Kern County Employees'
Retirement Association

Kern County, California

1115 Truxtun Avenue
Bakersfield CA 93301-4639
661.868.3790
Fax: 661.868.3779
www.kcera.org

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2005 and 2004

Issued by:

Anne M. Holdren
Executive Director

Sheryl Lawrence
Retirement Accountant

Table of Contents

Introductory Section

Financial Section

Investment Section

Table of Contents - Continued

Actuarial Section

Statistical Section

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.

Anne M. Holdren
Executive Director

Lee Blair
Assistant Executive Director

September 23, 2005

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, 2005 and 2004. This Letter of Transmittal is presented as a narrative introduction, overview, and analysis in conjunction with the Management's Discussion and Analysis included in the Financial Section of this Comprehensive Annual Financial Report.

The KCERA is a public employee retirement system that was established on January 1, 1945 by the County of Kern. The KCERA plan is administered by the Board of Retirement and provides retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. For fiscal year ended June 30, 2005, the KCERA paid retirements to 5,022 members and continued supplemental benefits to 1,122 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA system added 349 service retirees, 10 non service-connected disability retirees, 36 service-connected disability retirees, 1 service-connected death survivorship benefit, and 2 non service-connected death survivorship benefits in the fiscal year.

STRUCTURE OF THE REPORT

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

- **The Introductory Section** includes this Letter of Transmittal, a list of the Board of Retirement members, a description of the KCERA's management and organizational structure, and a list of Professional Consultants.

- **The Financial Section** includes the opinion of the independent auditor, Brown Armstrong, Management's Discussion and Analysis, basic financial statements, certain required supplementary information, and other supplemental information. The required financial statements have been prepared in accordance with generally accepted accounting principles, the appropriate guidelines for governmental entities, and the County Employees' Retirement Law of 1937 (CERL).

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

- **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, Milliman USA, 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, 2005, twelve districts participated in the retirement plan including: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito & Vector Control District, North of the River Sanitation District, San Joaquin Valley Unified Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito Abatement District, and West Side Recreation and Park District.

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

MAJOR INITIATIVES

Board Governance Report

As part of governance support services to the Board, Cortex Applied Research, Inc. provides a review on the extent to which Board practices are consistent with KCERA's governance policies. This year, Cortex reported that the Board and senior staff are adhering to the spirit and letter of KCERA's governance policies. The report noted that KCERA has demonstrated a highly disciplined approach to Board governance and recognized the KCERA's governance program as one of the most progressive and sophisticated governance efforts among public funds in the nation.

New Board Members

The Kern County Board of Supervisors appointed Joseph Hughes, associate and partner for Kuhs, Parker & Hughes Law Office, as the Sixth Member to the Board of Retirement in September 2004. Newly elected to the Board during fiscal year 2005 are Norman Briggs, who assumes the 8th Member Alternate seat office and Howard Eddy who assumes the 7th Member Alternate seat office. Norman Briggs is retired from the Kern County Auditor-Controller-County Clerk's office. Howard Eddy currently works for the Kern County District Attorney's office.

MAJOR INITIATIVES (Continued)

New AED/IA Joins KCERA

On March 14, 2005, Lee Blair joined KCERA as the Assistant Executive Director/Investment Analyst. She previously held the position of Accounting Analyst with the Tulare County Employees' Retirement Association. Lee has a BA in Management and Organizational Development and a Masters in Administrative Leadership from Fresno Pacific University.

3% @ 60 Retirement Tier Implementation

The 3 percent at age 60 retirement tier became effective January 1, 2005, resulting in a record-setting increase in retirement applications during the first four months in 2005. In the first quarter of 2005, KCERA processed 198 member retirements – a 250 percent increase in retirements over the same period last year. By comparison, approximately 200 members retire each year.

To support a successful, timely implementation, KCERA's 3% @ 60 team launched two major initiatives. First, 16 meetings were held in fall 2004 to educate prospective retirees and assist in completing application forms. As applications were received, two processing teams prepared the retirement file for final retirement calculations. When the final payroll information was available after the member retired, KCERA was able to complete the retirement process in a timely and efficient manner.

New Actuary Hired

After a formal Request for Proposal process was completed in the fall, Milliman USA was hired as KCERA's new Actuary in December 2004. Milliman USA replaced Public Pension Professionals, Inc., a Board consultant since 2000.

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, 2004, the funded ratio of the system was approximately 86% using actuarial assets and actuarial liabilities of $2,012,521,000 and $2,336,406,000, respectively. The funded percentage decreased from 94% in 2003. This decrease can be attributed to pension benefit increases, investment losses, and changes to the termination rate assumptions.

Pursuant to provisions in the County Employees Retirement Law of 1937, the KCERA engages an independent actuarial consulting firm, Milliman USA, to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. The last triennial analysis was performed as of December 31, 2002, and certain changes to economic and non-economic assumptions were adopted by the Board. As of December 31, 2004, a special experience study on termination experience was performed covering five calendar year periods 2000-2004, and the changes to the termination rate assumptions were adopted by the Board. A detailed discussion of funding is provided in the Financial Section and Actuarial Section of this report.

ADDITIONS TO PLAN ASSETS

The total additions to plan net assets for June 30, 2005, including net appreciation in fair value of investments and net of investment expenses, totaled $295,061,267. This amount includes member and employer contributions of $70,619,134 and net investment income of $224,442,133. Member contributions decreased by $99,875 (less than 1%) over prior year and employer contributions increased by $11,508,195 (24%) over prior year. The member contributions remained consistent in fiscal year 2005. The increase in employer contributions in fiscal year 2005 is primarily due to a combination of pension benefit increases, investment losses, and changes in the funding methodology as a result of the Analysis of Plan Experience for the period from January 1, 2000 through December 31, 2002. Net investment income decreased by $71,631,907 (24%) over prior year. The decrease in investment income is a result of a decrease in realized gains from prior fiscal year.

For the fiscal years ended June 30, 2005 and 2004:

	June 30, 2005	June 30, 2004	Increase (Decrease) Amount	Increase (Decrease) Percentages
Member Contributions	$10,350,993	$10,450,868	$(99,875)	(less than 1%)
Employer Contributions	60,268,141	48,759,946	11,508,195	24%
Net Investment Income (Loss)	224,442,133	296,074,040	(71,631,907)	(24)%
Total	$295,061,267	$355,284,854	$(60,223,587)	(17)%

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, 2005, excluding investment expenses and security lending fees, were $113,509,595, an increase of $5,997,480 (5.5%) over prior year. This increase is primarily attributable to an increase in retired members and beneficiaries receiving pension benefits and an increase in the average retired members monthly benefit payment. The increase in the average monthly benefit is a result of improved benefits for General and Safety members.

For the fiscal years ended June 30, 2005 and 2004:

	June 30, 2005	June 30, 2004	Increase (Decrease) Amount	Increase (Decrease) Percentages
Benefits and Refunds	$111,006,082	$104,960,374	$6,045,708	6%
Administrative & Other Expenses	2,503,513	2,551,741	(48,228)	(2)%
Total	$113,509,595	$107,512,115	$5,997,480	5.5%

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 Goals, Objectives and Policies 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 2005, the investments of the plan provided a gain of 11.09% (net of fees). The KCERA’s annualized rate of return, net of fees, was 11.53% in the past three years, 4.33% in the past five years, and 8.88% in the past ten years. The investment expenses of the fund are linked to the performance of the investment portfolio and other factors, and therefore vary year to year.

PROFESSIONAL SERVICES

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

Opinions from the certified public accountant and the actuary for the plan are included in this report. The consultants and investment managers retained by the Board are listed on page 52 of this report.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the KCERA for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

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

CERTIFICATE OF ACHIEVEMENT (Continued)

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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

Anne M Holdren

Anne M. Holdren
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kern County Employees' Retirement Association, California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004

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

President

Executive Director

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Members of the Board of Retirement
As of June 30, 2005

Chairman

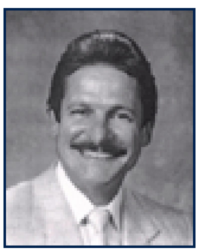
Tony Plante

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

Vice-Chairman

John J. DeMario

Elected by retired members.
Present term expires 12/31/2007.



Trustee

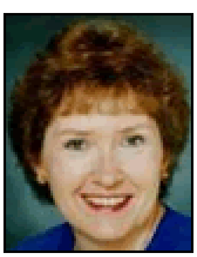
Phil Franey

County Treasurer-Tax Collector
Ex-Officio Member

Trustee

Brad Barnes

Appointed by Board of Supervisors.
Present term expires 12/31/2007.



Trustee

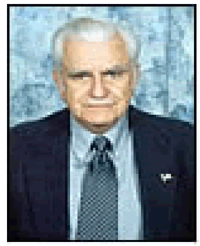
Barbara Patrick

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

Trustee

Joseph Hughes

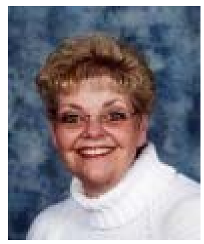
Appointed by Board of Supervisors.
Present term expires 12/31/2006.



Trustee

Claude D. Fiddler

Appointed by Board of Supervisors.
Present term expires 12/31/2007.

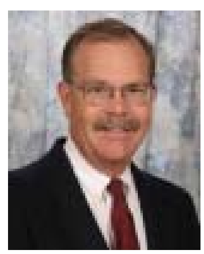


Trustee

Sharon E. Lesser

Personnel Department. Elected by general members.
Present term expires 12/31/2007.

Alternate Members



Trustee

Howard Eddy

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

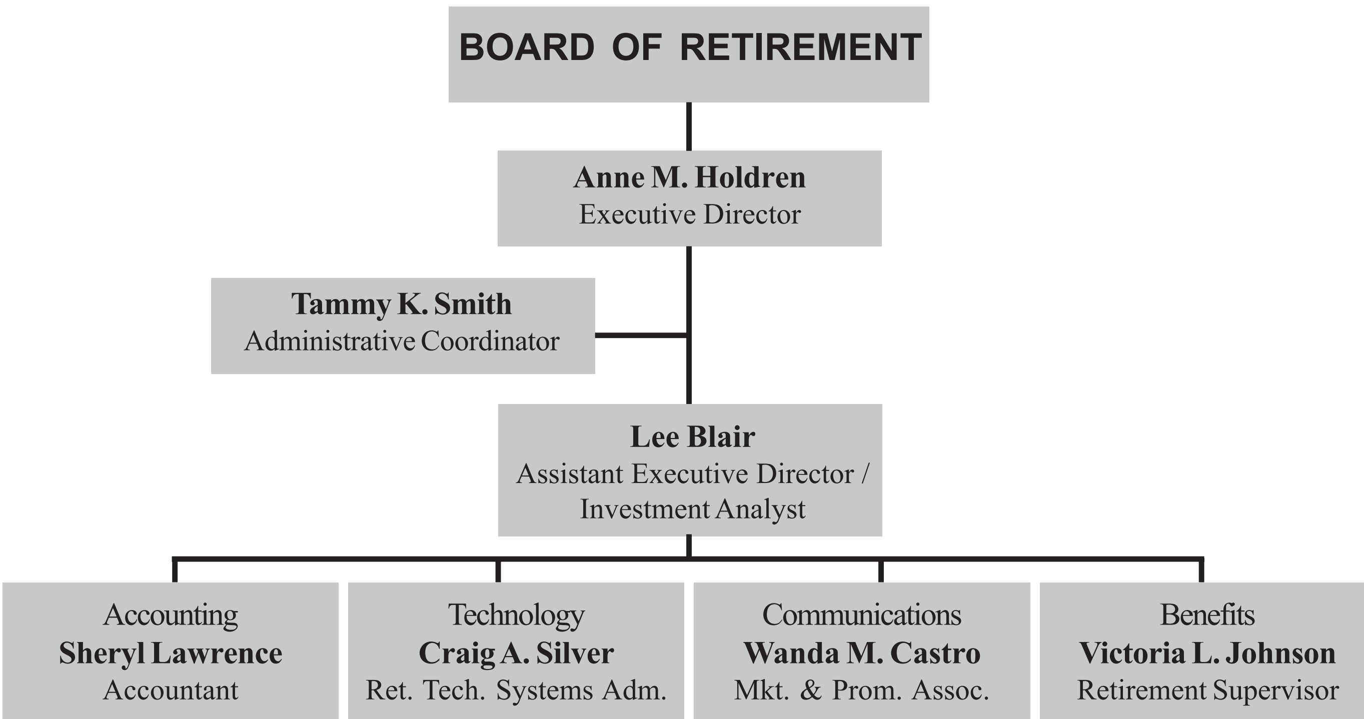
Trustee

Norman Briggs

Elected by retired members.
Alternate for all retired members.
Present term expires 12/31/2007.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Organizational Chart
As of June 30, 2005



