KCERA

Comprehensive Annual Financial Report

For the Fiscal Years Ended
June 30, 2006 and 2005

Kern County Employees' Retirement Association
Kern County, California

Kern County Employees'
Retirement Association
Kern County, California

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Bakersfield CA 93301-4639
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COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Fiscal Years Ended June 30, 2006 and 2005

Issued by:

Anne M. Holdren
Executive Director

Sheryl Lawrence
Accountant III

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INTRODUCTORY SECTION

THE KCERA MISSION

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

Kern County Employees' Retirement Association
Board Of Retirement

Anne M. Holdren
Executive Director

Lee Blair
Assistant Executive Director

September 8, 2006

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, 2006 and 2005. 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, 2006, the KCERA paid retirements to 5,272 members and continued supplemental benefits to 1,555 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA system added 296 service retirees, 14 non service-connected disability retirees, 51 service-connected disability retirees, and 6 non service-connected death survivorship benefits in the fiscal year.

STRUCTURE OF THE REPORT

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

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

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

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- **The Investment Section** includes a statement from the investment consultant, Wilshire Associates, Inc., investment policies, investment results, and various schedules and graphs.

- **The Actuarial Section** includes a certification letter provided by the independent actuary to the plan, Milliman , Inc., along with supporting schedules and information.

- **The Statistical Section** presents information pertaining to KCERA's operations on a multi-year basis.

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, 2006, 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 Donald Maben, who represents its Second District, to complete the Board of Retirement 4th Member term, which expires December 2006. Maben was appointed in January 2006 after Barbara Patrick resigned her seat to pursue other interests. Newly elected to the Board during fiscal year 2006 is Jordan Kaufman, senior administrative analyst with the Kern County Administrative Office. Kaufman was elected to the 2nd Member seat after defeating four opponents in a special election in October 2005.

MAJOR INITIATIVES (Continued)

Accounting Software Implementation Project

KCERA began a search in April 2006 to acquire an integrated financial software application, along with consulting services to assist KCERA staff in its implementation. The new integrated financial software application will incorporate all accounting functions.

Facility Assessment Project

In April 2006, KCERA distributed Request for Qualifications and Proposals for facility assessment needs and market analysis of KCERA's offices. The Facility Assessment Project will provide a space plan for current and future operations; complete an office relocation evaluation; evaluate lease, purchase and build options; and make recommendations for project plan development and project oversight. American Realty Advisors was awarded the contract.

New Managers Hired

Two new Small Cap Core managers, AXA Rosenberg Investment Management and State Street Global Advisors, were hired in January 2006 to replace small cap investments managed by Putnam Institutional Management and Rothschild Asset Management, Inc.

Technical Writer Hired

KCERA contracted with technical writer Maryann Gutoff to compile desk manuals for all staff positions. The manuals will improve KCERA processes and work flow and serve as valuable tools for staff training and development.

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, 2005, the funded ratio of the system was approximately 76% using actuarial assets and actuarial liabilities of $2,164,304,000 and $2,861,872,000, respectively. The funded percentage decreased from 86% in 2004. 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, Inc., to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the system. The last triennial analysis was performed as of December 31, 2005, and certain changes to economic and non-economic assumptions were adopted by the Board. A detailed discussion of funding is provided in the Financial Section and Actuarial Section of this report.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2006 and 2005 has been prepared by KCERA's management, which is responsible for the accuracy, completeness, fair presentation of information, and all disclosures in this report. The report has been prepared in accordance with accounting principles generally accepted in the United states of America as promulgated by the Governmental Accounting Standards Board (GASB). KCERA has established and maintained an internal control structure that ensures the financial reporting is accurate and reliable and that KCERA's assets are properly safegurarded from loss, theft, or misuse.

The KCERA's external auditors, Brown Armstrong CPAs, have conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Board of Retirement. The financial audit ensures that KCERA's financial statements are presented in conformity with generally accepted accounting principles and are free of material misstatements. Their opinion is that KCERA's financial statements present fairly, in all material respects, the Plan Net Assets of the KCERA as of June 30, 2006 and 2005 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.

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 2006, the investments of the plan provided a gain of 11.69% (net of fees). The KCERA's annualized rate of return, net of fees, was 13.27% in the past three years, 7.82% in the past five years, and 8.52% 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 53 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, 2005. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

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

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

ACKNOWLEDGMENTS

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

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

Respectfully submitted,

Anne M Holdren

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, 2005

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.

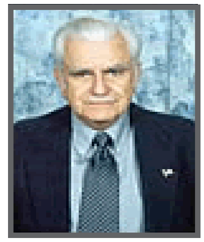
GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

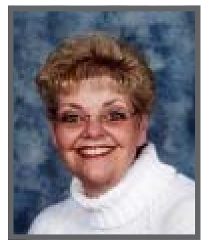
Members of the Board of Retirement
As of June 30, 2006

John J. DeMario
Chair
Elected by retired members.
Present term expires 12/31/2007.

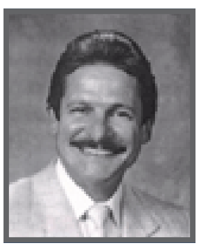


Claude D. Fiddler
Vice Chair
Appointed by
Board of Supervisors.
Present term expires 12/31/2007.

Tony Plante
Elected by safety members.
Present term expires 12/31/2006.



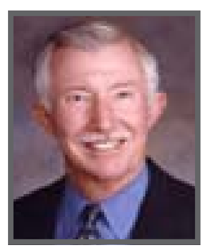
Sharon E. Lesser
Elected by general members.
Present term expires 12/31/2007.



Phil Franey
County Treasurer-Tax Collector
Ex-Officio Member

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

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



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

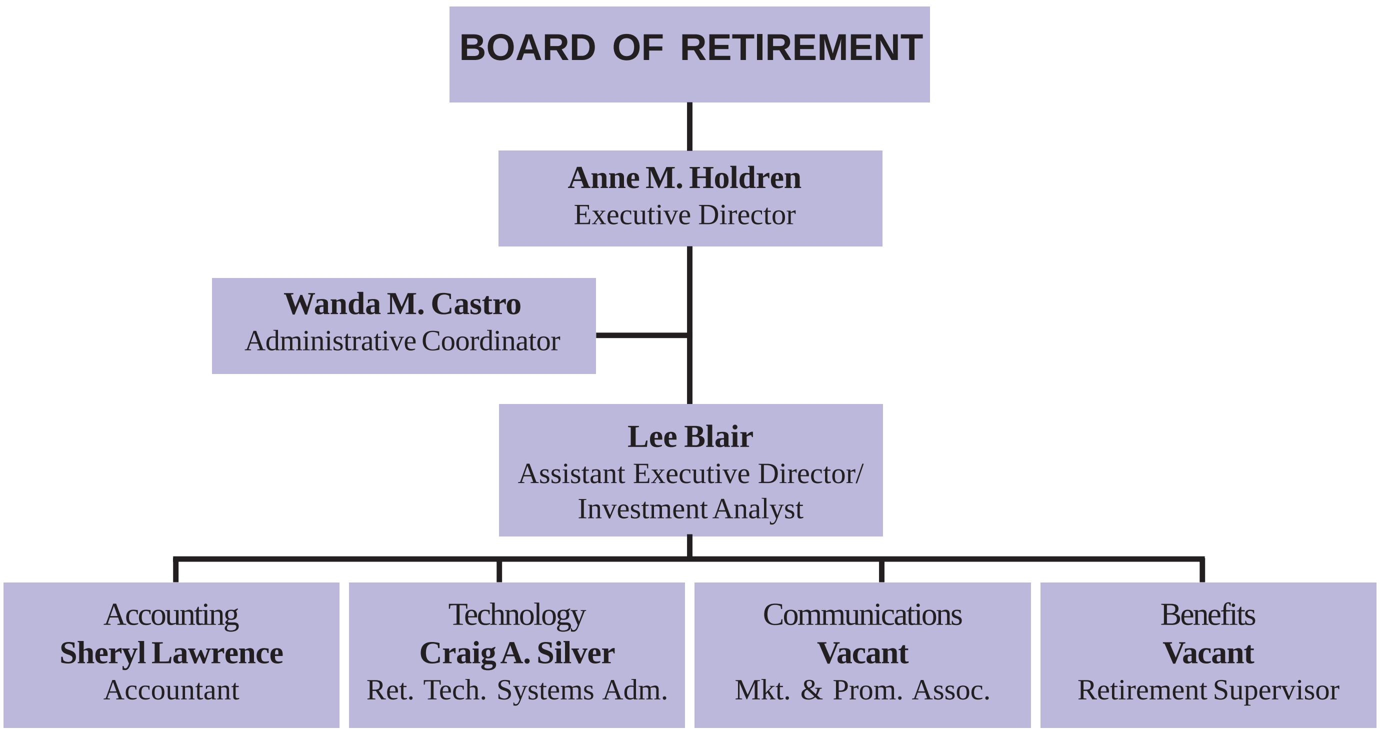
Jordan Kaufman
Elected by general members.
Present term expires 12/31/2006.

