KCERA

Comprehensive Annual Financial Report

For the Fiscal Years Ended
June 30, 2007 and 2006

Kern County Employees' Retirement Association
Kern County, California

Kern County Employees'
Retirement Association

Kern County, California

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Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2007 and 2006

Issued by:

Anne M. Holdren
Executive Director

Sheryl Lawrence
Financial Officer

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THE KCERA MISSION

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

prudent investment + quality service

Anne M. Holdren
Executive Director

Lee Blair
Assistant Executive Director

October 12, 2007

Kern County Employees' Retirement Association
Board of Retirement
1115 Truxtun Avenue, 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, 2007 and 2006. 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, 2007, the KCERA paid retirements to 5,487 members and continued supplemental benefits to 1,058 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA System added 286 service retirees, 10 nonservice-connected disability retirees, 33 service-connected disability retirees, 6 nonservice-connected death survivorship benefits and 1 service-connected death survivorship benefit in the fiscal year.

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, 2007, 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

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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

New Board Members

The Kern County Board of Supervisors appointed Mike Maggard, who represents its Third District, as the Board of Retirement's Fourth Member. Maggard was appointed as Donald Maben's successor. Newly elected to the Board during fiscal year 2006-07 are Mark Ratekin, Seventh Member representing safety members; Jeff Frapwell, Second Member representing general members; and Bart Camps, Alternate Member representing safety members. All terms are for three years, expiring December 2009.

Board Governance Report

As part of governance support services to the Board, Cortex Applied Research, Inc. provides a review of 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.

Financial Software Implementation Project

After a thorough search that began in April 2006, Microsoft GP® (Great Plains) financial software was acquired as the new integrated financial software application along with support services from Sikich Inc. Implementation of the new application was completed in May 2007. The new integrated financial software application incorporates all accounting functions, which significantly improves efficiency in KCERA's Financial Department.

Disaster Recovery Plan

KCERA, with the assistance of a technical writer, has developed its Disaster Recovery Plan (DRP) Manual. As a key component of KCERA's 2007-08 Business Plan, the manual provides staff with the practical guidance for restoring critical operations in the event of an emergency.

New Investments Added

LaSalle Investment Management was hired to manage a global Real Estate Investment Trust (REIT) fund, which represents 20 percent of the REIT's 5 percent target allocation. Fidelity Real Estate Growth Fund III and Pantheon's Secondary (Private Equity) Fund were also added during the fiscal year.

Facility Assessment Project

Los Angeles-based American Realty Advisors was hired to provide services related to facility assessment needs and market analysis for the future relocation of the KCERA office. Due to a lack of adequate lease space in Bakersfield, American recommended the Board consider a build-to-suit development purchase. Evaluation on potential land purchase sites in Bakersfield is under deliberation.

Integrated Pension Administration System

In January 2007, L. R. Weschler was selected as KCERA's pension administration system consultant to serve as a subject matter expert for the project. Weschler has been working with KCERA staff to compile business requirements in conjunction with developing a Pension Administration System Request for Proposal. The RFP is due to be released in January 2008. The new System will integrate all major KCERA processes within one system. Member support and staff efficiency will be greatly improved.

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, 2006, the funded ratio of the System was approximately 76% using actuarial assets and actuarial liabilities of $2,352,028,000 and $3,109,038,000, respectively. The funded percentage changed slightly from 2005.

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.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2007 and 2006 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 safeguarded 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, 2007 and 2006 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 allows the Board to invest or delegate the authority to invest the assets of the System when prudent in the informed opinion of the Board. In addition, the rule requires the Board to diversify the investments of the System, unless it is clearly prudent not to do so under the circumstances. The Board therefore makes basic policy decisions with respect to the System, 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 2007, the investments of the Plan provided a gain of 18.40% (net of fees). The KCERA's annualized rate of return, net of fees, was 13.68% in the past three years, 12.90% in the past five years, and 8.50% 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 they 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, 2006. 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, 2006

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

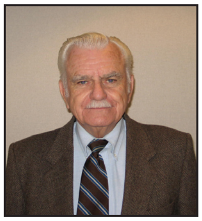
President

Executive Director

prudent investment + quality service

Members of the Board of Retirement

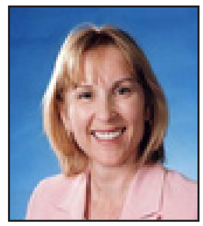
As of June 30, 2007



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

Brad Barnes, Vice Chairman
Appointed by Board of Supervisors
Present term expires 12/31/2007