List of Professional Consultants
As of June 30, 2005

ACTUARY
Milliman USA
Seattle, WA

AUDITOR
Brown Armstrong
Bakersfield, CA

CUSTODIAN
The Northern Trust Company
Chicago, IL

LEGAL
Kern County Counsel
Bakersfield, CA

Morrison & Foerster, LLP
Los Angeles, CA

Hanson Bridgett
San Francisco, CA

Klein Denatale et al.
Bakersfield, CA

INVESTMENT CONSULTANT
Wilshire Associates, Inc.
Santa Monica, CA

OTHER SPECIALIZED SERVICES
Cortex Applied Research, Inc.
Toronto, Ontario
Canada

Note: A list of Investment Professionals is located on page 53 of the Investment Section of this report.

FINANCIAL SECTION

BROWN ARMSTRONG CERTIFIED PUBLIC ACCOUNTANTS

BROWN ARMSTRONG PAULDEN
MCCOWN STARBUCK & KEETER
Certified Public Accountants

Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: bainfo@bacpas.com

Shafter Office
560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of Retirement of the
Kern County Employees' Retirement Association

We have audited the accompanying Statements of Plan Net Assets Available for Benefits of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2005 and 2004, and the related Statements of Changes in Plan Net Assets Available for Benefits for the years then ended. These financial statements are the responsibility of the management of KCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the Kern County Employees' Retirement Association as of June 30, 2005 and 2004 and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, in 2005, KCERA, adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures*, an Amendment of GASB Statement No. 3.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of KCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 23, 2005

1115 TRUXTUN AVE., 1ST FLOOR, BAKERSFIELD, CA 93301
800 548-0738   661 868-3790   FAX 661 868-3779

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Kern County Employees' Retirement Association's (KCERA) financial statements and the significant events and conditions which affected the operations and performance during the years ended June 30, 2005 and 2004. It is presented as a narrative overview and analysis in conjunction with the Executive Director's Letter of Transmittal included in the Introductory Section of this Comprehensive Annual Financial Report.

Financial Highlights

- The net assets of the KCERA increased approximately $181.6 million during the year ended June 30, 2005. The increase was primarily from positive performance in the total fund.
- As of December 31, 2004, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 86%, compared to the funded ratio of 94%, as of December 31, 2003.
- During the fiscal year ended June 30, 2005, the KCERA's total fund returned 11.09%, lower than the prior fiscal year return of 16.73%.
- Employer contributions during the year increased by approximately $11 million or 24%.
- Pension benefits for the year increased by approximately $11 million or 12.5% over the prior year. The increase is attributable to a 6% increase in retired members and beneficiaries receiving pension benefits and an increase in the average retired members' monthly benefit as a result of an improved benefit formula for General members, adopted January 1, 2005.

Overview of the Financial Statements and Accompanying Information

1) **The Statement of Plan Net Assets** is the basic statement of position for a defined benefit pension plan under the Governmental Accounting Standard Board (GASB) Statement No. 25. This statement reflects the net assets available for future payments to retirees and their beneficiaries. Assets and current liabilities of the plan reflect full accruals. The statement reflects investments at fair value and accounting liabilities as distinct from actuarial liabilities.
2) **The Statement of Changes in Plan Net Assets** is the basic operating statement for a defined benefit pension plan under GASB Statement No. 25. Changes in plan net assets are recorded as additions or deductions from the plan. All additions and deductions are reported on a full accrual basis.
3) **Notes to the Financial Statements** are an integral part of the financial statements and provide important additional information for a user.

Overview of the Financial Statements and Accompanying Information (Continued)

4) **Required Supplementary Information** consists of two schedules and related notes of long-term actuarial data. The two schedules are the Schedule of Funding Progress and the Schedule of Employer Contributions.

5) **Other Supplemental Information** includes schedules of administrative expenses, investment manager fees, other investment expenses, and payments to consultants.

Financial Analysis

The KCERA provides pension benefits to the employees and their beneficiaries of the County of Kern and other public agencies. The KCERA's benefits are funded by member and employer contributions, and investment income. The KCERA's net assets held in trust for pension benefits at June 30, 2005 were $2.2 billion, an increase of approximately $182 million (9%) from June 30, 2004. The KCERA's net assets held in trust for pension benefits at June 30, 2004 were $2.0 billion, an increase of approximately $247 million (14%) from June 30, 2003. Key elements of the increase (decrease) in net assets are described below and in Tables 1 and 2 on Page 21.

Contributions and Income

Additions to plan net assets include member and employer contributions, and investment income. Member contributions were approximately $10.4 million, $10.5 million, and $12.7 million for the years ended June 30, 2005, 2004, and 2003, respectively. Employer contributions were $60.3 million, $48.8 million, and $58.2 million for the years ended June 30, 2005, 2004, and 2003, respectively.

Member contributions decreased by approximately $0.1 million (less than 1%) in 2005 and decreased by $2.3 million (18%) in 2004. The member contributions remained consistent in fiscal year 2005. The decrease in member contributions in 2004 is primarily attributable to lower member contribution rates due to the change in the Plan's mortality table and fewer service credit purchases by members.

Employer contributions increased by approximately $11.5 million (24%) in 2005 and decreased by approximately $9.5 million (16%) in 2004. The increase in employer contributions in 2005 is primarily due to a combination of pension benefit increases, investment losses, and changes in the funding methodology as a result of the Analysis of Plan Experience for the period from January 1, 2000 through December 31, 2002. The decrease in employer contributions in 2004 is primarily due from the $285.1 million in POBs issued by the County of Kern to fund a significant portion of the December 31, 2002 Unfunded Actuarial Accrued Liability. The POB proceeds reduced the employer contributions for General and Safety members for fiscal year 2004.

Net investment income increases were $224.4 million, $296.1 million, and $87.9 million for the years ended June 30, 2005, 2004, and 2003, respectively. The increase in 2005 can be attributed to positive performance in all asset classes and an increase in fixed income interest. The increase in 2004 can be attributed to U.S. and non-U.S. equity performance during the year. The increase in 2003 can be attributed to U.S. equity performance in the second quarter 2003 and from strong fixed income performance throughout fiscal year 2003.

Contributions and Income (Continued)

The KCERA's total fund return (net of fees) in fiscal year 2005 was 11.09%. For fiscal year 2005, the KCERA's U.S. equity composite returned 7.61%, the fixed income composite returned 7.87%, and the non-U.S. equity composite returned 16.86%. The $296.1 million increase in investment income in fiscal year 2004 results from a total fund return (net of fees) of 16.73% for the year. For fiscal year 2004, the KCERA's U.S. equity composite returned 20.93%, fixed income composite returned 3.78%, and the non-U.S. equity composite returned 28.98%, (see Investment Section).

Benefits, Refunds, and Expenses

Deductions to plan net assets include pension benefits, retroactive lump sum payments, supplemental benefits, refunds of member contributions, and administrative expenses. The pension benefits (annuity, pension, and cost of living allowances) were $100.2 million, $89.0 million, and $80.3 million for the years ended June 30, 2005, 2004, and 2003, respectively. Pension benefits increased by approximately $11.1 million (12.5%) in 2005 and by $8.7 million (10.9%) in 2004. These increases were mainly due to an increase in retired members and beneficiaries receiving pension benefits and an increase in the average retired members and beneficiaries monthly benefit attributable to improved benefit formulas for General and Safety members. Retired members and beneficiaries increased by 6.4% in 2005 and by 2.6% in 2004. The average monthly benefit increased by 7.6% in 2005 and 8.1% in 2004. In fiscal year 2005, $0.9 million, in fiscal year 2004, $6.2 million, and in fiscal year 2003, $4.9 million in retroactive lump sum payments were paid to entitled retirees and their beneficiaries as a result of the *Ventura* Settlement Agreement and Judgment. The KCERA previously adopted California Government Code Section 31618, which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides retirees with 80% purchasing power parity and a $1,000 death benefit. In addition to pension benefits, the supplemental retirement benefits paid were $8.1 million, $7.8 million and $7.5 million for years ended June 30, 2005, 2004, and 2003, respectively. Refunds of member contributions were $1.9 million, $1.9 million, and $1.6 million for the years ended June 30, 2005, 2004, and 2003, respectively.

The KCERA administrative expenses were $2.5 million, $2.5 million, and $2.2 million for the years ended June 30, 2005, 2004, and 2003, respectively. At June 30, 2005, administration expenses remained consistent and increased by $356 thousand in fiscal year 2004. The increase in fiscal year 2004 was primarily due to the salaries and benefits of temporary employees hired by the KCERA to recalculate benefits in the matter of the *Ventura* Settlement Agreement and Judgment, fiduciary liability insurance, and legal services for disability issues. In fiscal year 2003, the KCERA paid attorneys' fees in the amount of $752 thousand to the attorneys representing the petitioners and class representatives of the *Ventura* litigation. In accordance with the Settlement Agreement and Judgment, the fees were paid from system earnings in the reserve against contingencies without regard to the administrative expense limitations of Government Code Section 31580.2.

	June 2005	June 2004	June 2003
Average Monthly Benefit Payments	$8.3 Million	$7.4 Million	$6.7 Million
Retirees and Beneficiaries	5,022	4,718	4,599

Reserves

The KCERA's reserves are established under GASB 25 and in accordance with the County Employees Retirement Law of 1937. Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. The unrealized gains and losses are held in the Market Stabilization Reserve with a portion allocated to all other reserves. The KCERA uses a five-year smoothing methodology to recognize unrealized gains and losses. The five-year smoothing is calculated by subtracting the expected return of the actuarial assumed interest rate of 8% from the total fund's actual return on net assets. The Market Stabilization Reserve was $53 million, $(24), and $(205) million for the years ended June 30, 2005, 2004, and 2003, respectively.

Interest at the actuarial rate of 8.0%, or at the highest rate possible if net earnings are not sufficient to credit the full actuarial rate, is credited semiannually on December 31 and June 30. Interest is credited to all reserves except a contingency reserve. The KCERA credited the reserves 6.9% in fiscal year 2005 and 5.5% in fiscal year 2004. The credits were below the actuarial rate of 8.0% for both years.