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

Howard Eddy
Alternate
Elected by safety members.
Present term expires 12/31/2006.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Organizational Chart
As of June 30, 2006



List of Professional Consultants
As of June 30, 2006

ACTUARY
Milliman, Inc.
Seattle, WA

AUDITOR
Brown Armstrong CPAs
Bakersfield, CA

CUSTODIAN
The Northern Trust Company
Chicago, IL

LEGAL
Kern County Counsel
Bakersfield, 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

Glass, Lewis & Co., LLC
San Francisco, CA

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 THORNBURGH & 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 Board of Retirement
Kern County Employees' Retirement Association

We have audited the accompanying Statement of Plan Net Assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2006 and 2005 and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of management of KCERA. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets of the Kern County Employees' Retirement Association as of June 30, 2006 and 2005 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 2006, KCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 44, Economic Condition Reporting: The Statistical Section.

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 Supplementary Information, and the investment, actuarial and statistical sections as listed in the accompanying table of contents 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 Supplementary Information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the investment, actuarial and statistical sections and express no opinion on it.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
September 8, 2006

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, 2006 and 2005. 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 $246 million during the year ended June 30, 2006. The increase was primarily from performance in the equity markets and real estate.
- As of December 31, 2005, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 76%, compared to the funded ratio of 86%, as of December 31, 2004.
- During the fiscal year ended June 30, 2006, the KCERA's total fund returned 11.69%, slightly higher than the prior fiscal year return of 11.09%.
- Employer contributions during the year increased by approximately $40 million or 67% The increase is attributable to changes in the termination and reciprocity actuarial rate assumptions.
- Pension benefits for the year increased by approximately $13 million or 12% over the prior year. The increase is attributable to a 5% increase in retired members and beneficiaries receiving pension benefits and an 11% increase in the average monthly benefit.

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, 2006 were $2.5 billion, an increase of approximately $246 million (11%) from June 30, 2005. 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. 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 $11.8 million, $10.4 million, and $10.5 million for the years ended June 30, 2006, 2005, and 2004, respectively. Employer contributions were $100.7 million, $60.3 million, and $48.8 million for the years ended June 30, 2006, 2005, and 2004, respectively.

Member contributions increased by approximately $1.4 million (14%) in 2006 and decreased by approximately $0.1 million (less than 1%) in 2005. The increase in member contributions in 2006 is attributable to higher member contribution rates as a result of improved benefit formulas for General and Safety members. The member contributions remained consistent in fiscal year 2005.

Employer contributions increased by approximately $40.5 million (67%) in 2006 and increased by approximately $11.5 million (24%) in 2005. The increase in employer contributions in 2006 is primarily due to changes to the termination and reciprocity rate assumptions as a result of the special experience study on termination experience performed covering five calendar year periods 2000-2004. 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.

Net investment income increases were $259.8 million, $224.4 million, and $296.1 million for the years ended June 30, 2006, 2005, and 2004, respectively. The increase in 2006 can be attributed to U.S. equity, non U.S. equity, and real estate performance during the year. 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.

Contributions and Income (Continued)

The KCERA's total fund return (net of fees) in fiscal year 2006 was 11.69%. For fiscal year 2006, the KCERA's U.S. equity composite returned 10.53%, the fixed income composite returned 0.25%, and the non-U.S. equity composite returned 27.16%. The $224.4 million increase in investment income in fiscal year 2005 results from a total fund return (net of fees) of 11.09% for the year. For fiscal year 2005, the KCERA's U.S. equity composite returned 7.61%, fixed income composite returned 7.87%, and the non-U.S. equity composite returned 16.86%, (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 $113.3 million, $100.2 million, and $89.0 million for the years ended June 30, 2006, 2005, and 2004, respectively. Pension benefits increased by approximately $13.1 million (13.1%) in 2006 and by $11.1 million (12.5%) in 2005. 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 5.0% in 2006 and by 6.4% in 2005. The average monthly benefit increased by 11.4% in 2006 and 7.6% in 2005. In fiscal year 2006, $0, in fiscal year 2005, $0.9 million, and in fiscal year 2004, $6.2 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 $8.5 million, $8.1 million and $7.8 million for years ended June 30, 2006, 2005, and 2004, respectively. Refunds of member contributions were $1.9 million, $1.9 million, and $1.9 million for the years ended June 30, 2006, 2005, and 2004, respectively.

The KCERA administrative expenses were $2.5 million, $2.5 million, and $2.5 million for the years ended June 30, 2006, 2005, and 2004, respectively. At June 30, 2006 and June 30, 2005, administration expenses remained consistent and in fiscal year 2004 increased by $356 thousand. 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.

	June 2006	June 2005	June 2004
Average Monthly Benefit Payments	$9.4 Million	$8.3 Million	$7.4 Million
Retirees and Beneficiaries	5,272	5,022	4,718

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 $132 million, $53, and $(24) million for the years ended June 30, 2006, 2005, and 2004, 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 7.7% in fiscal year 2006 and 6.9% in fiscal year 2005. The credits were below the actuarial rate of 8.0% for both years.

KCERA RESERVES

	2006	2005	2004
Member Reserve	189,413,578	$183,617,008	$ 183,949,369
Employer Reserve	573,247,790	572,061,812	612,276,862
Cost of Living Reserve	517,049,245	473,221,173	444,132,773
Retired Member Reserve	848,760,138	747,133,378	635,836,701
Supplemental Retiree Benefit Reserve	165,295,918	161,343,333	158,325,450
Contingency Reserve	32,701,207	22,122,711	20,307,194
Market Stabilization Reserve	131,788,180	52,771,663)	(24,108,943)
Total	**$2,458,256,056**	**$2,212,271,078**	**$2,030,719,406**

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

	2006	Increase (Decrease) Amount	2005	Increase (Decrease) Amount	2004
Assets					
Current Assets	$216,166	$20,106	$196,060	$(85,556)	$281,616
Investments	2,437,763	262,462	2,175,301	195,557	1,979,744
Securities Lending Collateral	301,660	(12,070)	313,730	121,684	192,046
Capital Assets and Other Assets	51	6	45	(30)	75
Total Assets	**2,955,640**	**$270,504**	**$2,685,136**	**$231,655**	**$2,453,481**
Liabilities					
Current Liabilities	195,724	36,589	$159,135	$(71,581)	$230,716
Liabilities for Security Lending	301,660	(12,070)	313,730	121,684	192,046
Total Liabilities	**$497,384**	**$24,519**	**$472,865**	**$ 50,103**	**$422,762**
Total Net Assets	**$2,458,256**	**$245,985**	**$2,212,271**	**$ 181,552**	**$2,030,719**

Changes in Net Assets
(In thousands)

Table 2

	2006	Increase (Decrease) Amount	2005	Increase (Decrease) Amount	2004
Additions					
Member Contributions	$11,775	$1,424	$10,351	$(100)	$10,451
Employer Contributions	100,734	40,466	60,268	11,508	48,760
Investment Income (Loss)	259,760	35,318	224,442	(71,632)	296,074
Total Additions	**$372,269**	**$77,208**	**$295,061**	**$(60,224)**	**$355,285**
Deductions					
Pension Benefits	$113,337	$13,184	$100,153	$11,110	$89,043
Ventura Lump Sum Payments	0	(864)	864	(5,320)	6,184
Supplemental Retirement Benefits	8,489	433	8,056	238	7,818
Refunds of Member Contributions	1,939	7	1,932	17	1,915
Administrative Expenses	2,519	18	2,501	(51)	2,552
Miscellaneous Expenses	0	(3)	3	3	0
Total Deductions	**$126,284**	**$12,775**	**$113,509**	**$5,997**	**$107,512**
Increase (Decrease) in Net Assets	**$245,985**	**$64,433**	**$181,552**	**$(66,221)**	**$247,773**
Net Assets					
Beginning of Year	**$2,212,271**	**$181,552**	**$2,030,719**	**$247,772**	**$1,782,947**
End of Year	**$2,458,256**	**$245,985**	**$2,212,271**	**$181,552**	**$2,030,719**