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



Jackie Denney
County Treasurer-Tax Collector
Ex-Officio Member

Jeff Frapwell
Elected by general members
Present term expires 12/31/2009

Joseph Hughes
Appointed by Board of Supervisors
Present term expires 12/31/2009

Mike Maggard
Appointed by Board of Supervisors
Present term expires 12/31/2009

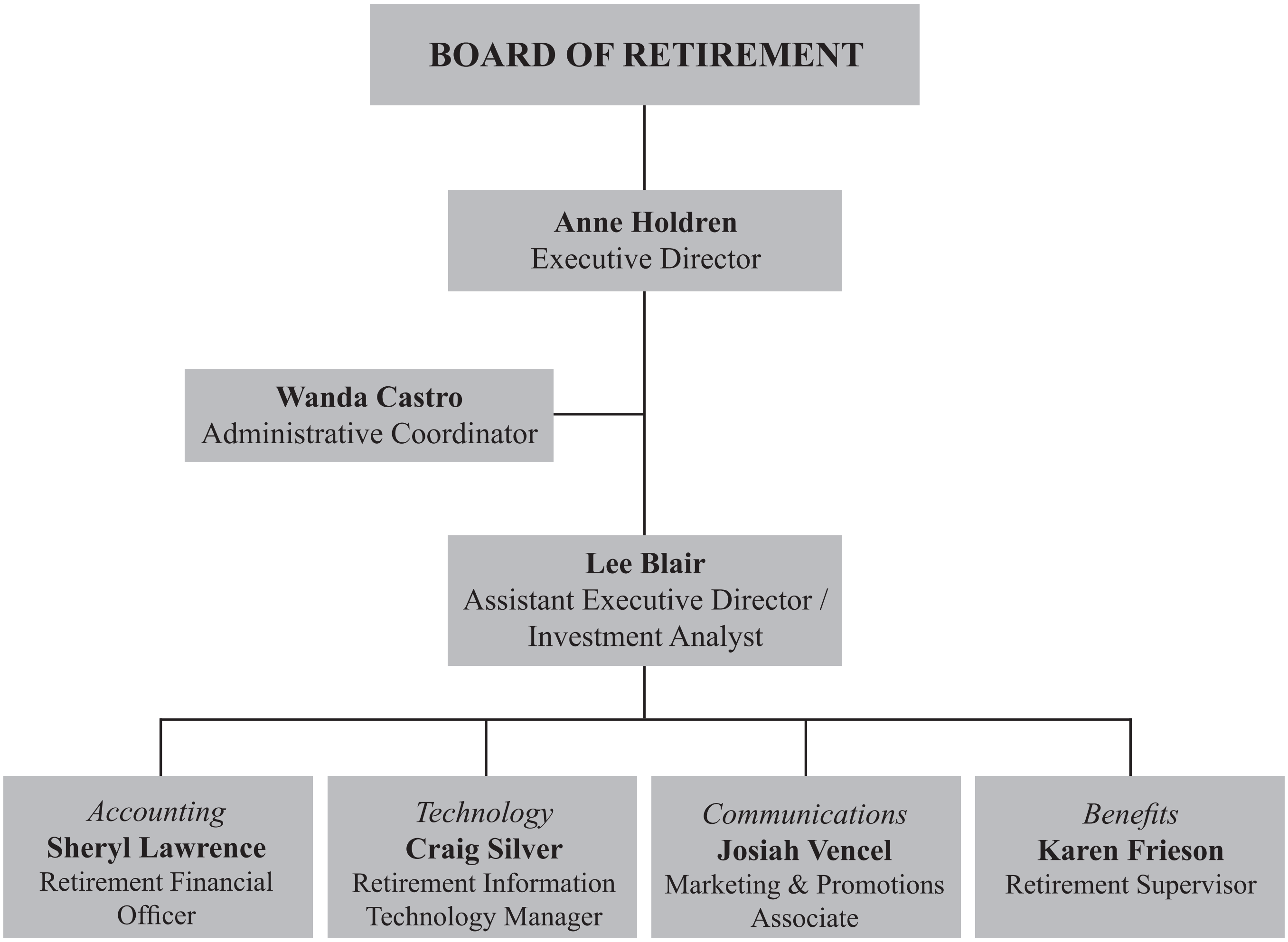
Mark Ratekin
Elected by safety members
Present term expires 12/31/2009

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

Bart Camps, Alternate
Elected by safety members
Present term expires 12/31/2009

Organizational Chart

As of June 30, 2007



List of Professional Consultants

As of June 30, 2007

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

The Law Offices of Mark Wasser
Sacramento, CA

Kronick Moskovitz et al.
Sacramento, CA

Steefel, Levitt & Weiss
San Francisco, 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 PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
Certified Public Accountants

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Bakersfield, California 93309
Tel 661.324.4971 Fax 661.324.4997
e-mail: info@bacpas.com

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Shafter, California 93263
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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, 2007 and 2006 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, 2007 and 2006 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.