KCERA RESERVES

	2005	2004	2003
Member Reserve	$183,617,008	$ 183,949,369	$ 178,085,995
Employer Reserve	572,061,812	612,276,862	611,980,215
Cost of Living Reserve	473,221,173	444,132,773	424,347,977
Retired Member Reserve	747,133,378	635,836,701	598,332,494
Supplemental Retiree Benefit Reserve	161,343,333	158,325,450	157,432,545
Contingency Reserve	22,122,711	20,307,194	17,432,545
Market Stabilization Reserve	52,771,663	(24,108,943)	(205,062,026)
Total	**$2,212,271,078**	**$2,030,719,406**	**$1,782,946,667**

Fiduciary Responsibilities

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

Net Assets
(In thousands)

Table 1

	2005	Increase (Decrease) Amount	2004	Increase (Decrease) Amount	2003
Assets					
Current Assets	$196,060	$(85,556)	$281,616	$(229,939)	$551,555
Investments	2,175,301	195,557	1,979,744	533,297	1,446,447
Securities Lending Collateral	313,730	121,684	192,046	149,504	42,542
Capital Assets and Other Assets	45	(30)	75	(77)	152
Total Assets	**$2,685,136**	**$231,655**	**$2,453,481**	**$452,785**	**$2,000,696**
Liabilities					
Current Liabilities	$159,135	$(71,581)	$230,716	$55,509	$175,207
Liabilities for Security Lending	313,730	121,684	192,046	149,504	42,542
Total Liabilities	**$472,865**	**$ 50,103**	**$422,762**	**$205,013**	**$217,749**
Total Net Assets	**$2,212,271**	**$ 181,552**	**$2,030,719**	**$247,772**	**$1,782,947**

Changes in Net Assets
(In thousands)

Table 2

	2005	Increase (Decrease) Amount	2004	Increase (Decrease) Amount	2003
Additions					
Member Contributions	$10,351	$(100)	$10,451	$(2,298)	$12,749
Employer Contributions	60,268	11,508	48,760	(294,579)	343,339
Investment Income (Loss)	224,442	(71,632)	296,074	208,139	87,935
Total Additions	**$295,061**	**$(60,224)**	**$355,285**	**$(88,738)**	**$444,023**
Deductions					
Pension Benefits	$100,153	$11,110	$89,043	$8,739	$80,304
Ventura Lump Sum Payments	864	(5,320)	6,184	1,312	4,872
Supplemental Retirement Benefits	8,056	238	7,818	293	7,525
Refunds of Member Contributions	1,932	17	1,915	314	1,601
Administrative Expenses	2,501	(51)	2,552	357	2,195
Litigation Expenses	0	0	0	(752)	752
Miscellaneous Expenses	3	3	0	0	0
Total Deductions	**$113,509**	**$5,997**	**$107,512**	**$10,263**	**$97,249**
Increase (Decrease) in Net Assets	**$181,552**	**$(66,221)**	**$247,773**	**$(99,001)**	**$346,774**
Net Assets					
Beginning of Year	**$2,030,719**	**$247,772**	**$1,782,947**	**$346,774**	**$1,436,173**
End of Year	**$2,212,271**	**$181,552**	**$2,030,719**	**$247,772**	**$1,782,947**

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
Assets		
Cash in County Pool	$ 3,966,105	$ 20,654,821
Short-Term Investment Funds	74,033,779	89,807,807
Total Cash and Short-Term Investment Funds	77,999,884	110,462,628
Receivables:		
Investments Sold	106,268,600	164,439,790
Interest and Dividends	7,787,952	5,801,153
Mark to Market Receivables	0	541,130
Contributions and Other Receivables	4,0003,311	371,254
Total Receivables	118,059,863	171,153,327
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	656,138,934	637,905,659
International Bonds	52,947,178	23,826,512
Domestic Stocks	931,998,891	855,485,603
International Stocks	466,606,612	408,318,289
Real Estate Investments	28,980,471	30,560,956
Private Equity Funds	38,629,196	23,647,307
Collateral Held for Securities Lending	313,729,991	192,045,519
Total Investments	2,489,031,273	2,171,789,845
Property, Fixtures and Equipment, net of accumulated depreciation of $347,980 and $292,558, respectively	44,909	75,189
Total Assets	2,685,135,929	2,453,480,989
Liabilities		
Securities Purchased	156,442,549	226,486,501
Collateral Held for Securities Lent	313,729,991	192,045,519
Other Liabilities	1,802,128	4,229,563
Mark to Market Payables	890,183	0
Total Liabilities	472,864,851	422,761,583
Net Assets Held in Trust for Pension Benefits	**$ 2,212,271,078**	**$ 2,030,719,406**

(A schedule of funding progress is presented on page 38.)

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, 2005 AND 2004

	2005	2004
Additions		
Contributions		
Employer	$ 60,268,141	$ 48,759,946
Member	10,350,993	10,450,868
Total Contributions	70,619,134	59,210,814
Investment Income		
Net Appreciation in Fair Value of Investments	181,651,837	261,649,793
Interest	30,668,783	23,235,643
Dividends	10,392,329	9,003,440
Real Estate Investments	5,880,345	6,741,929
Other Investment Income	1,466	63,189
Total Investment Income	228,594,760	300,693,994
Less: Investment Expenses	4,623,383	4,848,244
Net Investment Income	223,971,377	295,845,750
Securities Lending Income		
Earnings	5,144,633	1,162,610
Less: Rebates & Bank Fees	4,673,877	934,320
Net Securities Lending Income	470,756	228,290
Total Additions	295,061,267	355,284,854
Deductions		
Retirement and Survivor Benefits	101,017,560	95,227,129
Supplemental Retirement Benefits	8,056,629	7,818,494
Refunds of Member Contributions	1,931,893	1,914,751
Administrative Expenses	2,500,768	2,551,741
Miscellaneous Expenses	2,745	0
Total Deductions	113,509,595	107,512,115
Net Increase	**181,551,672**	**247,772,739**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	2,030,719,406	1,782,946,667
End of Year	$ 2,212,271,078	$ 2,030,719,406

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
JUNE 30, 2004 AND 2003
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF PLAN

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

As of June 30, 2005, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	6,420	1,632	8,052
Terminated employees – vested	825	112	937
Retirees and beneficiaries currently receiving benefits	3,806	1,216	5,022
	11,051	2,960	14,011

Benefit Provisions

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

SERVICE RETIREMENT BENEFIT

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

- Retiring members may choose from four optional beneficiary retirement allowances. Most retirees elect to receive the unmodified allowance which includes 60% of the allowance continued to the retirees' surviving spouse.

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.

NOTE 1 – DESCRIPTION OF PLAN (Continued)

DISABILITY BENEFIT

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

COST-OF-LIVING ADJUSTMENT

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

SUPPLEMENTAL BENEFIT

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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, 2005 and 2004.
Real estate investments and alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.

Capital Assets

Capital assets are reported at historical cost less accumulated depreciation Capital assets with an initial cost of more than $1,000 and an estimated useful life in excess of one year are depreciated. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets. 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 501and California Revenue and Taxation Code Section 23701, respectively.

Management's Estimates

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

New Accounting Pronouncements

In March 2003, the Governmental Accounting Standards Board (GASB) issued Statement No. 40, *Deposit and Investment Risk Disclosures*, an amendment of GASB 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* GASB 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. GASB 40 establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. The KCERA implemented GASB 40 beginning with fiscal year ending June 30, 2005.

NOTE 3 – CASH AND INVESTMENTS

The Board of Retirement (the Board) has exclusive control of the investments of the retirement fund and, therefore, establishes investment policies and implements investment decisions. The overall objective of the KCERA's investment program is to prudently invest assets such as to offset some of the costs of the plan in providing the retirement benefits required by the County Employees' Retirement Law of 1937. The KCERA is governed by the California Government Code Sections 31594 and 31595 which provides for prudent person governance of the plan.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations.

The KCERA's investment policy's minimum overall credit quality for fixed income, with the exception of high yield, shall be at least A+. The minimum overall credit quality for high yield shall be at least B.

At June 30, 2005, KCERA's assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows:

Type of Investment	S & P Credit Quality	Fair Value	Percent
Asset Backed Securities	AAA	$40,117,066	7.68%
	AA	532,757	0.10%
	BBB	118.917	0.02%
	BB	513,604	0.10%
	NR	2545,815	0.49%
Commercial Mortgage-Backed	AAA	6,245,756	1.20%
Government Mortgage Backed Securities	AGY	92,049,000	17.62%
Non-Government Backed C.M.O.s	AAA	23,639,273	4.53%
Corporate Bonds	AAA	3,513,304	0.67%
	AA	8,396,955	1.61%
	A	27,302,468	5.23%
	BBB	50,066,462	9.59%
	BB	52,170,976	9.99%
	B	67,566,335	12.94%
	CCC	10,187,485	1.95%
	NR	825,740	0.16%
Government Agencies	AAA	53,168,888	10.18%
Non US Government Bonds	AAA	5,891,405	1.13%
	A	7,410,761	1.42%
	BBB	8,254,412	1.58%
	BB	621,108	0.12%
	B	1,340,158	0.26%
	NR	540,760	0.10%
Municipal Bonds	A	877,921	0.17%
Goldman Sachs Trust High Yield Fund	B	18,515,745	3.55%
Western Asset Opportunistic Fund	AA	18,433,397	3.53%
Western Asset Opportunistic Emerging Markets	BB	12,199,906	2.34%
Western Asset Opportunistic High Yield	BB	9,241,448	1.77%
Total		**$522,287,821**	**100%**

NOTE 3 – CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk
The KCERA's investment policy limits exposure to any single investment manager or product. The maximum allocation to a single active manager is up to 30% of the aggregate market value of the Fund. The maximum allocation to a single active management product is 15%. This limitation applies to any non-index investment vehicle. With the exception of U.S. Government bonds, portfolios may not invest more than 5% per investment grade issuer. The KCERA's investment portfolio contained no investments in any one single issuer greater than 5% of plan net assets as of June 30, 2005 (other than U.S. Government securities).

Custodial Credit Risk
Custodial credit risk is when in the event a financial institution or counterparty fails, the KCERA would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. The KCERA does not have a formal policy for custodial credit risk. At June 30, 2005, KCERA had $452,436 in deposits held at Northern Trust Company that were uninsured and uncollateralized.

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

The KCERA's investment policy requires active managers, with the exception of high yield, to be within 20% of their benchmark. The overall fund duration is expected to be within 20% of the Fund's benchmark duration.

At June 30, 2005, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

		Investment Maturities (in years)			
Investment Type	**Fair Value (in thousands)**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**
Asset Backed Securities	$43,812	$ -	$1,411	$1,174	$41,227
Bank Deposits	1,497	-	1,497	-	-
Commercial Mortgage-Backed	6,246	-	-	-	6,246
Corporate Bonds	220,031	8,387	65,741	101,910	43,993
Government Agencies	53,168	22,496	29,197	1,475	-
Government Bonds	149,176	324	71,307	21,036	56,509
Government Mortgage-Backed	57,679	885	1,286	-	55,508
Index Linked Government Bonds	20,579	-	15,186	1,371	4,022
Non-Government Backed C.M.O.s	23,640	-	81	-	23,559
Short Term Bills and Notes	9,758	9,758	-	-	-
Total	**$585,586**	**$41,850**	**$185,706**	**$126,966**	**$231,064**

NOTE 3 – CASH AND INVESTMENTS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of an investment or a deposit.

The KCERA's investment policy permits 20% of total investments in non U.S. equities. Non U.S. bonds may be invested in, on a tactical basis, up to 20% of the active core manager's portfolio. Allocations to non U.S. bonds must be hedged back into U.S. dollars at least 50% to avoid the negative impact of currency volatility.