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2006 AND 2005

	2006	2005
Assets		
Cash in County Pool	$ 7,527,784	$ 3,966,105
Short-Term Investment Funds	106,124,748	74,033,779
Total Cash and Short-Term Investment Funds	113,652,532	77,999,884
Receivables:		
Investments Sold	94,430,039	106,268,600
Interest and Dividends	7,427,108	7,787,952
Contributions and Other Receivables	656,002	4,003,311
Total Receivables	102,513,149	118,059,863
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	706,665,869	656,138,934
International Bonds	32,657,120	52,947,178
Domestic Stocks	1,013,659,731	931,998,891
International Stocks	524,426,083	466,606,612
Real Estate Investments	34,315,871	28,980,471
Alternative Investments	126,038,820	38,629,196
Collateral Held for Securities Lending	301,660,091	313,729,991
Total Investments	2,739,423,585	2,489,031,273
Capital Assets, net of accumulated depreciation of $46,596 and $347,980, respectively	50,759	44,909
Total Assets	2,955,640,025	2,685,135,929
Liabilities		
Securities Purchased	192,867,700	156,442,549
Collateral Held for Securities Lent	301,660,091	313,729,991
Other Liabilities	2,462,223	1,802,128
Mark to Market Payables	393,955	890,183
Total Liabilities	497,383,969	472,864,851
Net Assets Held in Trust for Pension Benefits	**$ 2,458,256,056**	**$ 2,212,271,078**

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

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Additions		
Contributions		
Employer	$ 100,734,230	$ 60,268,141
Member	11,774,784	10,350,993
Total Contributions	112,509,014	70,619,134
Investment Income		
Net Appreciation in Fair Value of Investments	204,624,585	181,651,837
Interest	45,362,840	30,668,783
Dividends	12,992,873	10,392,329
Real Estate Investments	3,328,402	5,880,345
Other Investment Income	244,604	1,466
Total Investment Income	266,553,304	228,594,760
Less: Investment Expenses	7,501,699	4,623,383
Net Investment Income	259,051,605	223,971,377
Securities Lending Income		
Earnings	12,392,008	5,144,633
Less: Rebates & Bank Fees	11,683,135	4,673,877
Net Securities Lending Income	708,873	470,756
Total Additions	372,269,492	295,061,267
Deductions		
Retirement and Survivor Benefits	113,337,274	101,017,560
Supplemental Retirement Benefits	8,489,227	8,056,629
Refunds of Member Contributions	1,938,989	1,931,893
Administrative Expenses	2,518,913	2,500,768
Miscellaneous Expenses	111	2,745
Total Deductions	126,284,514	113,509,595
Net Increase	**245,984,978**	**181,551,672**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	2,212,271,078	2,030,719,406
End of Year	$ 2,458,256,056	$ 2,212,271,078

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
JUNE 30, 2006 AND 2005
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, 2006, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	6,628	1,646	8,274
Terminated employees – vested	844	110	954
Retirees and beneficiaries currently receiving benefits	3,992	1,280	5,272
	11,464	3,036	14,500

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 six months 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, 2006 and 2005.
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

Governmental Accounting Standards Board (GASB) Statement No. 44, *Economic Condition Reporting: The Statistical Section,* was issued in May 2004. This statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, guiding the preparation of the statistical section. Statement No. 44 establishes the objectives of the statistical section and the five categories of information it contains - financial trends information, revenue capacity information, debt capacity information, demographic and economic information, as well as operating information. The provisions of the statement are effective for periods beginning after June 15, 2005. The KCERA implemented GASB 44 beginning with fiscal year ending June 30, 2006.The Statistical Section has been expanded to include ten years of trend information plus financial trend information regarding changes in plan net assets.

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, 2006, 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	$21,783,057	2.95%
	BB	185,003	0.03%
	B	220,275	0.03%
	NR	3,734,915	0.51%
Commercial Mortgage-Backed	AAA	21,261,105	2.88%
	NR	1,862,366	0.25%
Government Mortgage Backed Securities	AGY	187,902,519	25.42%
Non-Government Backed C.M.O.s	AAA	115,780,973	15.66%
	NR	6,746,685	0.91%
Corporate Bonds	AAA	3,405,457	0.46%
	AA	8,106,017	1.10%
	A	21,930,334	2.97%
	BBB	47,201,082	6.38%
	BB	41,204,326	5.57%
	B	70,046,374	9.47%
	CCC	8,750,743	1.18%
	NR	11,698,571	1.58%
Government Agencies	AAA	29,197,496	3.95%
Government Bonds	AAA	58,264,513	7.88%
	BBB	3,195,853	0.43%
	BB	145,369	0.02%
	D	371,250	0.05%
	TSY	27,194,461	3.68%
	NR	3,414,811	0.46%
Goldman Sachs Trust High Yield Fund	B	18,237,313	2.47%
Western Asset Opportunistic Yankee Fund	BBB	3,181,444	0.43%
Western Asset Opportunistic International Fund	AAA	15,760,167	2.13%
Western Asset Opportunistic Emerging Markets	BB	3,582,653	0.48%
Western Asset Opportunistic High Yield	BB	8,422,596	1.14%
Swaps/Options/Rights	NR	(3,464,738)	-0.47%
Total		**$739,322,989**	**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, 2006 (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, 2006, KCERA had $466,009 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, 2006, 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**	**Maturity Not Determined**
Asset Backed Securities	$25,923	$ -	$2,067	$90	$23,766	$ -
Commercial Mortgage-Backed	23,123	-	-	198	22,925	-
Commercial Paper	375	375	-	-	-	-
Corporate Bonds	261,152	8,690	73,551	86,267	42,801	49,843
Government Agencies	29,198	4,549	19,241	4,601	807	-
Government Bonds	65,801	4,491	26,176	2,712	32,422	-
Government Mortgage-Backed	187,902	-	670	219	114,849	72,164
Index Linked Government Bonds	17,966	-	-	5,200	12,766	-
Non-Government Backed C.M.O.s	122,528	-	6,049	-	116,479	-
Short Term Bills and Notes	8,819	8,819	-	-	-	-
Swaps/Options/Rights	(3,464)	-	-	-	-	(3,464)
Total	**$739,323**	**$26,924**	**$127,754**	**$99,287**	**$366,815**	**$118,543**

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, 2006.

	Foreign Currency	Fair Value in USD
Cash	Argentine Peso	$ 29,113
	Australia Dollar	(27,887)
	British Pound Sterling	129,904
	Euro	161,100
	Hong Kong Dollar	(29,855)
	Japanese Yen	225,649
	Mexican Peso	19,204
Equities	Australia Dollar	3,271,692
	British Pound Sterling	51,611,855
	Euro	79,430,812
	Hong Kond Dollar	11,010,182
	Japanese Yen	54,012,894
	Swedish Krona	3,219,060
	Swiss Franc	25,939,816
Fixed Income Securities	Argentine Peso	204,298
	British Pound Sterling	863,780
	Euro	7,139,624
Swaps	Brazilian Real	(23,072)
	British Pound Sterling	(639,645)
	Mexican Peso	(1,286)
Total Foreign Cash and Investments		**$ 236,547,238**

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, 2006, 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, 2006 and 2005, the securities lending transactions collateralized by cash had a fair value of $296,156,601 and $305,275,145, respectively, and a collateral value of $301,660,091 and $313,729,991, respectively. At June 30, 2006 and 2005, the securities lending transactions collateralized by securities or letters of credit had a fair value of $21,152,547 and $19,179,264, respectively, and a collateral value of $21,506,925 and $19,677,297, 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, 2006 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 Equities	$41,842,577	43,065,394		
U.S. Agencies	13,576,486	13,809,160	$3,296,024	$3,350,109
Corporates	42,005,463	42,696,232	2,606,037	2,648,530
Equities	135,113,942	137,404,277	3,402,012	3,457,657
U.S. Government	63,618,133	64,685,028	11,848,474	12,050,629
Totals	**$296,156,601**	**$301,660,091**	**$21,152,547**	**$21,506,925**

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 in 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 2006 and 2005 are $8,494,821 and $1,044,237, 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, 2006	June 30, 2005
Forward Currency Contracts (Receivables)	$ 15,845	$ 23,088
Forward Currency Contracts (Payables)	(15,657)	(23,142)
Mortgage-Backed Securities	211,026	132,110
Asset-Backed Securities	25,923	43,828
Collateralized Mortgage Obligation Securities	122,528	23,639
Swaps/Options	(3,513)	(1,851)
Rights/Warrants	138	58
Total Derivatives	$356,290	$197,730

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 2006, 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 30 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 100% of the employees' normal contributions until they have attained five years of service. 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 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.