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.

In accordance with Government Auditing Standards, we have also issued our report dated October 12, 2007, on our consideration of KCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part on an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION

Bakersfield, California
October 12, 2007

Kern County Employees' Retirement Association

1115 Truxtun Avenue, 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, 2007 and 2006. 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 $454 million during the year ended June 30, 2007. The increase was primarily from performance in the equity markets.
- As of December 31, 2006, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 75.7%, compared to the funded ratio of 75.6% as of December 31, 2005.
- During the fiscal year ended June 30, 2007, the KCERA's total fund returned 18.40%, higher than the prior fiscal year return of 11.69%.
- Member contributions were impacted due to actuarial assumption changes in the mortality and salary assumptions. In general, the rates for employees with older entry ages increased, while the other employee rates decreased.
- Employer contributions during the year increased by approximately $27 million, or 27%. The increase is attributable to an improved benefit formula for General members and changes in the mortality assumption.
- Pension benefits for the year increased by approximately $12 million, or 11%, over the prior year. The increase is attributable to a 4% increase in retired members and beneficiaries receiving pension benefits and a 7% 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. This statement presents assets and liabilities account balances at fiscal year end. The difference between assets and liabilities represents 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. 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.

Overview of the Financial Statements and Accompanying Information (continued)

3) **Notes to the Financial Statements** are an integral part of the financial statements and provide important additional information for a user.

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

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

The required financial statements and disclosures have been prepared in accordance with generally accepted accounting principles and are in compliance with Government Accounting Standards Board (GASB) Statements Nos. 25, 28, 34, 37, 40 and 44.

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 by investment income. The KCERA's net assets held in trust for pension benefits at June 30, 2007 were $2.9 billion, an increase of approximately $454 million (18%) from June 30, 2006. 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. Key elements of the increase 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 $12.6 million, $11.8 million, and $10.4 million for the years ended June 30, 2007, 2006, and 2005, respectively. Employer contributions were $128.1 million, $100.7 million, and $60.3 million for the years ended June 30, 2007, 2006, and 2005, respectively.

Member contributions increased by approximately $0.9 million (7%) in 2007 and increased by approximately $1.4 million (14%) in 2006. The increase in member contributions in 2007 is attributable to more General members contributing to the Plan and actuarial assumption changes in the mortality and salary assumptions. The increase in member contributions in 2006 is attributable to higher member contribution rates as a result of improved benefit formulas for General members.

Employer contributions increased by approximately $27.4 million (27%) in 2007 and increased by approximately $40.5 million (67%) in 2006. The increase in employer contributions in 2007 is primarily due to benefit changes for General members, a move to California Government Code Section 31676.17 (3% @ 60), and assumption changes, particularly the mortality assumption, based on the Analysis of Plan Experience for the period from January 1, 2003 through December 31, 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.

Contributions and Income (continued)

Net investment income were $453.4 million, $259.8 million and $224.4 million for the years ended June 30, 2007, 2006, and 2005, respectively. The increase in 2007 can be attributed to the overweight of both U.S. equity and non-U.S. equity and their strong performance during the year, especially in emerging markets. 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 KCERA's total fund return (net of fees) in fiscal year 2007 was 18.40%. For fiscal year 2007, the KCERA's U.S. equity composite returned 19.16%, the fixed income composite returned 8.15%, and the non-U.S. equity composite returned 30.92%. The $35.3 million increase in investment income in fiscal year 2006 results from a total fund return (net of fees) of 11.69% for the year. For fiscal year 2006, the KCERA's U.S. equity composite returned 10.53%, fixed income composite returned 0.25%, and the non-U.S. equity composite returned 27.16% (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 $125.4 million, $113.3 million, and $100.2 million for the years ended June 30, 2007, 2006, and 2005, respectively. Pension benefits increased by approximately $12.1 million (10.7%) in 2007 and by 13.1 million (13.1%) in 2006. These increases were mainly due to an increase in retired members and beneficiaries receiving pension benefits, an increase in the average retired members and beneficiaries monthly benefit attributable to improved benefit formulas for General members, and higher final average compensation. Retired members and beneficiaries increased by 4.1% in 2007 and by 5.0% in 2006. The average monthly benefit increased by 10.7% in 2007 and 11.4% in 2006. In fiscal year 2007, $0, in fiscal year 2006, $0, and in fiscal year 2005, $0.9 million in retroactive lump sum payments were paid to entitled retirees and their beneficiaries as a result of the Ventura Settlement Agreement and Judgment. The KCERA previously adopted California Government Code Section 31618, which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides retirees with 80% purchasing power parity and a $3,000 death benefit, effective January 1, 2007. Prior to 2007, the KCERA death benefit was $1,000. In addition to pension benefits, the supplemental retirement benefits paid were $9.1 million, $8.5 million and $8.1 million for years ended June 30, 2007, 2006, and 2005, respectively. Refunds of member contributions were $2.5 million, $1.9 million, and $1.9 million for the years ended June 30, 2007, 2006, and 2005, respectively.