The following positions represent the KCERA's exposure to foreign currency risk as of June 30, 2005.

	Foreign Currency	Fair Value in USD
Cash	Argentine Peso	$ 59,011
	Australia Dollar	(138,965)
	Euro	200,728
	Japanese Yen	193,201
	Mexican Peso	88,914
	New Israeli Shekel	24,017
	Swedish Krona	18,532
	Swiss Franc	25,166
Equities	Australia Dollar	3,676,353
	British Pound Sterling	52,056,557
	Euro	68,861,323
	Japanese Yen	41,249,476
	Swedish Krona	2,188,911
	Swiss Franc	23,827,398
Fixed Income Securities	Argentine Peso	1,340,158
	British Pound Sterling	362,082
	Euro	9,578,941
	Mexican Peso	6,531,320
	New Israeli Shekel	1,172,855
Total Foreign Cash and Investments		**$ 211,315,978**

NOTE 4 – SECURITIES LENDING

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

NOTE 4 – SECURITIES LENDING (continued)

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

At June 30, 2005, the KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% plus accrued interest. At June 30, 2005 and 2004, the securities lending transactions collateralized by cash had a fair value of $305,275,145 and $187,072,928, respectively, and a collateral value of $313,729,991 and $192,045,519, respectively. At June 30, 2005 and 2004, the securities lending transactions collateralized by securities or letters of credit had a fair value of $19,179,264 and $31,813,714, respectively, and a collateral value of $19,677,297 and $32,477,358, respectively, which was not reported as assets and liabilities in the accompanying Statement of Plan Net Assets.

The KCERA's loaned securities and collateral as of June 30, 2005 is as follows:

Security Type	Fair Value of Loaned Securities Securitized by Cash	Cash Collateral	Fair Value of Loaned Securities Securitized by Non-Cash	Non-Cash Collateral
Global Corporates	$1,018,430	$1,073,827		
Global Equities	45,637,112	47,930,313	$2,341,278	$2,454,973
U.S. Agencies	14,444,104	14,772,192	1,084,429	1,111,858
Corporates	65,712,685	67,296,879	8,036,788	8,211,605
Equities	57,612,316	59,140,333	290,593	298,450
U.S. Government	120,850,500	123,516,446	7,426,177	7,600,411
Totals	**$305,275,145**	**$313,729,991**	**$19,179,264**	**$19,677,297**

NOTE 5 – DERIVATIVES

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

NOTE 5 – DERIVATIVES (Continued)

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

The KCERA utilizes forward currency contracts for the purpose of hedging against adverse movement in currency exchange rates and to facilitate settlement of transactions in foreign securities. While such hedging is expected to net out to zero impact on the fund in the long term, in the short term, gains and losses are included in net investment income from foreign currency transactions. The net foreign currency gains in fiscal years 2005 and 2004 are $1,044,237 and $4,690,931, respectively. Such contracts are commonly traded through an informal network of bank and brokers, or a currency futures market.

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

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

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

(in thousands)

	June 30, 2005	June 30, 2004
Forward Currency Contracts (Receivables)	$ 23,088	$ 3,646
Forward Currency Contracts (Payables)	(23,142)	(3,637)
Mortgage-Backed Securities	132,110	179,996
Asset-Backed Securities	43,828	31,390
Collateralized Mortgage Obligation Securities	23,639	12,429
Swaps/Options	(1,851)	5,258
Rights/Warrants	58	0
Total Derivatives	$197,730	$229,082

NOTE 6 – CONTRIBUTIONS

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

For fiscal year 2005, the employer contribution rates are actuarially determined by using the Entry Age Funding method. The employer contribution rates are made up of two parts:

1. The Normal Cost, or the cost of the portion of the benefit that is allocated to the current year.

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

General Members

The Memorandum of Understanding (MOU) adopted August, 2004 between the County of Kern and its general employees states that all general members hired prior to the first day of payroll period 04-16 shall pay one 100% of the employees' normal contributions until they have attained five years of service at which point those employees shall no longer be required to make their normal contribution to retirement and the County shall pay 100% of those employees' normal contributions. All general members hired on or after the first day of payroll period 04-16 shall pay 100% of the new employees' normal contributions to retirement.

Safety Members

The Memorandum of Understanding (MOU) adopted May, 2004 between the County of Kern and its safety employees states that all safety members with five or more years of service shall not be required to pay any contributions to retirement and the county shall pay 100% of those employees' normal contributions.

Special Districts

Special Districts did not participate in the funding provided by pension obligation bonds of $224.5 million and $285.1 million issued by the County of Kern in November, 1995 and May, 2003, resepectively. Therefore, different employer contribution rates are required to fund the unfunded liabilities for each class of participation. Two Special Districts, Buttonwillow Recreation and Park District and San Joaquin Valley Unified air Pollution Control District did not adopt the provisions in the County of Kern MOU whereas the member contributions are "picked up" by the Districts. One Special District, Kern County Water Agency, pays 100% of the employees' normal contributions regardless if they have attained five years of service.

Cost-of-Living Adjustment

On April 1, 1973, an annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted. The 2% COLA was funded entirely from the unreserved fund balance until February 5, 1983. After this date and prior to fiscal year 2003, funding the 2% COLA was included in the employers' contributions. In fiscal year 2002, the County of Kern activated Government Code Section 31617 which provides that COLAs shall be funded first from excess earnings, to the extent of such excess, and thereafter from

NOTE 6 – CONTRIBUTIONS (Continued)

employer contributions. In fiscal year 2005, the Plan had no excess earnings and the current funding for the cost-of-living reserve is included in the employers' contributions.

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

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.

Contributions
The following table summarizes the required contribution rates in effect at June 30, 2005. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rate	Employer Rates
General Members	3.44% - 8.85%	13.73%
Safety Members	5.06% - 10.78%	24.31%
Special Districts (Electing MOU)	3.44% - 8.85%	17.93%
Special Districts (Not Electing MOU)	3.44% - 8.85%	17.17%
Special Districts (Full Pickup)	3.44% - 8.85%	18.25%

Total contributions made during fiscal years 2005 and 2004, respectively, amounted to $70,619,134 and $59,210,814 of which $60,268,141 and $48,759,946 were contributed by the County of Kern and Special Districts, and $10,350,993 and $10,450,868 were contributed by members.

NOTE 7 – 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.

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS (Continued)

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

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

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

Contingency Reserve – excess income to supplement deficient earnings. The contingency reserve satisfies the Government Code Section 31616 requirement for the KCERA to reserve at least 1% of assets, up to a maximum of 3% of assets. At fiscal year ended June 30, 2005, 1% of the Plan's net assets are reserved for contingencies.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2005 and 2004 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	2005	2004
Members' deposit reserve, general	$ 120,470,327	$ 120,247,681
Members' deposit reserve, safety	52,542,737	53,182,418
Members' deposit reserve, special district	10,603,944	10,519,270
Employer's advance reserve, general	309,820,200	341,990,282
Employer's advance reserve, safety	252,213,799	257,791,850
Employer's advance reserve, special district	10,027,813	12,494,730
Cost of living reserve, general	258,028,442	242,640,686
Cost of living reserve, safety	204,917,655	192,433,709
Cost of living reserve, special district	10,275,076	9,058,378
Retired members' reserve, general	436,909,966	357,053,167
Retired members' reserve, safety	310,223,412	278,783,534
Supplemental retiree benefit reserve (SRBR)	161,343,333	158,325,450
Contingency reserve	22,122,711	20,307,194
Total reserves at five-year smoothed market actuarial valuation	2,159,499,415	2,054,828,349
Market stabilization reserve*	52,771,663	(24,108,943)
Total net assets held in trust for pension benefits	$ 2,212,271,078	$ 2,030,719,406

**This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2005 and 2004.*

NOTE 8– COMMITMENTS AND CONTINGENCIES

Capital Commitments

The KCERA allocates 6% of assets to private equity markets. As of June 30, 2005 the KCERA's Board of Retirement committed $205 million to six private equity fund-of-funds managed by Pantheon Ventures, Inc. ($67.5 million) and Abbott Capital Management ($137.5 million). Private equity investments have a long life cycle involving commitment, drawdowns, maturation, and stock distribution. For each fund, effective exposure reaches maximum at about four to six years and the effective allocation over the life cycle generally does not exceed 65% of the total commitment. As of June 30, 2005, the KCERA provided $42 million in capital calls.

Litigation

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

Contingent Liability

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

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

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

The KCERA processed and evaluated past service records in order to recalculate benefit levels in accordance with the Settlement Agreement and Judgment. This process was completed May, 2005. From August 16, 2002 to May 6, 2005, 1,762 retirees or their beneficiaries have received retroactive payments in the amount of $11,946,185, and the monthly retiree payroll increased by $122,461. The liability of the recalculated benefits paid on or before December 31, 2004 and the additional 0.5% cost of living allowance was included in the most recent actuarial valuation, dated December 31, 2004.

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, 2005 AND 2004

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)
12/31/04	$2,012,521	$2,336,406	$323,885	86.1%	$374,951	86.4%
12/31/03	1,927,585	2,059,286	131,701	93.6%	353,444	37.3%
12/31/02	1,570,278	1,899,031	328,753	82.7%	344,871	95.3%
12/31/01	1,508,291	1,611,960	103,669	93.6%	333,791	31.1%
12/31/00	1,434,873	1,388,984	(45,889)	103.3%	283,282	-16.2%
12/31/99	1,325,928	1,324,662	(1,267)	100.1%	297,738	-0.4%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2005	$60,268,141	100%
2004	48,759,946	100%
2003	58,246,723	*682%
2002	41,881,569	100%
2001	41,067,487	100%
2000	37,575,583	100%

Percentage reflects pension obligation bond proceeds totaling $285.1 million.

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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, 2004 is as follows:

Valuation date:	December 31, 2004
Actuarial cost method:	Entry age funding method
Amortization method:	Level percent closed
Remaining amortization period:[1]	30 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	8.0%
Projected salary increases:	Rates varying by service
Includes inflation at:	4.0%
Annual increase in system benefits cap:	2.5%

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Demographics:
Total payments to retirees and their beneficiaries increased from 4,657 to 4,741. The average monthly benefit check increased from $1,568 to $1,667. This combination increased monthly payments by approximately 8.3%.

The number of active members decreased by 1.5% from 8,104 to 7,986, while the average pay increased by 7.7% from $3,654 per month to $3,935 per month, resulting in an increase in total covered payroll of approximately 6.1%.

Assumptions and Methodology:
As a result of a special experience study on termination experience covering the five calendar year periods 2000-2004, the termination rate assumption was changed resulting in an 8.69% increase in the total aggregate contribution rate.

The KCERA amended its Funding Policy on June 22, 2005 and adopted a 30-year amortization period for all UAAL amounts, except for the Golden Handshake liabilities.

Future Issues:
Effective January 1, 2005, the County of Kern adopted CERL 31676.17 (3% at 60) for general members and Special Districts. These benefit changes will be reflected in the December 31, 2005 valuation.