Kern/Superior Court

The MOU adopted November, 2004 between Superior Court of California, County of Kern and its employees states that effective on the first day of payroll period 05-01, all Court employees will contribute 2.5% (pre-tax pursuant to IRC 414 (h) (c)) of their base salary to contribute to the Courts's additional costs in adopting the Government Code Section 31676.17 resolution in the August, 2004 MOU.

NOTE 6 – CONTRIBUTIONS (Continued)

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 employer contributions. In fiscal year 2006, 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 was 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, 2006. Contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rates	Employer Rates
General Members	3.44% - 8.85%	23.26%
Safety Members (hired prior to July 10, 2004)	5.06% - 10.78%	35.65%
Safety Members (hired on or after July 10, 2004)	7.59% - 16.16%	35.65%
Special Districts (electing MOU)	3.44% - 8.85%	27.50%
Special Districts (not electing MOU)	3.44% - 8.85%	25.04%
Special Districts (full pickup)	3.44% - 8.85%	28.26%

Total contributions made during fiscal years 2006 and 2005, respectively, amounted to $112,509,014 and $70,619,134 of which $100,734,230 and $60,268,141 were contributed by the County of Kern and Special Districts, and $11,774,784 and $10,350,993 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.

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

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

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

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

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

Contingency Reserve – excess income to supplement deficient earnings. The contingency reserve satisfies the Government Code Section 31616 requirement for the KCERA to reserve at least 1% of assets, up to a maximum of 3% of assets. At fiscal year ended June 30, 2006, 1.3% 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, 2006 and 2005 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	2006	2005
Members' deposit reserve, general	$ 125,084,491	$ 120,470,327
Members' deposit reserve, safety	53,228,037	52,542,737
Members' deposit reserve, special district	11,101,050	10,603,944
Employer's advance reserve, general	306,462,119	309,820,200
Employer's advance reserve, safety	256,798,609	252,213,799
Employer's advance reserve, special district	9,987,062	10,027,813
Cost of living reserve, general	282,015,919	258,028,442
Cost of living reserve, safety	222,840,438	204,917,655
Cost of living reserve, special district	12,192,888	10,275,076
Retired members' reserve, general	506,734,206	436,909,966
Retired members' reserve, safety	342,025,932	310,223,412
Supplemental retiree benefit reserve (SRBR)	89,836,300	89,586,684
SRBR allocated for 0.5% COLA	75,459,618	71,756,649
Contingency reserve	32,701,207	22,122,711
Total reserves at five-year smoothed market actuarial valuation	2,326,467,876	2,159,499,415
Market stabilization reserve*	131,788,180	52,771,663
Total net assets held in trust for pension benefits	$ 2,458,256,056	$ 2,212,271,078

**This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2006 and 2005.*

NOTE 8– COMMITMENTS AND CONTINGENCIES

Capital Commitments

The KCERA allocates 6% of assets to private equity markets. As of June 30, 2006 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, 2006, the KCERA had $55 million in private equity capital.

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.

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, 2006 AND 2005

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)
12/31/05	$2,164,304	$2,861,872	$697,568	75.6%	$391,381	178.2%
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%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2006	$100,734,230	100%
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%

Percentage reflects pension obligation bond proceeds totaling $285.1 million.

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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, 2005 is as follows:

Valuation date:	December 31, 2005
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:	3.5%
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 4,741 to 5,132. The average monthly benefit check increased from $1,667 to $1,857. This represents an 8.3% increase in retiree membership and an 11.4% increase in average monthly benefit.

The number of active members increased by 2.6% from 7,986 to 8,195. The average pay increased by 1.7% from $3,935 per month to $4,001 per month.

Assumptions and Methodology:

As a result of the Investigation of Experience for the period from January 1, 2003 through December 31, 2005, changes have been made in the economic assumptions, demographic assumptions, and actuarial methods. The changes in assumptions and actuarial methods since prior year are as follows:

Economic Assumptions:

Price Inflation: Changed from 4.0% to 3.5%.

General Wage Increase: No change in total rate (4.0%), but it is comprised of 3.5% price inflation and a 0.5% assumption regarding wage productivity.

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

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

Assumptions and Methodology: (Continued)

Demographic Assumptions:

Merit Salary Increase: New table with smaller increases for members with more than 10 years of service.

Death While Active: No change to General rates. Safety rates set equal to General rates.

Service Retirement: Small increases in General rates to reflect new benefits. Increases in Safety rates.

Disability Retirement: Decrease in General rates; no change to Safety rates.

Termination: Lower rates for service less than 10 years.

Probablity of Refund: Increase General rates; no change for Safety rates.

Retiree Mortality: Based on the RP-2000 Mortality Table with Adjustment for White Collar Workers (RP-2000WC) as the base table for all retirees, but adjusted the standard rates to be either lower or higher than these rates (an age set back or age set forward) to recognize KCERA's experience. (See Summary of Actuarial Assumptions & Methods on page 63)

Miscellaneous Assumptions: Eligible survivor; increase probability for females. Beneficiary age; females assumed to be 3 years younger than males. Reciprocal agency; 60% assumed to join.

Actuarial Methods:

Member Rates: The changes in mortality tables and the merit salary scale changed the basic member contribution rates.

Amortization Period: The Unfunded Actuarial Accrued Liability due to the change in funding method is amortized as a level percentage of payroll over a 30-year period beginning with the December 31, 2005 valuation.

Benefits:
Effective January 1, 2005, the County of Kern adopted CERL 31676.17 (3% at 60) for general members and Special Districts.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL INFORMATION

Schedule of Administrative Expenses
For the Years Ended June 30, 2006 and 2005

	2006	2005
Personnel Services:		
Salaries & Wages	$ 806,006	$ 886,439
Employee Benefits	461,679	377,652
Total Personnel Services	1,267,685	1,264,091
Professional Services:		
Legal Counsel	265,775	253,813
Audit	37,313	43,200
Medical/Hearing Officers	103,112	75,983
Information Technology	132,189	142,445
Other Professional Services	216,028	144,740
Total Professional Services	754,417	660,181
Communication:		
Postage	23,851	31,253
Printing	7,016	5,116
Telephone	7,271	7,748
Education & Professional Development	69,618	42,601
Marketing & Promotions	21,043	20,065
Total Communication	128,799	106,783
Operating Expenses:		
Equipment Leases	25,312	26,893
Building Lease	73,200	73,200
Office Expense	24,882	62,564
Insurance	92,448	97,433
Equipment Maintenance	3,389	1,191
Memberships	10,845	6,705
Special Departmental Expense	16,101	3,389
Other Services	7,341	17,358
Pension Disbursement Fees	79,801	113,647
Depreciation and Amortization	17,373	55,422
Utilities & Maintenance	17,320	11,911
Total Operating Expenses	368,012	469,713
Total Administrative Expenses	**$2,518,913**	**$2,500,768**

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

OTHER SUPPLEMENTAL INFORMATION (Continued)

Schedule of Investment Expenses
For the Years Ended June 30, 2006 and 2005

	2006	2005
Investment Manager Fees:		
Equity		
Domestic	$ 1,156,294	$ 936,615
Non-U.S.	2,712,761	1,541,290
Fixed Income		
Domestic	420,878	207,606
Global	1,801,614	878,348
Real Estate		
Investments in Real Estate	(8,573)	32,573
Individual Properties	(1,310)	0
Securities (REITs)	303,875	234,788
Total Investment Manager Fees	6,385,539	3,831,220
Other Investment Expenses:		
Custodian	381,912	387,897
Actuarial Valuation	214,274	28,980
Investment Consultant	297,369	206,964
Legal Fees	58,114	29,626
Due Diligence	17,877	12,684
Policy Implementation Overlay Strategy	146,614	126,012
Total Other Investment Expenses	1,116,160	792,163
Total Fees and Other Investment Expenses	7,501,699	4,623,383
Security Lending Rebates and Bank Fees	11,683,135	4,673,877
Total Investment Expenses	**$ 19,184,834**	**$ 9,297,260**

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, 2006 and 2005

		Commission / Fee	
Individual or Firm	*Nature of Service*	**2006**	**2005**
Brown Armstrong	External Auditors	$ 37,313	$ 43,200
Kern County Counsel	Legal Counsel	258,395	222,312
Morrison & Foerster, LLP	Legal Counsel	0	116
Hanson Bridgett	Legal Counsel	7,354	6,561
Klein Denatale et al.	Legal Counsel	27	21,697
Papst, Richard J.	Legal Counsel	0	3,078
Milliman, Inc.	Actuarial Services	25,352	9,034
EFL Associates	Personnel Consultants	0	32,158
Cortex Applied Research, Inc.	Policy Consultants	76,518	66,301
MAGwriter	Technical Writer	79,435	0
Advanced Records Technology	Imaging Services	4,100	0
Total Payments to Consultants		**$488,494**	**$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

October 2, 2006

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

Dear Ms. Holdren,

I am pleased to provide you with our report on the Kern County Employees' Retirement Associate (KCERA) for the year ending June 30, 2006.

