	14,520,247	2,834,084	17,621,914
Demographic Changes Greater (Less) than Expected	(10,686,247)	3,733,874	(22,580,735)
Change in Assumptions	(44,912,359)	(2,424,294)	
Golden Handshake Benefits	(62,361)		(1,074,081)
Data Corrections		32,799,713	
<i>Ventura</i> Litigation			(29,693,787)
Adjustment for .14 Benefit Factors			(13,760,758)
Composite Gain (or Loss) During Year	\$(1,044,253)	\$51,868,331	\$2,276,078

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary of Major Plan Provisions

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

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

Membership

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

Final Average Salary

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

Vested

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

Member Contribution Rates

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

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

Return of Contributions

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

Service Retirement Benefit

General members with at least 10 years of retirement service credit who are age 50 or older, or with 30 years of retirement service credit regardless of age, are eligible for service retirement. Benefit is 1/60 of final compensation for each year of service, multiplied by Section 31676.14 law factors.

Safety members with at least 10 years of retirement service credit who are age 50 or older, or with 20 years of retirement service credit regardless of age, are eligible for service retirement. Benefit is 1/50 of final compensation for each year of service, multiplied by Section 31664 law factors.

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary of Major Plan Provisions (Continued)

Disability Benefit

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

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

Death Benefit (Before Retirement)

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

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

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

Death Benefit (After Retirement)

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

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

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

Post-Retirement Cost-of-Living Benefits

Each April 1, the benefits are adjusted by the percentage change in the Consumer Price Index (capped at 2%).

Supplemental Retire Benefits Reserve (SRBR) Benefits

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

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			Total
		Dollars	% of Annual Covered Payroll	Investment Income	
2000	\$ 6,145,942	\$ 37,575,583	12.45%	140,569,826	\$184,291,351
1999	5,446,223	40,159,103	14.06%	161,883,259	207,488,585
1998	4,403,959	35,420,517	13.07%	171,314,190	211,138,666
1997	9,725,046	27,902,854	10.58%	204,885,085	242,512,985
1996	9,600,352	*254,610,505	13.62%	135,927,858	400,138,715
1995	10,222,616	35,950,004	13.99%	92,524,698	138,697,318

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

Schedule of Expenses by Type

Fiscal Year Ending 6/30	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
2000	\$66,482,489	\$ 1,601,849	\$ 1,142,210	\$ 5,677	\$69,232,225
1999	63,258,785	1,392,610	1,043,182	323,400	66,017,977
1998	58,877,153	1,349,468	1,392,290	3,571	61,622,482
1997	52,537,006	1,126,490	1,070,534		54,734,030
1996	46,977,021	1,051,416	1,001,574		49,030,011
1995	42,691,181	899,247	912,455		44,502,883

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Benefit Expenses by Type For Fiscal Years 1995-2000 (in thousands)

	2000	1999	1998	1997	1996	1995
<i>Service Retirement Benefits</i>						
General	\$34,123	\$32,826	\$31,135	\$27,654	\$24,876	\$23,356
Safety	13,168	12,297	11,779	10,837	9,972	8,172
Total	<u>47,291</u>	<u>45,123</u>	<u>42,914</u>	<u>38,491</u>	<u>34,848</u>	<u>31,528</u>
<i>Disability Benefits</i>						
General	4,928	4,600	3,836	3,863	3,223	2,990
Safety	6,249	5,906	5,703	4,666	4,215	3,904
Total	<u>11,177</u>	<u>10,506</u>	<u>9,539</u>	<u>8,529</u>	<u>7,438</u>	<u>6,894</u>
<i>Beneficiary Benefits</i>						
General	4,832	4,598	3,963	3,384	2,861	2,633
Safety	3,027	2,857	2,252	1,898	1,693	1,471
Total	<u>7,859</u>	<u>7,455</u>	<u>6,215</u>	<u>5,282</u>	<u>4,554</u>	<u>4,104</u>
<i>Lump Sum Death Benefits</i>						
	<u>155</u>	<u>175</u>	<u>209</u>	<u>234</u>	<u>137</u>	<u>165</u>
Total Benefit Payments	66,482	63,259	58,877	52,536	46,977	42,691
<i>Refunds</i>						
	<u>1,142</u>	<u>1,043</u>	<u>1,392</u>	<u>1,071</u>	<u>1,002</u>	<u>912</u>
Total Benefit Expenses	<u>\$67,624</u>	<u>\$64,302</u>	<u>\$60,269</u>	<u>\$53,607</u>	<u>\$47,979</u>	<u>\$43,603</u>