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 SUPPLEMENTAL INFORMATION

Schedule of Administrative Expenses
For the Years Ended June 30, 2005 and 2004

	2005	2004
Personnel Services:		
Salaries & Wages	$ 886,439	$1,055,009
Employee Benefits	377,652	407,519
Total Personnel Services	1,264,091	1,462,828
Professional Services:		
Legal Counsel	253,813	258,231
Audit	43,200	47,372
Medical/Hearing Officers	75,983	55,328
Information Technology Services	142,445	92,358
Other Professional Services	144,740	106,214
Total Professional Services	660,181	559,503
Communication:		
Postage	31,253	23,268
Printing	5,116	3,137
Telephone	7,748	9,471
Education & Professional Development	42,601	46,285
Publications/Legal Notifications	20,065	10,245
Total Communication	106,783	92,406
Miscellaneous:		
Equipment Leases	26,893	19,932
Building Lease	73,200	32,356
Office Expense	62,564	54,397
Insurance	97,433	110,481
Maintenance	1,191	4,786
Memberships	6,705	6,695
Special Departmental Expense	3,389	3,419
Other Services	17,358	18,074
Pension Disbursement Fees	113,647	108,828
Depreciation and Amortization	55,422	70,156
Utilities	11,911	7,880
Total Miscellaneous	469,713	437,004
Total Administrative Expenses	**$2,500,768**	**$2,551,741**

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL INFORMATION (Continued)

Schedule of Investment Expenses
For the Years Ended June 30, 2005 and 2004

	2005	2004
Investment Manager Fees:		
Equity		
Domestic	$ 936,615	$ 1,405,362
International	1,541,290	981,091
Fixed Income		
Domestic	207,606	462,922
Global	878,348	1,072,695
Real Estate		
Investments in Real Estate	32,573	18,986
Individual Properties	0	75,000
Securities (REITs)	234,788	180,175
Total Investment Manager Fees	3,831,220	4,196,231
Other Investment Expenses:		
Custodian	387,897	243,682
Actuarial Valuation	28,980	34,200
Investment Consultant	206,964	168,957
Legal Fees	29,626	20,799
Due Diligence	12,684	9,771
Policy Implementation Overlay Strategy	126,012	174,604
Total Other Investment Expenses	792,163	652,013
Total Fees and Other Investment Expenses	4,623,383	4,848,244
Security Lending Rebates and Bank Fees	4,673,877	934,320
Total Investment Expenses	**$ 9,297,260**	**$ 5,782,564**

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL INFORMATION (CONTINUED)

Schedule of Payments to Consultants
For the Years Ended June 30, 2005 and 2004

		Commission / Fee	
Individual or Firm	*Nature of Service*	**2005**	**2004**
Brown Armstrong	External Auditors	$ 43,200	$ 47,372
Kern County Counsel	Legal Counsel	222,312	180,797
Morrison & Foerster, LLP	Legal Counsel	116	9,674
Hanson Bridgett	Legal Counsel	6,561	13,447
Klein Denatale et al.	Legal Counsel	21,697	54,313
Papst, Richard J.	Legal Counsel	3,078	0
Milliman USA	Actuarial Services	9,034	3,000
EFL Associates	Personnel Consultants	32,158	0
Cortex Applied Research, Inc.	Policy Consultants	66,301	45,086
Total Payments to Consultants		**$353,689**	**$353,689**

(A schedule of Investment Fees and Services is presented on pages 54 and 55 in the Investment Section.)

See accompanying independent auditors' report.

INVESTMENT SECTION

WILSHIRE

September 27, 2005

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

Dear Ms. Holdren,

I am pleased to provide you with our report on the Kern County Employees' Retirement Associate (KCERA) for the year ending June 30, 2005.

For the fiscal year ended June 30, 2005, the KCERA's retirement fund had an investment gain of 11.09% and ended the year with total assets of $2.210 billion.

The retirement funds are managed according to guidelines codified in the KCERA's Statement of Investment Goals, Objectives, and Policies. This statement is reviewed periodically and revisions were most recently accepted by the KCERA Board of Retirement in July 2005.

At fiscal year end, the KCERA's retirement fund's actual asset allocation was within reasonable rebalancing bands of the target allocations adopted by the KCERA Board of Retirement. The most notable difference from target is for Real Estate, which is currently underweighted for two reasons: 1, the Board adopted a higher target allocation in 2003 for Real Estate, and 2, KCERA's policy of investing in direct, private real estate requires a long lead time to become fully invested. Although the KCERA is also underweight relative to its policy target for Hedge Funds, a search for a Fund of Hedge Funds manager was recently concluded and the allocation should be corrected in the next several months. All managers were in compliance with their guidelines on June 30, 2005.

Asset Class	Target Allocation	Actual Allocation
Domestic Equities	40%	41.7%
International Equities	20%	21.2%
Fixed Income	31%	31.3%
Real Estate	6%	4.5%
Hedge Funds	3%	0.0%
Cash	0%	1.3%

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

- The KCERA's total fund returned 11.09% for the year, versus the policy return of 10.63%. Outperformance versus policy was largely due to superior manager performance from several managers and the slight overweight to domestic and international equities as a temporary proxy for the

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

pending investments in real estate and hedge funds. The KCERA's median peer in our database returned 9.53%, indicating that the KCERA was better positioned than the majority of its peers for the ongoing economic and market rebound.

- The KCERA's Domestic Equity composite returned 7.61% versus a return of 8.21% for the Dow Jones Wilshire 5000. Although, with one exception, every domestic equity manager was ahead of its benchmark for the year, slight differences from the style exposure of the Wilshire 5000 Index accounted for the total underperformance. In particular, the KCERA has little exposure to mid-cap stocks, which were up 15.6% for the year. This oversight was corrected in September 2005 with the hiring of a new small/mid-cap manager. The median Equity return for KCERA's peers was 8.73%.

- The KCERA's fixed income composite returned 7.87% versus 6.81% for the Lehman Aggregate Bond Index. As the economy has continued to perform well over the last year, the Federal Reserve has gradually increased short term rates. To date, this has not had the anticipated effect of forcing long term rates higher, and has temporarily led to above-average fixed income returns. The median Fixed Income return for KCERA's peers was 7.23%.

- The KCERA's International Equity composite rose 16.86% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned 16.95%. Despite a slower economic recovery for the global markets than for the United States, international equity markets performed extremely well, signaling the potential for solid future economic growth. It should be noted, however, that a small shares of the outperformance in non-US markets was due to the continuing slide in the value of the US dollar relative to other major currencies. European stocks soared 16.87% over the last year, while Pacific Basin stocks (including Japan) climbed only 6.65%, and the Japanese market fell -1.48% -- a sign that the decade-long Japanese recession may still be with us. The KCERA's Emerging Markets Equities portfolio contributed greatly to the year's results, with a return of 34.34%.

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

Sincerely,

Michael C. Schlachter, CFA
Managing Director

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.

OUTLINE OF INVESTMENT POLICIES
Adopted by the Board of Retirement June 9, 2004

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

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

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

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

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

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

ASSET ALLOCATION

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

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

The target asset allocation and the actual asset allocation at June 30, 2005 are as follows:

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

The June 30, 2005 asset allocation is based upon Wilshire Associates's June 30, 2005 Kern County Employees' Retirement Association Investment Performance Analysis.

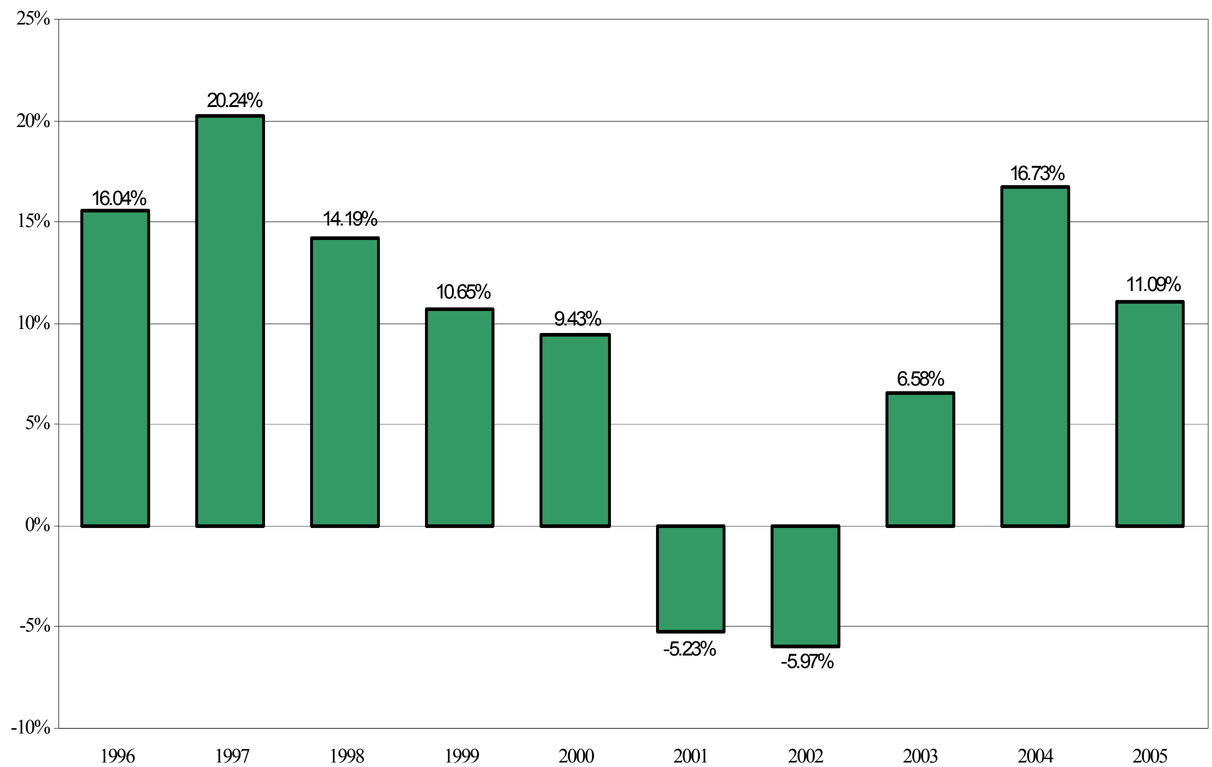
Investment Summary
For the Year Ended June 30, 2005

Type of Investment	**Fair Value (in thousands)**	**% of Total Fair Value**
Domestic Equities		
Large Cap Index Fund	$ 248,205	11.2%
Large Cap Synthetic Strategies	431,234	19.5%
Small Cap Value Securities	104,506	4.7%
Small Cap Growth Fund	100,744	4.6%
Total Domestic Equities	884,689	40.0%
International Equities		
Active EAFE Securities	422,564	19.1%
Emerging Markets Growth Fund	45,862	2.1%
Total International Equities	468,426	21.2%
Fixed Income		
Core Plus Global Fixed-Income	578,779	26.2%
High Yield Bonds	105,581	4.8%
Mortgage-Backed Securities	395	0.0%
Co-Investments in Commercial Mortgages	6,866	0.3%
Total Fixed Income	691,621	31.3%
Real Estate		
Public / Private Real Estate Investments	22,479	1.0%
Securities (REITs)	76,493	3.5%
Total Real Estate	98,972	4.5%
Alternative Investments	38,010	1.7%
Cash & Short-Term Cash Investment Funds	6,529	0.3%
Policy Implementation Overlay Strategy	21,589	1.0%
Total Investments	**$ 2,209,836**	**100.0%**