For the fiscal year ended June 30, 2006, the KCERA's retirement fund had an investment gain of 11.69% and ended the year with total assets of $2.455 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 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 Fixed Income, which is slightly underweight relative for target due to the poor performance of Fixed Income and the strong performance of Equities over the past year. The Clifton Group has been retained by the KCERA to manage an overlay portfolio that utilizes index futures contracts to keep the KCERA's total asset allocation in-line with target despite day-to-day market movements. All managers were in compliance with their guidelines on June 30, 2006.

Asset Class	Target Allocation	Actual Allocation
Domestic Equities	40%	41.0%
International Equities	20%	21.5%
Fixed Income	31%	28.4%
Real Estate	6%	5.1%
Hedge Funds	3%	2.9%
Cash	0%	1.0%

The strong investment performance over the last year helped to reverse the effects of the stock market declines on the value of the fund from 2001 through 2003. Some highlights follow below:

- The KCERA's total fund returned 11.69% for the year, versus the policy return of 10.62%. Outperformance versus policy was largely due to superior manager performance from US equity managers and the real estate portfolio, as well as the aforementioned overweight to equities at the expense of fixed income. The KCERA's median peer in our database returned 9.28%, indicating that the KCERA continues to be better positioned than the majority of its peers for the current market environment.

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

- The KCERA's Domestic Equity composite returned 10.53% versus a return of 9.92% for the Dow Jones Wilshire 5000. Two new small and small/mid capitalization managers helped to offset weakness in the relative returns of some of the KCERA's large cap equity managers. As a result of on-going underperformance, one manager was added to the KCERA's "Watch List" and will be subjected to further review and due diligence. The median Equity return for KCERA's peers was 10.82%.
- The KCERA's fixed income composite returned 0.25% versus -0.81% 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. As rates rise, the prices of bonds must fall, resulting in a difficult market environment for fixed income investors. The median Fixed Income return for KCERA's peers was 0.19%, indicating that despite the difficult environment, the KCERA has outpaced both the majority of its peers and the bond market as a whole.
- The KCERA's International Equity composite rose 27.16% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned 28.40%. Moderate underperformance in a rapidly rising market by both of the KCERA's developed markets managers resulted in slight underperformance relative to the benchmark. This was offset by the strong performance of the KCERA's Emerging Markets Equities portfolio, which had a return for the year of 37.87%. For the sake of comparison, the median client's International Equities portfolio in our database returned 27.37%, roughly the same as the KCERA.

As KCERA's investment consultant, Wilshire Associates provides investment advice, asset and liability studies, manager monitoring, and detailed quarterly performance reports to the KCERA Board of Retirement. Return calculations presented in the investment section were prepared using a time-weighted rate of return based on market values (fair values) in accordance with the CFA Institute's Performance Presentation Standards. 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

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OUTLINE OF INVESTMENT POLICIES
Adopted by the Board of Retirement August 10, 2005

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 a third party 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, 2006 are as follows:

			Target Ranges	
	Actual*	**Target**	**Minimum**	**Maximum**
Domestic Equities	39.0%	34.0%	30.0%	38.0%
International Equities	21.5%	20.0%	17.0%	23.0%
Fixed Income	28.5%	31.0%	28.0%	34.0%
Real Estate	5.1%	6.0%	0.0%	10.0%
Private Equity	2.0%	6.0%	0.0%	6.0%
Hedge Funds	2.9%	3.0%	0.0%	5.0%
Cash / Other	1.0%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

The June 30, 2006 asset allocation is based upon Wilshire Associates's June 30, 2006 Kern County Employees' Retirement Association Investment Performance Analysis.

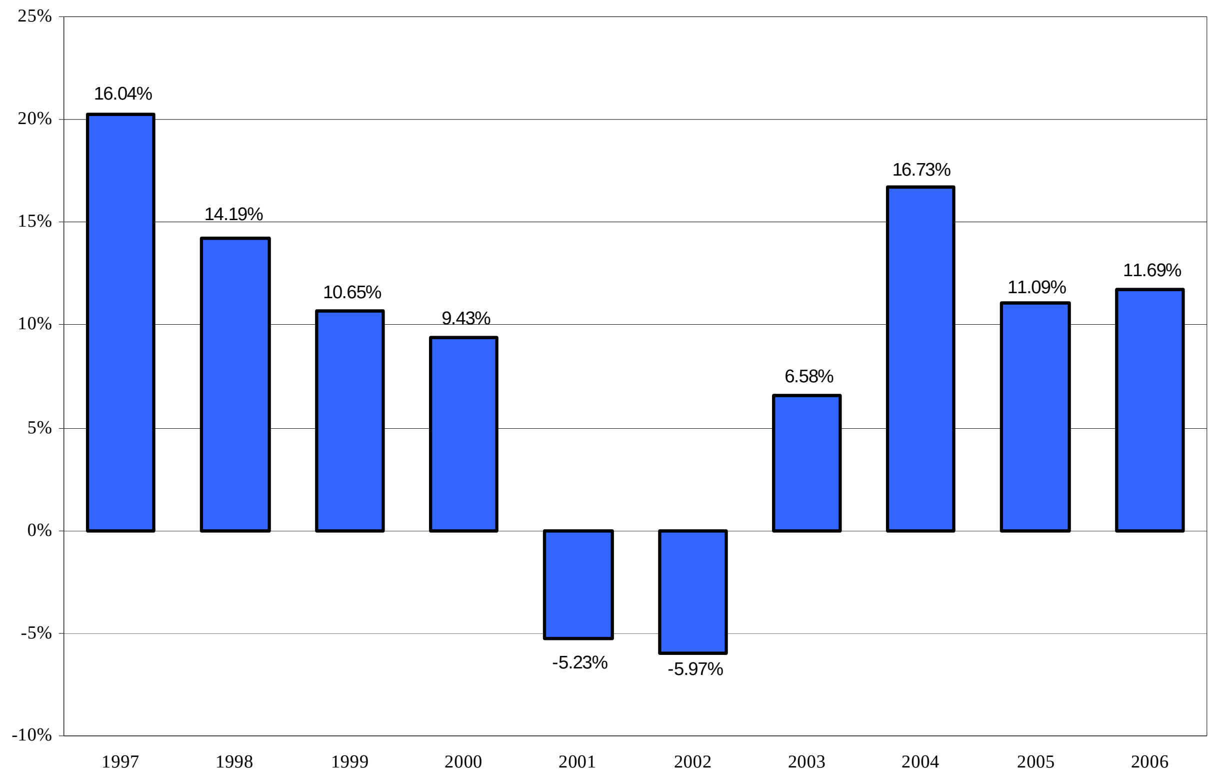
Investment Summary
For the Year Ended June 30, 2006

Type of Investment	**Fair Value (in thousands)**	**% of Total Fair Value**
Domestic Equities		
Large Cap Index Fund	$ 269,738	11.0%
Large Cap Synthetic Strategies	471,985	19.2%
Small Cap Core Securities	216,508	8.8%
Total Domestic Equities	958,231	39.0%
International Equities		
Active EAFE Securities	478,247	19.5%
Emerging Markets Growth Fund	50,208	2.0%
Total International Equities	528,455	21.5%
Fixed Income		
Core Plus Global Fixed-Income	580,529	23.7%
High Yield Bonds	110,671	4.5%
Investments in Commercial Mortgages	6,931	0.3%
Total Fixed Income	698,131	28.5%
Real Estate		
Public / Private Real Estate Investments	27,385	1.1%
Securities (REITs)	96,717	3.9%
Total Real Estate	124,102	5.1%
Alternative Investments	121,414	4.9%
Cash & Short-Term Cash Investment Funds	10,367	0.4%
Policy Implementation Overlay Strategy	14,691	0.6%
Total Investments	**$ 2,455,391**	**100.0%**