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Retired Members by Type of Benefit As of June 30, 2000

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
\$1-250	228	142	0	2	13	38	7	7	11	8
251-500	612	358	8	1	40	119	31	5	40	10
501-750	635	423	16	22	27	83	23	6	28	7
751-1,000	557	328	28	67	17	77	11	2	19	8
1,001-1,250	434	285	6	75	4	38	6	3	13	4
1,251-1,500	366	187	5	103	3	32	5	3	20	8
1,501-1,750	310	156	3	98	4	29	3	4	11	2
1,751-2,000	260	142	0	92	0	11	2	7	6	0
Over 2,000	821	642	2	131	5	20	3	1	13	4
Totals	4,223	2,663	68	591	113	447	91	38	161	51

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
\$1-250	228	8	2	0	0	108	109	1
251-500	612	14	4	0	0	252	339	3
501-750	635	14	2	2	0	262	340	15
751-1,000	557	15	8	0	0	217	271	46
1,001-1,250	434	8	4	0	0	175	193	54
1,251-1,500	366	3	2	0	0	130	160	71
1,501-1,750	310	2	1	0	0	116	123	68
1,751-2,000	260	5	1	1	0	92	86	75
Over 2,000	821	10	8	2	1	528	164	108
Totals	4,223	79	32	5	1	1,880	1,785	441

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 12/31/94</i>								
Average Monthly Benefit								
General	915	943	708	507	404	271	172	178
Safety	1,610	1,924	1,726	1,125	877	715	0	0
Number of Active Retirants								
General	1,158	531	510	409	245	76	10	10
Safety	299	130	87	93	62	12	0	0
<i>Valuation date 12/31/95</i>								
Average Monthly Benefit								
General	901	1,002	772	523	416	294	200	14
Safety	1,768	2,014	1,866	1,281	979	765	0	0
Number of Active Retirants								
General	1,172	501	528	418	251	88	13	2
Safety	359	137	99	89	69	18	0	0
<i>Valuation date 12/31/96</i>								
Average Monthly Benefit								
General	1,300	934	765	513	441	353	242	47
Safety	2,114	1,823	1,717	1,329	938	728	0	0
Number of Active Retirants								
General	971	622	592	482	311	114	22	1
Safety	291	171	130	100	87	25	0	0
<i>Valuation date 12/31/97</i>								
Average Monthly Benefit								
General	1,287	960	827	564	469	415	241	262
Safety	2,200	1,977	1,850	1,400	1,050	807	0	0
Number of Active Retirants								
General	992	720	617	507	337	148	31	2
Safety	252	212	159	99	107	36	0	0
<i>Valuation date 12/31/98</i>								
Average Monthly Benefit								
General	1,264	1,120	872	654	484	399	254	171
Safety	2,135	2,175	1,821	1,595	1,112	880	577	0
Number of Active Retirants								
General	956	683	569	465	325	154	34	3
Safety	271	152	137	101	82	54	4	0
<i>Valuation date 12/31/99</i>								
Average Monthly Benefit								
General	1,346	1,327	958	744	498	413	292	146
Safety	2,580	2,480	2,039	1,666	1,126	888	729	0
Number of Active Retirants								
General	803	658	535	521	429	259	81	11
Safety	208	159	163	112	120	85	15	0

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Participating Employers and Active Members As of June 30, 2000

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<i>County of Kern:</i>		
General Members		5,273
Safety Members		1,527
	Total	6,799
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<i>Participating Agencies (General Membership):</i>		
Berrenda Mesa Water District		12
Buttonwillow Recreation and Park District		1
East Kern Cemetery District		2
Inyokern Community Services District		2
Kern County Water Agency		61
Kern Mosquito & Vector Control District		21
North of the River Sanitation District		9
San Joaquin Valley Unified Air Pollution Control District		175
Shafter Recreation and Park District		2
West Side Cemetery District		6
West Side Mosquito Abatement District		7
West Side Recreation and Park District		12
	Total	310
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<i>Total Active Membership</i>		
General Members		5,582
Safety Members		1,527
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	Total	7,109