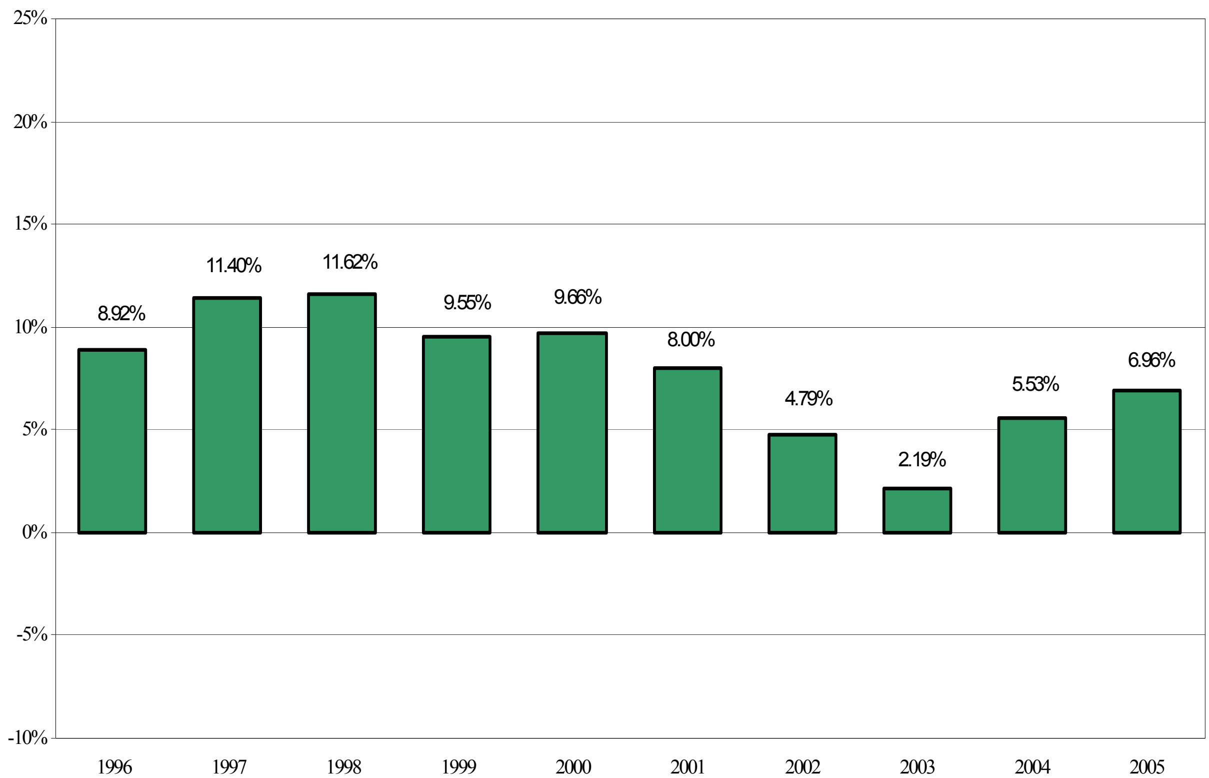
The June 30, 2005 investment summary is based upon Wilshire Associates' June 30, 2005 Kern County Employees' Retirement Association Investment Performance Analysis.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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



History of Investment Earnings
Five-Year Smoothed Asset Valuation
Periods Ended 6/30



The KCERA uses the five-year smoothed spread gain valuation method to allocate investment earnings greater than (or less than) the assumed investment return (actuarial assumption rate minus actual rate). The reserve account balances reflect the five-year smoothed asset valuation method for actuarial purposes.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Results
Returns for Periods Ended June 30, 2005

	Current Year	Annualized 3-year	Annualized 5-year	Annualized 10-year
Total Portfolio:	11.09	11.53	4.33	8.88
*Benchmark: Composite Policy	10.63	10.19	3.30	8.39
TUCS Master Trust Median	9.53	9.71	3.49	9.49
U.S. Equity:	7.61	9.54	-0.33	10.21
Benchmark: DJ Wilshire 5000 Index	8.21	9.94	-1.28	9.96
TUCS Equity Median	8.73	10.18	1.63	11.18
Non U.S. Equity:	16.86	13.61	1.05	5.58
**Benchmark: Custom Index	16.95	14.08	0.76	5.53
TUCS International Equity Median	15.30	13.09	1.92	8.56
Fixed Income:	7.87	8.54	8.08	7.12
Benchmark: Lehman Aggregate Index	6.81	5.76	7.41	6.83
TUCS Fixed Income Median	7.23	6.53	7.79	7.31
Real Estate:	33.08	19.77	17.52	11.90
Benchmark: 50% Wilshire Real Estate Securities Index / 50% Wilshire Real Estate Fund Index	26.39	17.03	15.53	13.12
Cash & Cash Equivalents	3.77	3.14	3.87	4.73
Benchmark: 91-Day T-Bill	2.15	1.55	2.62	3.98

*Kern County Composite Policy:

*Kern County Composite Policy:	40%	DJ Wilshire 5000 +
	28%	Lehman Aggregate +
	20%	MSCI ACWI Fr ex US (G) +
	3%	WRE Securities Index +
	3%	NCREIF +
	3%	ML High Yield Master II +
	1.5%	Lehman B 2% Issuer Cap +
	3%	Lehman U.S. High Yield Ba - 2% Issuer Cap

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

Inception – 12/31/98	50% MSCI Europe / 50% MSCI Pacific Basin (unhedged)
12/31/98 – 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.

Investment Professionals
As of June 30, 2005

Investment Managers

DOMESTIC EQUITY

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

Pacific Investment Management Company
Newport Beach, CA

Westridge Capital Management, Inc.
Santa Barbara, CA

INTERNATIONAL EQUITY

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

Capital International, Inc.
Los Angeles, CA

JP Morgan Fleming Asset Management
London, England

REAL ESTATE

Fidelity Real Estate Asset Manager
Boston, MA

LaSalle Securities Limited
Baltimore, MD

ALTERNATIVE INVESTMENTS

Abbott Capital Management, LLC
Boston, MA

Pantheon Ventures, Inc.
San Francisco, CA

Investment Managers (Continued)

FIXED INCOME

Goldman, Sachs & Co.
New York, NY

FFCA Institutional Advisors, Inc.
Scottsdale, AZ

Western Asset Management Co.
Pasadena, CA

GLOBAL FIXED INCOME

Goldman, Sachs & Co.
New York, NY

Western Asset Management Co.
Pasadena, CA

Consultant

Wilshire Associates, Inc.
Santa Monica, CA

Actuary

Milliman USA
Seattle, WA

Custodian

The Northern Trust Company
Chicago, IL

Policy Implementation Overlay Strategy

The Clifton Group
Minneapolis, MN

Schedule of Investment Fees and Services
For the Years Ended June 30, 2005 and 2004

	2005	2004
Investment Managers' Fees		
U.S. Equity Managers:		
Barclays Global Investors, N.A.	369,558	463,157
Putnam Investments	200,232	512,856
Rothschild Asset Management, Inc.	174,010	226,784
Westridge Capital Management, Inc.	192,815	202,565
Total U.S. Equity Managers	936,615	1,405,362
Non U.S. Equity Managers:		
Barclays Global Investors, N.A.	729,901	523,932
HSBC Asset Management	0	17,532
JP Morgan Fleming Asset Management	811,389	439,628
Total Non U.S. Equity Managers	1,541,290	981,092
U.S. Fixed Income Managers:		
Goldman Sachs Asset Management	51,063	0
Hyperion Asset Management, Inc.	16,560	180,810
Mellon Bank	0	54,704
W.R. Huff Asset Management Co., LLC	121,784	227,408
Western Asset Management	18,198	0
Total U.S. Fixed Income Managers	207,605	462,922
Global Fixed Income Managers:		
Goldman Sachs Asset Management	289,986	993,090
Western Asset Managment	588,361	79,602
Total Global Fixed Income Managers	878,347	1,072,692
Real Estate Managers:		
Fidelity Real Estate Asset Manager	32,573	18,986
Heitman Capital Management Corp.	0	75,000
LaSalle Securities Limited	234,788	180,175
Total Real Estate Managers	267,361	274,161
Total Investment Managers' Fees	**3,831,218**	**4,196,229**

Schedule of Investment Fees and Services (Continued)
For the Years Ended June 30, 2005 and 2004

	2005	2004
Custodial Fees		
The Northern Trust Company	387,898	243,682
Policy Implementation Overlay Strategy		
The Clifton Group	126,012	174,605
Actuarial Fees		
Milliman USA	28,980	0
Public Pension Professionals, Inc.	0	34,200
Investment Consultant Fees		
Cortex Applied Research, Inc.	9,750	0
Glass, Lewis & Co.	8,500	0
Wilshire Associates, Inc.	188,714	168,957
Legal Fees		
Kern County Counsel	29,627	20,799
Due Diligence		
Trustees / KCERA Management	12,684	9,772
Security Lending Fees		
The Northern Trust Company	4,673,877	934,320
Total Investment Fees and Services	**$ 9,297,260**	**$ 5,782,564**

Largest Stock Direct Holdings (By Market Value)
As of June 30, 2005

Shares	Stocks	Market Value
38,890	Total SA	$ 9,148,067
279,800	ENI	7,218,546
2,686,660	Vodafone Group	6,549,357
397,600	HSBC Holdings	6,393,681
246,680	GlaxoSmithKline	5,973,603
55,700	UBS AG	4,347,826
87,000	Novartis AG	4,145,929
190,830	Wolseley	4,015,705
697,010	Tesco	3,982,321
31,100	Roche Holdings	3,937,569

Largest Bond Direct Holdings (By Market Value)
As of June 30, 2005

Par	Bonds	Market Value
18,200,000	FNMA TBA Pool 5.5% 15 Years August	$18,655,000
17,000,000	U.S. Treasury Notes 3.375% due 2/28/2007	16,925,625
13,100,000	GNMA TBA Pool 6.0% 30 Years July	13,509,375
9,700,000	FNMA Single Family Mortgage 5.0% 30 Years July	9,700,000
9,500,000	GNMA I Single Family Mortgage 5.0% 30 Years July	9,571,250
9,540,000	U.S. Treasury Notes 3.375% due 2/15/2008	9,470,682
8,970,000	U.S. Treasury Notes 3.5% due 12/15/2009	8,885,556
7,110,000	U.S. Treasury Bonds 5.375% due 2/15/2031	8,389,800
8,050,000	FNMA Single Family Mortgage 6.0% 30 Years July	8,251,250
7,890,000	U.S. Treasury Notes 3.5% due 12/15/2010	7,810,792

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Commissions
For the Year Ended June 30, 2005

Fees:

	Assets under management	Fees
Investment managers' fees:		
U.S. equity managers	$ 742,570,053	$ 936,615
Non U.S. equity managers	422,563,880	1,541,290
Fixed income managers	684,703,870	1,085,952
Real estate managers	76,493,476	267,361
Total investment managers' fees	$ 1,926,331,279	$ 3,831,218
Other investment service fees:		
Custodial fees	-	$ 387,898
Policy implementation overlay strategy	-	126,012
Actuarial fees	-	28,980
Investment consultant fees	-	206,964
Legal fees	-	29,627
Due diligence	-	12,684
Security lending fees	-	4,673,877
Total investment service fees	-	$ 9,297,260

Commissions:

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
ABEL NOSER CORPORATION	$400	8,000	0.05000
ABN AMRO EQUITIES UK LTD LONDON	493	39,000	0.01265
BANC AMERICA SECUR. MONTGOMERY DIV.	2,270	52,400.00	0.04332
BEAR, STEARNS, SECURITIES CORP	100,942	4,945,111.00	0.02041
BERNSTEIN, SANFORD C. & CO	2,360	47,200.00	0.05000
BNY ESI SECURITIES CO.	621	13,800	0.04500
BUCKINGHAM RESEARCH GROUP	3,935	78,700	0.05000
CANTOR FITZGERALD & CO	1,993	208,100	0.00958
CAZENOVE & CO	1,869	384,100	0.00487
CHEUVREAUX DE VIRIEU PARIS	642	4,500	0.14259
CIBC WORLD MARKETS CORP. NEW YORK	975	28,800	0.03385
CITIGROUP GLOBAL LTD BROKER	5,737	210,886	0.02720
CITIGROUP GLOBAL MARKETS INC	2,581	59,700	0.04324
CITIGROUP GLOBAL MARKETS INC/SMITH BARN	6,169	190,779	0.03234
CITIGROUP GLOBAL MKTS ASIA LTD HK	35	2,500	0.01411
CREDIT SUISSE FIRST BOSTON CORPORATION	2,218	44,350	0.05000
CSFB (EUROPE) LIMITED LONDON	3,430	118,115	0.02904
CSFB EQUITIES LONDON	0	1,450	0.00000
D. A. DAVIDSON & CO. INC.	910	29,000	0.03138
DEUTSCHE BANK SECURITIES INC	9,913	2,186,138	0.00453
DEUTSCHE BK,AG LONDON INTL EQUITIES	2,586	167,800	0.01541

Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
DRESDNER KLEINWORT WASSERSTEIN SECS	689	55,961	0.01231
EDWARDS. A.G.	2,870	57,400	0.05000
FERRIS BAKER WATTS, INC	45	900	0.05000
FOX PITT KELTON	450	9,000	0.05000
FRIEDMAN BILLING AND RAMSEY	2,095	42,900	0.04883
G G E T LLC	15	300	0.05000
GARDNER RICH & CO.	158	3,500	0.04500
GOLDMAN SACHS & COMPANY	3,930	278,800	0.01410
GOLDMAN SACHS INTL LDN	2,012	101,480	0.01983
GREEN STREET ADVISORS 443	4,454	89,089	0.05000
INSTINET	310	6,200	0.05000
INVESTMENT TECHNOLOGY GROUP INC	203	4,500	0.04500
ISI GROUP INC.	920	18,400	0.05000
J.P. MORGAN SECURITIES INC	2,475	49,500	0.05000
JANNEY MONTGOMERY SCOTT	1,210	24,200	0.05000
JEFFERIES & COMPANY	3,245	305,800	0.01061
JOHNSON RICE & CO.	2,210	54,400	0.04063
JONES & ASSOCIATES	1,769	73,700	0.02400
JONES AD	4,400	88,000	0.05000
KEEFE BRUYETTE AND WOODS INC.	700	126,950	0.00551
LEGG MASON WOOD WALKER INC	10,253	217,454	0.04715
LEHMAN BROTHERS INC	9,472	191,968	0.04934
LEHMAN BROTHERS INTERNATIONAL EUR.	5,861	681,439	0.00860
LIQUIDNET INC	2,414	120,700	0.02000
LYNCH JONES & RYAN	40,679	1,074,500	0.03786
MAXCOR FINANCIAL INC.	260	5,200	0.05000
MCDONALD AND COMPANY	2,530	112,100	0.02257
MERRILL LYNCH FENNER & SMITH INC	1,322	39,600	0.03337
MERRILL LYNCH INTERNATIONAL, LONDON	3,364	294,403	0.01143
MERRILL LYNCH INTL LTD EQUITIES	744	18,600	0.03999
MERRILL LYNCH PIERCE FENNER & SMITH	6,645	155,600	0.04271
MIDWEST RESEARCH SECURITIES	720	14,400	0.05000
MKM PARTNERS	660	13,200	0.05000
MORGAN KEEGAN AND COMPANY	1,385	29,900	0.04632
MORGAN STANLEY & CO INC. NEW YORK	7,434	255,300	0.02912
MORGAN STANLEY DW INC	1,770	35,400	0.05000
MORGAN STANLEY EUROPE	85	2,735	0.03096
MORGAN STANLEY INT. LDN (CST 50701)	6,078	433,450	0.01402
PERCIVAL FINANCIAL	975	19,500	0.05000
PERSHING LLC	1,365	27,300	0.05000
PIPER JAFFRAY INC	45	1,800	0.02500
PRUDENTIAL EQUITY GROUP	1,055	298,100	0.00354
RAYMOND JAMES	4,257	108,031	0.03940
RBC CAPITAL MARKETS INC.	0	100	0.00000
ROBERT W. BAIRD & COMPANY INC MILWAUKEE	2,445	150,300	0.01627
SANFORD C. BERNSTEIN LTD	3,149	378,300	0.00832
SCHWAB, CHARLES	0	255,050	0.00000
SCOTT & STRINGFELLOW INVESTMENT	1,795	94,200	0.01906

Commissions: (Continued)

Brokerage Firm	Total Commission	Shares Traded	Commissions Per Share
SG COWEN SECURITIES	300	74,600	0.00402
SIDOTI AND COMPANY LLC	1,205	24,100	0.05000
SIDOTI CO LLC	150	3,000	0.05000
STEPHENS INC	1,645	35,200	0.04673
SUNTRUST ROBINSON HUMPHREY	1,040	39,900	0.02607
UBS AG, (LONDON EQUITIES)	4,360	413,170	0.01055
UBS AUSTRALIA GROUP LTD. SYDNEY	3,602	93,660	0.03846
UBS SECURITIES ASIA	1,834	300	6.11393
UBS WARBURG LLC	220	5,800	0.03793
UBS/WARBURG SECURITIES LLC NEW YORK	2,250	49,900	0.04509
VANDHAM SECURITIES CORP	4,083	193,400	0.02111
WACHOVIA CAPITAL MARKETS 46171	3,265	65,300	0.05000
WACHOVIA CAPITAL MARKETS LLC	3,079	70,087	0.04394
WAVE SECURITIES	3,124	156,200	0.02000
WAVE SECURITIES LLC	570	28,500	0.02000
WEEDEN AND & CO	150	3,000	0.05000
WELLS FARGO SECURITIES LLC	195	19,100	0.01021
TOTAL	**$219,562**	**10,372,784**	

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

ACTUARIAL SECTION

A MILLIMAN GLOBAL FIRM

Milliman

Consultants and Actuaries

1301 Fifth Avenue, Suite 3800
Seattle, WA 98101-2605
Tel +1 206 624.7940
Fax +1 206 340.1380
www.milliman.com

September 13, 2005

Board of Retirement
Kern County Employees' Retirement Association
1115 Truxtun Avenue
Bakersfield, CA 93301-4639

Members of the Board:

Milliman has performed the December 31, 2004 annual actuarial valuation for the Kern County Employees Retirement Association. It is anticipated that future actuarial valuations will be performed every year with the next valuation to be as of December 31, 2005.

Contribution Rates

The financing objective of KCERA is to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a 23-year period as of December 31, 2004, while maintaining contribution rates that will tend to remain level as percentages of payroll. As of December 31, 2004 there is an unfunded actuarial accrued liability of $323.88 million.

Due to various changes that occurred in the transition to a new actuarial firm and a change in the termination rate assumption, the Total Plan contribution rate increased from 16.45% of pay based on the 2003 valuation to 26.36% of pay based on the 2004 valuation.

Various benefit increases have occurred over the years with the most recent significant benefit change being an increase in benefits to General members, effective January 1, 2005. However, based on the Board's Funding Policy those benefit increases are not reflected in the 2004 valuation but will be reflected in the 2005 valuation. Following our recommendation and the Board's approval, the increased member contributions that were effective in 2004 but due to the new General member benefits were not reflected in the 2004 valuation results. Both new benefits and new member contribution rates for General members will be included in the 2005 valuation results.

Funding Status

Based on the December 31, 2004 actuarial valuation, the funded percentage decreased from 93.6% to 86.1% due mainly to differences in actuarial techniques (2.4%) and in the actuarial assumption changes (2.1%). In addition, investment losses which had occurred in prior years but recognized in 2004 due to the asset smoothing method also decreased the funding percentage by (1.1%). All other actuarial experience gains and losses decreased the funding percentage another (1.9%). The funding percentage is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability.

kce0038.doc - 1
14 003 KCE 39 /14.003.KCE 10.2003.4 / KIS/DRW/nlo OFFICES IN PRINCIPAL CITIES WORLDWIDE

Assumptions

During the transition to Milliman from the former actuarial firm, we discussed and proposed a new set of termination of employment assumptions effective for the 2004 valuation work. A complete investigation of experience will be performed as of December 31, 2005 when all actuarial assumptions will be reviewed. Our December 31, 2004 actuarial valuation report presented summaries of the actuarial assumptions and methods used in the valuation.

Certification Statement

In preparing our actuarial valuation report, we relied, without audit, upon the financial statements prepared by the KCERA staff. We also relied upon the member and beneficiary data provided to us by the staff. We compared the data for the December 31, 2004 actuarial valuation with corresponding information from the prior valuation and tested for missing or incomplete items, such as birth dates and hire dates. Based on these tests, we believe the data to be sufficient and reliable for the purposes of our calculations.

It should be noted that if any data or other information is inaccurate or incomplete our calculations may need to be revised.

The assumptions and methods used for funding purposes meet the parameters set for the disclosures presented in the financial section by Government Accounting Standards Board (GASB) Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans.* The majority of the assumptions used in the actuarial valuations were reviewed by us and approved by the Board in 2002. As indicated above, additional assumption changes were adopted for the 2004 valuation. The Retirement Board has the final decision regarding the appropriateness of the assumptions. They represent our best estimate of future conditions affecting KCERA, and we believe they are reasonably related to the past experience of KCERA. Nevertheless, the emerging costs of KCERA will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

We assisted in the preparation of several schedules included in the actuarial, statistical and financial sections of KCERA's Comprehensive Annual Financial Report. Data for years prior to the 2004 valuation were prepared by the prior actuarial firms retained by KCERA. The sections with which we were involved are:

1. Schedule of Active Member Valuation Data
2. Schedule of Retirants and Beneficiary Data
3. Solvency Test
4. Analysis of Actuarial Gains or Losses
5. Schedule of Average Benefit Payment Amounts
6. Schedule of Funding Progress

We are Consulting Actuaries for Milliman. We are members of the American Academy of Actuaries, Fellows of the Society of Actuaries, Enrolled Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,

Karen I. Steffen

Karen I. Steffen, FSA, EA, MAAA
Consulting Actuary

Daniel R. Wade

Daniel R. Wade, FSA, EA, MAAA
Consulting Actuary

KIS/DRW/nlo

Enclosure

Summary of Actuarial Assumptions and Methods

Interest Rate:	8.0%
Salary Increase - Individual:	As shown in Table I.
Inflation Assumption:	4.0%
Asset Valuation Method:	The market value of assets is adjusted to recognize, over a five-year period, investment earnings greater than (or less than) the assumed investment return.
Funding Method:	Entry Age Funding Method. The Unfunded Actuarial Accrued Liability is amortized over 30 years beginning December 31, 2004. The additional liability incurred through the granting of Golden Handshake benefits are amortized over three years from the year in which they were granted.
Amortization Method:	Level percent closed.
Post-Retirement Mortality:	
A) General Members and Beneficiaries:	RP-2000 Healthy Annuitant Mortality Table, with adjustment for white collar workers.
B) Safety Members:	RP-2000 Healthy Annuitant Mortality Table, with adjustment for blue collar workers.
C) Pensioners on Disability Retirement:	RP-2000 Disabled Annuitant Mortality Table.
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.