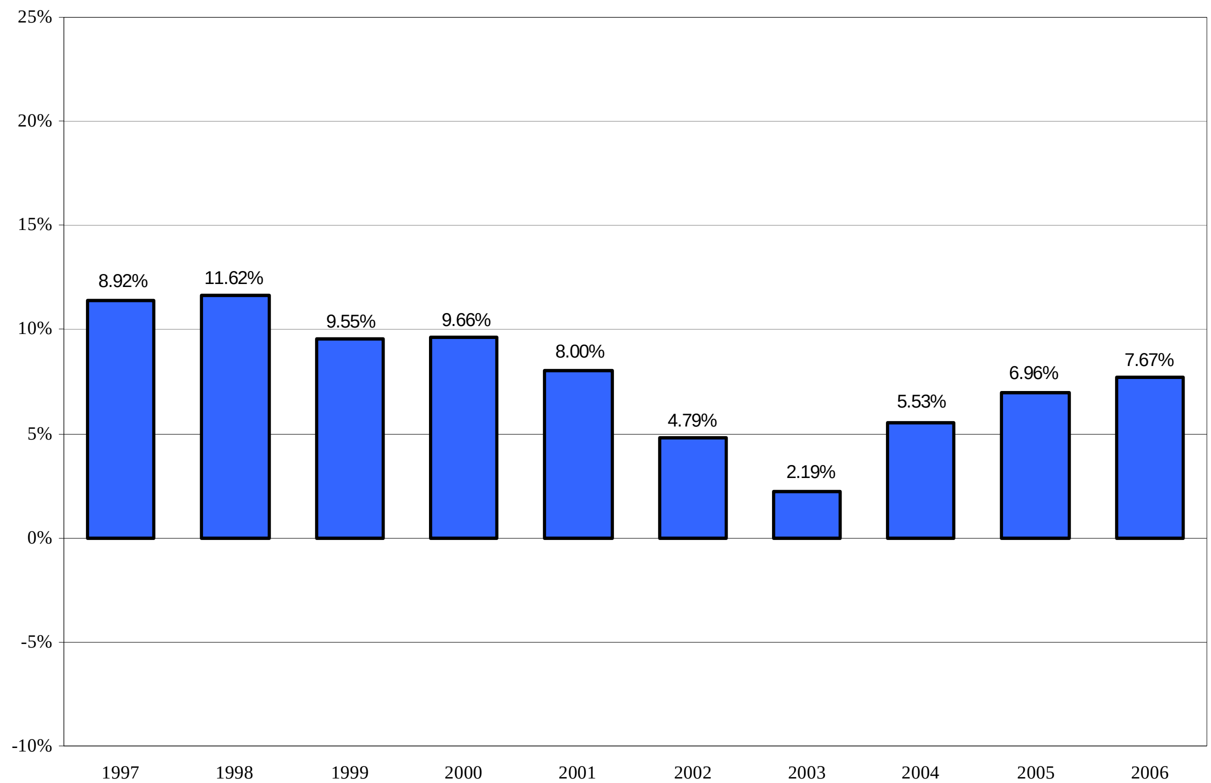
The June 30, 2006 investment summary is based upon Wilshire Associates' June 30, 2006 Kern County Employees' Retirement Association Investment Performance Analysis.

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.

Investment Results
Returns for Periods Ended June 30, 2006

	Current Year	Annualized 3-year	Annualized 5-year	Annualized 10-year
Total Portfolio:	11.69	13.27	7.82	8.52
*Benchmark: Composite Policy	10.62	12.37	7.02	7.92
TUCS Master Trust Median	9.28	10.99	6.10	8.40
U.S. Equity:	10.53	12.88	4.42	8.79
Benchmark: DJ Wilshire 5000 Index	9.92	12.98	4.02	8.45
TUCS Equity Median	10.82	14.56	5.38	9.79
Non U.S. Equity:	27.16	24.22	11.75	6.85
**Benchmark: Custom Index	28.40	25.77	11.85	6.83
TUCS International Equity Median	27.37	24.68	11.35	9.54
Fixed Income:	0.25	3.92	6.15	6.57
Benchmark: Lehman Aggregate Index	-0.81	2.05	4.97	6.22
TUCS Fixed Income Median	0.19	2.60	5.38	6.54
Real Estate:	24.44	27.14	18.96	14.16
Benchmark: 50% Wilshire Real Estate Securities Index / 50% NCREIF	20.48	22.28	16.21	14.10
Cash & Cash Equivalents	4.36	3.34	3.59	4.53
Benchmark: 91-Day T-Bill	3.98	2.36	2.25	3.81

*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 +
1.5%	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 CFA Institute's Performance Presentation Standards.

Investment Professionals
As of June 30, 2006

Investment Managers

U.S. EQUITY

AXA Rosenberg Investment Management
Orinda, CA

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

Pacific Investment Management Company
Newport Beach, CA

State Street Global Advisors
Boston, MA

Westridge Capital Management, Inc.
Santa Barbara, CA

NON U.S. EQUITY

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

Capital International, Inc.
Los Angeles, CA

JP Morgan Fleming Asset Management
London, England

GLOBAL FIXED INCOME

Goldman, Sachs & Co.
New York, NY

FFCA Institutional Advisors, Inc.
Scottsdale, AZ

Western Asset Management Co.
Pasadena, CA

Investment Managers (Continued)

REAL ESTATE

Fidelity Real Estate Asset Manager
Boston, MA

LaSalle Securities Limited
Baltimore, MD

ALTERNATIVE INVESTMENTS

Abbott Capital Management, LLC
Boston, MA

K2 Advisors
Stamford, CT

Pantheon Ventures, Inc.
San Francisco, CA

Consultant

Wilshire Associates, Inc.
Santa Monica, CA

Actuary

Milliman, Inc.
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, 2006 and 2005

	2006	2005
Investment Managers' Fees		
U.S. Equity Managers:		
AXA Rosenberg Investment Management	108,621	0
Barclays Global Investors, N.A.	744,053	369,558
Putnam Investments	0	200,232
Rothschild Asset Management, Inc.	0	174,010
State Street Global Advisors	82,152	0
Westridge Capital Management, Inc.	221,468	192,815
Total U.S. Equity Managers	1,156,294	936,615
Non U.S. Equity Managers:		
Barclays Global Investors, N.A.	1,782,944	729,901
JP Morgan Fleming Asset Management	929,817	811,389
Total Non U.S. Equity Managers	2,712,761	1,541,290
High Yield Managers:		
Goldman Sachs Asset Management	311,997	51,063
W.R. Huff Asset Management Co., LLC	0	121,784
Western Asset Management	108,881	18,198
Total High Yield Managers	420,878	191,045
Global Fixed Income Managers:		
Goldman Sachs Asset Management	1,189,055	289,986
Hyperion Asset Management, Inc.	0	16,560
Western Asset Managment	612,559	588,361
Total Global Fixed Income Managers	1,801,614	894,907
Real Estate Managers:		
Fidelity Real Estate Asset Manager	(8,573)	32,575
Heitman Capital Management Corp.	(1,310)	0
LaSalle Securities Limited	303,875	234,788
Total Real Estate Managers	293,992	267,363
Total Investment Managers' Fees	**6,385,539**	**3,831,220**

Schedule of Investment Fees and Services (Continued)
For the Years Ended June 30, 2006 and 2005

	2006	2005
Custodial Fees		
The Northern Trust Company	381,912	387,898
Policy Implementation Overlay Strategy		
The Clifton Group	146,614	126,012
Actuarial Fees		
Buck Consultants	45,000	0
Milliman, Inc.	169,274	28,980
Investment Consultant Fees		
CB Richard Ellis	55,333	0
Cortex Applied Research, Inc.	15,250	9,750
Glass, Lewis & Co.	43,500	8,500
Wilshire Associates, Inc.	183,286	188,714
Legal Fees		
Bullivant Houser Bailey	1,472	0
Kern County Counsel	29,316	29,627
Paul Hastings Janofsky Walker LLP	16,272	0
Steefel Levitt & Weiss	4,265	0
Tatro Tekosky Sandwick LLP	6,789	0
Due Diligence		
Trustees / KCERA Management	17,877	12,684
Security Lending Fees		
The Northern Trust Company	11,683,135	4,673,877
Total Investment Fees and Services	**$ 19,184,834**	**$ 9,297,260**

Largest Stock Direct Holdings (By Market Value)
As of June 30, 2006

Shares	Stocks	Market Value
149,760	Total	$ 9,852,193
478,800	HSBC Holdings	8,389,942
259,800	ENI	7,650,411
220,380	GlaxoSmithKline	6,158,893
2,754,260	Vodafone Group	5,870,998
52,700	UBS AG	5,764,735
375	Mitsubishi UFJ Financial Group	5,248,655
819,400	Tesco	5,061,902
48,004	BNP	4,594,317
62,860	CIE	4,493,015