The KCERA administrative expenses were $3.0 million, $2.5 million, and $2.5 million for the years ended June 30, 2007, 2006, and 2005, respectively. At June 30, 2006 and June 30, 2005, administration expenses remained consistent and in fiscal year 2007 increased by $511,575. The increase in fiscal year 2007 was primarily due to legal services for fiduciary issues and consultants hired for KCERA projects.

	June 2007	June 2006	June 2005
Average Monthly Benefit Payments	$10.5 million	$9.4 million	$8.3 million
Retirees and Beneficiaries	5,487	5,272	5,022

Reserves

The KCERA's reserves are established under Government Accounting Standards Board (GASB) 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 $297 million, $132 million, and $53 million for the years ended June 30, 2007, 2006, and 2005, 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 9.02% in fiscal year 2007 and 7.7% in fiscal year 2006.

KCERA Reserves

	2007	2006	2005
Member Reserve	$ 203,687,096	$ 189,413,578	$ 183,617,008
Employer Reserve	634,570,592	573,247,790	572,061,812
Cost of Living Reserve	578,731,795	517,049,245	473,221,173
Retired Member Reserve	922,784,014	848,760,138	747,133,378
Supplemental Retiree Benefit Reserve	192,836,620	165,295,918	161,343,333
Contribution Credit Reserve	24,817,352	0	0
Contingency Reserve	58,245,555	32,701,207	22,122,711
Market Stabilization Reserve	296,604,744	131,788,180	52,771,663
Total	**$ 2,912,277,768**	**$ 2,458,256,056**	**$ 2,212,271,078**

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

	2007	Increase/ (Decrease) Amount	2006	Increase/ (Decrease) Amount	2005
Assets					
Current Assets	$ 229,854	$ 13,688	$ 216,166	$ 20,106	$ 196,060
Investments	2,830,754	392,991	2,437,763	262,462	2,175,301
Securities Lending Collateral	318,118	16,458	301,660	(12,070)	313,730
Capital Assets	83	32	51	6	45
Total Assets	**$ 3,378,809**	**$ 423,169**	**$ 2,955,640**	**$ 270,504**	**$ 2,685,136**
Liabilities					
Current Liabilities	$ 148,413	$ (47,311)	$ 195,724	$ 36,589	$ 159,135
Liabilities for Security Lending	318,118	16,458	301,660	(12,070)	313,730
Total Liabilities	**$ 466,531**	**$ (30,853)**	**$ 497,384**	**$ 24,519**	**$ 472,865**
Total Net Assets	**$ 2,912,278**	**$ 454,022**	**$ 2,458,256**	**$ 245,985**	**$ 2,212,271**

Changes in Net Assets
(in thousands)

Table 2

	2007	Increase/ (Decrease) Amount	2006	Increase/ (Decrease) Amount	2005
Additions					
Member Contributions	$ 12,634	$ 859	$ 11,775	$ 1,424	$ 10,351
Employer Contributions	128,135	27,401	100,734	40,466	60,268
Net Investment Income	453,362	193,602	259,760	35,318	224,442
Total Additions	**$ 594,131**	**$ 221,862**	**$ 372,269**	**$ 77,208**	**$ 295,061**
Deductions					
Pension Benefits	$ 125,416	$ 12,079	$ 113,337	$ 13,184	$ 100,153
Ventura Lump Sum Payments	0	0	0	(864)	864
Supplemental Retirement Benefits	9,148	659	8,489	433	8,056
Refunds of Member Contributions	2,514	575	1,939	7	1,932
Administrative Expenses	3,030	511	2,519	18	2,501
Miscellaneous Expenses	1	1	0	(3)	3
Total Deductions	**$ 140,109**	**$ 13,825**	**$ 126,284**	**$ 12,775**	**$ 113,509**
Increase (Decrease), Net Assets	**$ 454,022**	**$ 208,037**	**$ 245,985**	**$ 64,433**	**$ 181,552**
Net Assets					
Beginning of Year	**$2,458,256**	**$ 245,985**	**$ 2,212,271**	**$ 181,552**	**$ 2,030,719**
End of Year	**$2,912,278**	**$ 454,022**	**$ 2,458,256**	**$ 245,985**	**$ 2,212,271**