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, 2004.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Assumed Rate of Salary Increase (with inflation)
As of December 31, 2004

Years of Service	General Members	Safety Members
0	8.16%	7.64%
1	8.16%	7.64%
2	8.16%	7.64%
3	8.16%	7.64%
4	8.16%	7.64%
5	8.16%	7.64%
6	4.78%	7.64%
7	4.78%	7.64%
8	4.78%	7.64%
9	4.78%	7.64%
10 or more	4.78%	5.30%

Probabilities of Separation from Active Service

(Number separating at each age per 10,000 working at that age)

Age Nearest	Ordinary Death	Service Death	Ordinary Disability	Service Retirement	Service Disability		Years of Service	Other Terminations
General Members - Male								
20	10	0	0	0	0		0	1,800
30	12	0	2	0	3		5	283
40	30	0	8	0	13		10	220
50	60	0	26	500	39		15	170
60	66	0	65	2,000	98		25	108
70	0	0	0	10,000	0		30	0
General Members - Female								
20	3	0	1	0	1		0	1,800
30	4	0	2	0	3		5	283
40	10	0	12	0	18		10	220
50	24	0	24	500	36		15	170
60	56	0	28	1,700	42		25	108
70	0	0	0	10,000	0		30	0
Safety Members - All								
20	9	2	0	0	3		0	800
30	12	2	0	0	28		5	192
40	28	2	0	0	78		10	160
50	56	2	0	1,000	198		15	120
60	0	0	0	10,000	0		20	0

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/99	General	5,642	$211,804,416	$37,541	4.0%
	Safety	1,496	75,446,382	50,432	2.8%
	Total	**7,138**	**287,250,798**	**40,242**	**3.7%**
12/31/00	General	5,903	$207,229,836	$35,106	-6.5%
	Safety	1,581	76,052,708	48,104	-4.6%
	Total	**7,484**	**283,282,544**	**37,822**	**-5.9%**
12/31/01	General	6,397	$250,670,766	$39,186	11.6%
	Safety	1,658	83,120,619	50,133	4.2%
	Total	**8,055**	**333,791,385**	**41,439**	**9.6%**
12/31/02	General	6,414	$261,061,804	$40,702	3.9%
	Safety	1,641	83,809,133	51,072	1.9%
	Total	**8,055**	**344,870,937**	**42,815**	**3.3%**
12/31/03	General	6,446	$270,440,100	$41,955	3.1%
	Safety	1,658	84,871,617	51,189	0.3%
	Total	**8,104**	**355,311,717**	**43,844**	**2.4%**
12/31/04	General	6,389	$287,264,645	$44,962	7.2%
	Safety	1,597	89,841,674	56,257	9.9%
	Total	**7,986**	**377,106,319**	**47,221**	**7.7%**

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
1999	3,990	213	132	4,159	58,467,114	9.2%	14,058
2000	4,159	222	148	4,233	62,656,284	7.2%	14,802
2001	4,233	269	130	4,372	69,567,864	11.0%	15,912
2002	4,372	248	104	4,516	79,057,729	13.6%	17,506
2003	4,516	255	114	4,657	87,402,579	10.6%	18,768
2004	4,657	207	123	4,741	94,838,964	8.5%	20,004

Solvency Test

	Aggregate Accrued Liabilities					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/99	159,632,656	670,212,529	494,816,546	1,324,661,731	1,325,928,243	100%	100%	100%
12/31/00	152,866,205	689,790,937	546,326,563	1,388,983,705	1,434,872,718	100%	100%	100%
12/31/01	179,904,379	771,375,980	660,679,843	1,611,960,202	1,508,291,483	100%	100%	84%
12/31/02	184,313,063	964,393,657	750,324,334	1,899,031,054	1,570,277,657	100%	100%	56%
12/31/03	182,161,145	1,067,016,084	810,108,722	2,059,285,951	1,927,584,527	100%	100%	84%
12/31/04	191,485,223	1,147,205,842	997,714,664	2,336,405,729	2,012,520,879	100%	100%	68%

Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	2004	**2003**	**2002**
Investment Performance Greater (Less) than Expected	$(25,910,456)	$(45,687,403)	$(133,288,517)
New Entrants into System (Greater) Less than Expected	(1,073,915)		(2,101,441)
Individual Salary Increases (Greater) Less than Expected	(30,935,050)	(11,746,890)	(29,814,488)
Demographic Changes Greater (Less) than Expected	(16,520,202)	(27,967,366)	21,223,199
Change in Benefits			(21,969,100)
Change in Assumptions/Methodology	(110,320,190)		(58,622,302)
Composite Gain (or Loss) During Year	**$(184,759,814)**	**$(85,401,659)**	**$(224,572,649)**

Summary of Major Plan Provisions

Benefit Sections 31676.1, 31676.14, 31676.17, 31664, and 31664.1 of the 1937 Act.

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

Membership

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

Final Average Salary

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

Vested

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

Member Contribution Rates

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

	Member-Paid Portion of the Full Member Rate	
Hire Date Relative to August 3, 2004	Less Than 5 Years of Service	5 Years of Service or More
Before	100%	0%
On or After	100%	100%

Return of Contributions

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

Service Retirement Benefit

General members with at least 10 years of retirement service credit who are age 50 or older, or with 30 years of retirement service credit regardless of age, are eligible for service retirement. Benefit is 1.667% of final compensation for each year of service, mulitplied by Section 31676.14 law factors. This will change to Section 31676.17 beginning January 1, 2005. The change will be reflected in the 12/31/05 actuarial valuation.

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

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

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 for the preceding calendar year (capped at 2.5%).

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

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 Dollars	Employer % of Annual Covered Payroll	Investment Income	Total
2005	$10,350,993	$ 60,268,141	16.45%	$224,442,133	$295,061,267
2004	10,450,868	48,759,946	13.60%	296,074,040	355,284,854
2003	12,748,788	343,338,853*	16.96%	87,935,189	444,022,830
2002	11,287,597	41,881,569	12.89%	(76,247,977)	(23,078,811)
2001	9,173,557	41,067,487	13.09%	(99,791,394)	(49,550,350)
2000	6,145,942	37,575,583	12.45%	140,569,826	184,291,351

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

Schedule of Expenses by Type

Fiscal Year Ending 6/30	Benefit Payments	Administrative Expenses	Refunds	Miscellaneous Expenses	Total
2005	$109,074,189	$2,500,768	$1,931,893	$ 2,745	$113,509,595
2004	103,045,623	2,551,741	1,914,751	0	107,512,115
2003	92,701,280	2,166,624	1,600,779	780,444	97,249,127
2002	79,177,249	2,167,965	1,435,764	48,290	82,829,268
2001	71,897,363	1,903,426	1,222,707	89,427	75,112,923
2000	66,482,489	1,601,849	1,142,210	5,677	69,232,225

Schedule of Benefit Expenses by Type
For Fiscal Years 2000-2005
(in thousands)

	2005	2004	2003	2002	2001	2000
Service Retirement Benefits						
General	$50,436	$44,539	$41,497	$38,542	$36,675	$34,123
Safety	29,594	26,029	22,616	18,436	14,614	13,168
Total	80,030	70,568	64,113	56,978	51,289	47,291
Disability Benefits						
General	6,295	6,381	5,684	5,482	5,136	4,928
Safety	10,051	9,035	8,187	7,508	6,932	6,249
Total	16,346	15,416	13,871	12,990	12,068	11,177
Beneficiary Benefits						
General	6,671	6,109	5,724	5,394	5,151	4,832
Safety	4,904	4,386	3,901	3,630	3,224	3,027
Total	11,575	10,495	9,625	9,024	8,375	7,859
Retroactive Payments						
General	347	2,730	2,097	0	0	0
Safety	517	3,454	2,775	0	0	0
Total	864	6,184	4,872	0	0	0
Lump Sum Death Benefits	259	382	220	185	165	155
Total Benefit Payments	**109,074**	**103,045**	**92,701**	**79,177**	**71,897**	**64,482**
Refunds	1,932	1,915	1,601	1,436	1,223	1,142
Total Benefit Expenses	**$111,006**	**$104,960**	**$94,303**	**$80,613**	**$73,120**	**$67,624**

Schedule of Retired Members by Type of Benefit
As of June 30, 2005

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
$1-500	532	133	4	0	205	101	31	3	32	23
501-1,000	984	454	67	33	194	134	39	1	45	17
1,001-1,500	881	451	65	132	80	87	17	2	33	14
1,501-2,000	662	331	21	172	33	60	7	9	20	9
2,001-3,000	872	464	10	250	21	61	5	13	39	9
3,001-4,000	461	315	2	101	13	13	1	1	10	5
4,001-5,000	225	193	0	22	4	3	1	1	1	0
5,001-6,000	155	152	0	1	1	1	0	0	0	0
Over 6,000	250	239	1	5	3	2	0	0	0	0
Totals	5,022	2,732	170	716	554	462	101	30	180	77

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
$1-500	532	11	8	0	0	203	309	1
501-1,000	984	8	20	1	0	377	562	16
1,001-1,500	881	15	16	2	0	332	433	83
1,501-2,000	662	6	8	0	0	231	303	114
2,001-3,000	872	12	22	2	0	307	342	187
3,001-4,000	461	4	13	0	0	228	138	78
4,001-5,000	225	2	4	1	0	153	43	22
5,001-6,000	155	2	3	0	0	127	22	1
Over 6,000	250	0	4	1	0	216	24	5
Totals	5,022	60	98	7	0	2,174	2,176	507

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

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
Valuation date 12/31/99								
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
Valuation date 12/31/00								
Average Monthly Benefit								
General	1,341	1,393	1,048	794	534	398	292	213
Safety	2,441	2,480	2,007	1,743	1,196	953	686	1,476
Number of Active Retirants								
General	840	700	507	540	437	264	86	11
Safety	191	222	163	125	120	84	30	1
Valuation date 12/31/01								
Average Monthly Benefit								
General	1,375	1,469	1,126	837	582	409	364	311
Safety	3,290	2,739	2,363	2,054	1,376	1,020	792	0
Number of Active Retirants								
General	833	745	506	514	448	282	94	19
Safety	226	188	151	124	110	101	37	0
Valuation date 12/31/02								
Average Monthly Benefit								
General	1,516	1,517	1,184	911	624	451	394	357
Safety	3,946	2,763	2,363	2,200	1,466	1,146	837	0
Number of Active Retirants								
General	789	796	528	522	440	281	118	24
Safety	270	200	156	133	99	111	49	0
Valuation date 12/31/03								
Average Monthly Benefit								
General	1,645	1,505	1,358	973	714	487	398	315
Safety	4,144	2,823	2,768	2,298	1,713	1,239	940	916
Number of Active Retirants								
General	792	814	570	515	425	302	127	31
Safety	318	213	140	135	101	103	69	2
Valuation date 12/31/04								
Average Monthly Benefit								
General	1,708	1,476	1,514	1,055	795	563	444	334
Safety	4,220	2,962	2,935	2,464	1,951	1,651	1,333	711
Number of Active Retirants								
General	766	804	616	488	436	301	141	39
Safety	344	213	149	141	104	118	72	9

Participating Employers and Active Members
As of June 30, 2005

County of Kern:	
General Members	6,029
Safety Members	1,632
Total	7,620
Participating Agencies (General Membership):	
Berrenda Mesa Water District	14
Buttonwillow Recreation and Park District	3
East Kern Cemetery District	1
Inyokern Community Services District	2
Kern County Water Agency	68
Kern Mosquito & Vector Control District	19
North of the River Sanitation District	7
San Joaquin Valley Unified Air Pollution Control District	253
Shafter Recreation and Park District	0
West Side Cemetery District	6
West Side Mosquito Abatement District	8
West Side Recreation and Park District	10
Total	391
Total Active Membership	
General Members	6,420
Safety Members	1,632
Total	**8,052**