Largest Bond Direct Holdings (By Market Value)
As of June 30, 2006

Par	Bonds	Market Value
50,000,000	FNMA Single Family Mortgage 5.0% 30 Years July	$46,734,400
38,400,000	FNMA 30 Year Pass-Throughs 5.5% 30 Years July	36,875,981
21,000,000	FNMA Single Family Mortgage 4.5% 15 Years August	19,838,490
13,100,000	GNMA TBA Pool 6.0% 30 Years July	12,989,462
10,950,000	FNMA Single Family Mortgage 6.0% 30 Years July	10,775,479
7,690,000	U.S. Treasury Notes 4.5% due 11/15/2010	7,511,569
7,285,992	CMO WAMU Mortgage Pass-Throughs 8/25/2045	7,306,028
14,000,000	U.S. Treasury Bonds stripped prin pmt 5/15/2020	6,714,260
5,600,000	U.S. Treasury Bonds Inflation Indexed 2.375% due 1/15/2025	5,824,705
5,600,000	U.S. Treasury Notes 4.75% due 3/31/2011	5,515,782

A complete list of portfolio holdings is available upon request.

Schedule of Fees and Assets Under Management
For the Year Ended June 30, 2006

Fees:

	Assets under management	Fees
Investment managers' fees:		
U.S. equity managers	$ 805,040,875	$ 1,156,294
Non U.S. equity managers	478,246,923	2,712,761
Fixed income managers	691,165,220	2,222,492
Real estate managers	96,717,410	293,992
Total investment managers' fees	$ 2,071,170,428	$ 6,385,539
Other investment service fees:		
Custodial fees	-	$ 381,912
Policy implementation overlay strategy	-	146,614
Actuarial fees	-	214,274
Investment consultant fees	-	297,369
Legal fees	-	58,114
Due diligence	-	17,877
Security lending fees	-	11,683,135
Total investment service fees	-	$ 19,184,834

ACTUARIAL SECTION

A MILLIMAN GLOBAL FIRM
Milliman
Consultants and Actuaries

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Seattle, WA 98101-2605
Tel +1 206 624.7940
Fax +1 206 623.3485
www.milliman.com

July 14, 2006

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, 2005 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, 2006.

Contribution Rates

The financing objective of KCERA is to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a 30-year period as of December 31, 2005, while maintaining contribution rates that will tend to remain level as percentages of payroll. As of December 31, 2005 there is an unfunded actuarial accrued liability of $697.57 million.

Due primarily to increases in benefits for General members and changes in assumptions, the Total Plan contribution rate increased from 26.36% of pay based on the December 31, 2004 valuation to 31.70% of pay based on the December 31, 2005 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. Based on the Board's Funding Policy those benefit increases were not reflected in the December 31, 2004 valuation but were reflected in the December 31, 2005 valuation.

Funding Status

Based on the December 31, 2005 actuarial valuation, the funded percentage decreased from 86.1% to 75.6% due to the change in benefit (5.3%), experience (3.3%) and assumption changes (1.9%). The funding percentage is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability.

Assumptions

A complete investigation of experience was performed as of December 31, 2005 and all actuarial assumptions were reviewed. Assumptions including mortality rates, termination rates, retirement rates, disability rates, marriage assumptions and salary scale were changed as a result of this study. Our December 31, 2005 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, 2005 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*. Assumptions used in the actuarial valuation were reviewed as part of the Experience Investigation and approved by the Board. 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 Financial Experience
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　　　　Daniel Wade

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

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:	3.5%
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, 2005. 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. Rates for females are set back one year; no adjustment is made for males.
B) Safety Members:	Rates are the same as General Members.
C) Pensioners on Disability Retirement:	RP-2000 Healrthy Annuitant Mortality Table, with adjustment for white collar workers. Rates set forward four years for males and females. Rates are not less than 1.25% for males and 1.0% for females. Safety Disability rates are the same as General, except that set forward is two years.
Proportion of Members with Spouses at Retirement:	80% of male employees and 60% of female employees are assumed to have a spouse or qualified domestic partner at retirement. Wives are assumed to be three 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, 2005.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Assumed Rate of Salary Increase (before wage inflation)
As of December 31, 2005

Years of Service	General Members	Safety Members
0	6.00%	6.00%
1	5.00%	5.00%
2	4.00%	4.00%
3	3.00%	3.00%
4	2.50%	2.50%
5	2.25%	2.25%
6	2.00%	2.00%
7	1.75%	1.75%
8	1.50%	1.50%
9	1.30%	1.30%
10	1.10%	1.10%
11	0.90%	0.90%
12	0.80%	0.80%
13	0.70%	0.75%
14	0.60%	0.75%
15 or more	0.50%	0.75%

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	2	0	3	0	2,000
30	12	0	3	0	4	10	240
40	30	0	7	0	10	20	132
50	60	0	19	600	29	30 & above	0
60	66	0	65	2,000	98	30 & above	0
70	0	0	0	10,000	0	30 & above	0
General Members - Female							
20	3	0	2	0	3	0	2,000
30	4	0	3	0	4	10	240
40	10	0	7	0	10	20	132
50	24	0	19	600	29	30 & above	100
60	56	0	28	1,700	42	30 & above	0
70	0	0	0	10,000	0	30 & above	0
Safety Members - All							
20	9	2	0	0	3	0	800
30	12	2	0	0	28	10	170
40	30	2	0	0	78	20	0
50	60	2	0	1,200	198	30 & above	0
60	66	2	0	10,000	0	30 & above	0

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
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%**
12/31/05	General	6,552	$300,821,384	$45,913	2.1%
	Safety	1,643	92,679,367	56,409	0.3%
	Total	**8,195**	**393,500,751**	**48,017**	**1.7%**

Schedule of Retirees and Beneficiaries Added to and Removed from Payroll

Plan Year	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Allowance Added	Annual Allowance Removed	Retiree Payroll Ending	% Increase in Retiree Allowance	Average Annual Allowance
2000	4,159	222	148	4,233	N/A	N/A	62,656,284	7.2%	14,058
2001	4,233	269	130	4,372	N/A	N/A	69,567,864	11.0%	15,912
2002	4,372	248	104	4,516	N/A	N/A	79,057,729	13.6%	17,506
2003	4,516	255	114	4,657	N/A	N/A	87,402,576	10.6%	18,768
2004	4,657	207	123	4,741	N/A	N/A	94,838,964	8.5%	20,004
2005	4,741	554	163	5,132	21,827,425	2,317,314	114,349,076	20.6%	22,282

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)
12/31/00	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%
12/31/05	188,810,897	1,437,046,916	1,236,014,189	2,861,872,002	2,164,304,268	100%	100%	44%

Actuarial Analysis of Financial Experience

	Gain (or Loss) for Year		
	2005	**2004**	**2003**
Investment Performance Greater (Less) than Expected	$(1,737,942)	$(25,910,456)	$(45,687,403)
New Entrants into System (Greater) Less than Expected	(5,750,116)	(1,073,915)	
Individual Salary Increases (Greater) Less than Expected	24,221,330	(30,935,050)	(11,746,890)
Demographic Changes Greater (Less) than Expected	(127,841,926)	(16,520,202)	(27,967,366)
Change in Benefits	(163,797,699)		
Change in Assumptions/Methodology	(84,635,169)	(110,320,190)	
Composite Gain (or Loss) During Year	**$(359,541,522)**	**$(184,759,814)**	**$(85,401,659)**

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. All Safety members with five or more years of service shall not be required to pay any contributions to retirement. The following table shows the percent of the member contributions that General 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%

Service Retirement Benefit

General members with at least 10 years of retirement service credit -- who are age 50 or older, or have 30 years of retirement service credit regardless of age, or age 70 regardless of service -- are eligible for service retirement. Benefit is 3% of final compensation for each year of service at age 60, mulitplied by Section 31676.17 law factors, adopted January 1, 2005. Two General Districts, Berrenda Mesa and Inyokern, still have Section 31676.14 for service prior to January 1, 2005.

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)

Withdrawal Benefits
If a member should resign, his or her contributions plus interest will be refunded. Members with less than five years of service may elect to leave contributions on deposit and receive interest. Any vested member may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

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 the designated beneficiary or estate.

If the retirement was for service or non-service connected disability and the member chose the unmodified plan, the 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, the member's spouse or minor children will receive a 100% continuance of the 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, Tier 2, and Tier 3 benefits already granted, and $1,000 death benefits are funded.

Summary of Major Plan Provisions (Continued)

Supplemental Retire Benefits Reserve (SRBR) Benefits - Continued

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

STATISTICAL SECTION

Schedule of Changes in Plan Net Assets
Last 10 Fiscal Years

	1997	1998	1999	2000	2001
Additions					
Employer Contributions	$ 27,902,854	$ 35,420,517	$ 40,159,103	$ 37,575,583	$ 41,067,487
Member Contributions	9,725,046	4,403,959	5,446,223	6,145,942	9,173,557
Net Investment Income	204,885,085	171,314,190	161,883,259	140,569,826	(99,791,394)
Total Additions	**$242,512,985**	**$211,138,666**	**$207,488,585**	**$184,291,351**	**$ (49,550,350)**
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	$ 53,607,540	$ 60,269,443	$ 64,301,967	$ 67,624,699	$ 73,120,070
Administrative Expenses	1,126,490	1,349,468	1,392,610	1,601,849	1,903,426
Miscellaneous	0	3,571	323,400	5,677	89,427
Total Deductions	**$ 54,734,030**	**$ 61,622,482**	**$ 66,017,977**	**$ 69,232,225**	**$ 75,112,923**
Change in Plan New Assets	**$187,778,955**	**$149,516,184**	**$141,470,608**	**$115,059,126**	**$(124,663,273)**

	2002	2003	2004	2005	2006
Additions					
Employer Contributions	$ 41,881,569	$ 343,338,853*	$ 48,759,946	$ 60,268,141	$ 100,734,230
Member Contributions	11,287,597	12,748,788	10,450,868	10,350,993	11,774,784
Net Investment Income	(76,247,977)	87,935,189	296,074,040	224,442,133	259,760,478
Total Additions	**$ (23,078,811)**	**$444,022,830**	**$355,284,854**	**$295,061,267**	**$372,269,492**
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	$ 80,613,013	$ 94,302,059	$ 104,960,374	$ 111,006,082	$ 123,765,490
Administrative Expenses	2,167,965	2,166,624	2,551,741	2,500,768	2,518,913
Miscellaneous	48,290	780,444	0	2,745	111
Total Deductions	**$ 82,829,268**	**$ 97,249,127**	**$107,512,115**	**$113,509,595**	**$126,284,514**
Change in Plan New Assets	**$(105,908,079)**	**$346,773,703**	**$247,772,739**	**$181,551,672**	**$245,984,978**

**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 Benefit Expenses by Type
For Fiscal Years 2006-2002
(in thousands)

	2006	2005	2004	2003	2002
Service Retirement Benefits					
General	$58,529	$50,436	$44,539	$41,497	$38,542
Safety	33,334	29,594	26,029	22,616	18,436
Total	91,863	80,030	70,568	64,113	56,978
Disability Benefits					
General	6,846	6,295	6,381	5,684	5,482
Safety	10,771	10,051	9,035	8,187	7,508
Total	17,617	16,346	15,416	13,871	12,990
Beneficiary Benefits					
General	6,991	6,671	6,109	5,724	5,394
Safety	5,109	4,904	4,386	3,901	3,630
Total	12,100	11,575	10,495	9,625	9,024
Retroactive Payments					
General	2	347	2,730	2,097	0
Safety	0	517	3,454	2,775	0
Total	2	864	6,184	4,872	0
Lump Sum Death Benefits	244	259	382	220	185
Total Benefit Payments	**121,826**	**109,074**	**103,045**	**92,701**	**79,177**
Refunds	1,939	1,932	1,915	1,601	1,436
Total Benefit Expenses	**$123,765**	**$111,006**	**$104,960**	**$94,303**	**$80,613**

Schedule of Benefit Expenses by Type (Continued)
For Fiscal Years 2001-1997
(in thousands)

	2001	2000	1999	1998	1997
Service Retirement Benefits					
General	$36,675	$34,123	$32,826	$31,135	$27,654
Safety	14,614	13,168	12,297	11,779	10,837
Total	51,289	47,291	45,123	42,914	38,491
Disability Benefits					
General	5,136	4,928	4,600	3,836	3,863
Safety	6,932	6,249	5,906	5,703	4,666
Total	12,068	11,177	10,506	9,539	8,529
Beneficiary Benefits					
General	5,151	4,832	4,598	3,963	3,384
Safety	3,224	3,027	2,857	2,252	1,898
Total	8,375	7,859	7,455	6,215	5,282
Retroactive Payments					
General	0	0	0	0	0
Safety	0	0	0	0	0
Total	0	0	0	0	0
Lump Sum Death Benefits	165	155	175	209	234
Total Benefit Payments	**71,897**	**64,482**	**63,259**	**58,877**	**52,536**
Refunds	1,223	1,142	1,043	1,392	1,071
Total Benefit Expenses	**$73,120**	**$67,624**	**$64,302**	**$60,269**	**$53,607**

Schedule of Retired Members by Type of Benefit
As of June 30, 2006

Amount of Monthly Benefit	Number of Retirants	Type of Retirement 1	2	3	4	5	6	7	8	9
$1-500	501	126	4	0	200	90	28	3	28	22
501-1,000	964	430	67	22	203	128	43	1	47	21
1,001-1,500	899	452	69	135	88	83	17	2	36	17
1,501-2,000	682	341	23	168	42	60	9	5	25	9
2,001-3,000	965	513	9	274	28	72	5	17	39	8
3,001-4,000	514	344	2	113	19	18	1	1	11	5
4,001-5,000	266	222	1	33	5	2	0	1	2	0
5,001-6,000	167	165	0	1	1	0	0	0	0	0
Over 6,000	314	301	1	5	3	3	0	0	1	0
Totals	5,272	2,894	178	751	589	456	103	30	189	82

Amount of Monthly Benefit	Number of Retirants	Option Selected: Option 1	Option 2	Option 3	Option 4	Unmodified A	B	C
$1-500	501	11	7	0	0	202	280	1
501-1,000	964	8	21	1	1	366	555	12
1,001-1,500	899	13	19	2	0	338	444	83
1,501-2,000	682	6	13	1	0	238	318	106
2,001-3,000	965	13	28	2	0	347	370	205
3,001-4,000	514	2	15	0	0	248	156	93
4,001-5,000	266	2	8	1	0	168	58	29
5,001-6,000	167	2	4	0	1	135	24	1
Over 6,000	314	0	4	1	0	268	36	5
Totals	5,272	57	119	8	2	2,310	2,241	535

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 12/31/96								
Average Monthly Benefit								
General	1,300	934	765	513	441	353	242	47
Safety	2,114	1,823	1,717	1,329	938	728	0	0
Number of Active Retirants								
General	971	622	592	482	311	114	22	1
Safety	291	171	130	100	87	25	0	0
Valuation date 12/31/97								
Average Monthly Benefit								
General	1,287	960	827	564	469	415	241	262
Safety	2,200	1,977	1,850	1,400	1,050	807	0	0
Number of Active Retirants								
General	992	720	617	507	337	148	31	2
Safety	252	212	159	99	107	36	0	0
Valuation date 12/31/98								
Average Monthly Benefit								
General	1,264	1,120	872	654	484	399	254	171
Safety	2,135	2,175	1,821	1,595	1,112	880	577	0
Number of Active Retirants								
General	956	683	569	465	325	154	34	3
Safety	271	152	137	101	82	54	4	0
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	344	213	149	141	104	118	72	9

Schedule of Average Benefit Payment Amounts (Continued)

	Number of Years Since Retirement							
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35
Valuation date 12/31/01								
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
Valuation date 12/31/05								
Average Monthly Benefit								
General	2,146	1,524	1,607	1,202	867	584	422	318
Safety	4,440	2,981	3,287	2,622	2,072	1,429	1,119	814
Number of Active Retirants								
General	1,000	817	651	467	454	315	149	45
Safety	423	180	192	138	110	105	22	22

Participating Employers and Active Members
As of June 30, 2006

County of Kern:	
General Members	6,222
Safety Members	1,646
Total	7,868
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	67
Kern Mosquito & Vector Control District	19
North of the River Sanitation District	8
San Joaquin Valley Unified Air Pollution Control District	267
Shafter Recreation and Park District	0
West Side Cemetery District	6
West Side Mosquito Abatement District	8
West Side Recreation and Park District	11
Total	406
Total Active Membership	
General Members	6,628
Safety Members	1,646
Total	**8,274**

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