Kern County Employees' Retirement Association

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
Assets		
Cash in County Pool	$ 10,677,466	$ 7,527,784
Short-Term Investment Funds	130,843,512	106,124,748
Total Cash and Short-Term Investment Funds	141,520,978	113,652,532
Receivables:		
Investments Sold	78,460,549	94,430,039
Interest and Dividends	8,844,008	7,427,108
Contributions and Other Receivables	1,028,808	656,002
Total Receivables	88,333,365	102,513,149
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	738,163,554	706,665,869
International Bonds	56,425,242	32,657,120
Domestic Stocks	1,068,136,672	1,013,659,731
International Stocks	753,151,429	524,426,083
Real Estate Investments	36,466,586	34,315,871
Alternative Investments	178,410,319	126,038,820
Collateral Held for Securities Lending	318,117,639	301,660,091
Total Investments	3,148,871,441	2,739,423,585
Capital Assets, net of accumulated depreciation of $78,701 and $46,596, respectively	82,754	50,759
Total Assets	3,378,808,538	2,955,640,025
Liabilities		
Securities Purchased	145,163,594	192,867,700
Collateral Held for Securities Lent	318,117,639	301,660,091
Other Liabilities	3,041,667	2,462,223
Mark to Market Payables	207,870	393,955
Total Liabilities	466,530,770	497,383,969
Net Assets Held in Trust for Pension Benefits	**$ 2,912,277,768**	**$ 2,458,256,056**

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

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF CHANGES IN PLAN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
Additions		
Contributions		
Employer	$ 128,134,672	$ 100,734,230
Member	12,633,790	11,774,784
Total Contributions	140,768,462	112,509,014
Investment Income		
Net Appreciation in Fair Value of Investments	390,236,551	204,624,585
Interest	54,265,426	45,362,840
Dividends	13,611,508	12,992,873
Real Estate Investments	2,407,415	3,328,402
Other Investment Income	478	244,604
Total Investment Income	460,521,378	266,553,304
Less: Investment Expenses	7,885,266	7,501,699
Net Investment Income	452,636,112	259,051,605
Securities Lending Income		
Earnings	16,700,929	12,392,008
Less: Rebates & Bank Fees	15,974,295	11,683,135
Net Securities Lending Income	726,634	708,873
Total Additions	594,131,208	372,269,492
Deductions		
Retirement and Survivor Benefits	125,416,661	113,337,274
Supplemental Retirement Benefits	9,147,994	8,489,227
Refunds of Member Contributions	2,513,648	1,938,989
Administrative Expenses	3,030,488	2,518,913
Miscellaneous Expenses	705	111
Total Deductions	140,109,496	126,284,514
Net Increase	**454,021,712**	**245,984,978**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	**2,458,256,056**	**2,212,271,078**
End of Year	**$ 2,912,277,768**	**$ 2,458,256,056**

See accompanying notes to the 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, 2007, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	6,952	1,738	8,690
Terminated employees – vested	879	113	992
Retirees and beneficiaries currently receiving benefits	4,136	1,351	5,487
	11,967	3,202	15,169

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 benefits 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 of 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 retiree's 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 reaching the age of 50 with 10 or more years of participation in the retirement system.

- A member who 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 California Public Employees' Retirement System (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 nonservice-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 $3,000 is payable to their designated beneficiary or to their estate.

- If the retirement was for service or nonservice-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 nonservice-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 $3,000 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 (0.18%) 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:

Publicly traded stocks and 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, 2007 & 2006
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 four 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.

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.

NOTE 3 – CASH AND INVESTMENTS (continued)

At June 30, 2007, 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	$20,087,260	2.53%
	BB	523,430	0.07%
	B	44,774	0.01%
	NR	118,401	0.01%
Commercial Mortgage-Backed	AAA	22,166,348	2.79%
	NR	1,882,414	0.24%
Government Mortgage-Backed Securities	AGY	182,736,308	23.00%
Non-Government-Backed C.M.O.s	AAA	111,198,225	13.99%
	B	31,122	0.00%
	NR	6,295,181	0.79%
Corporate Bonds	AAA	3,375,772	0.42%
	AA	10,632,111	1.34%
	A	18,784,240	2.36%
	BBB	58,610,150	7.38%
	BB	62,125,053	7.82%
	B	89,558,634	11.27%
	CCC	21,992,860	2.77%
	NR	26,316,387	3.31%
Government Convertible Bonds	B	123,281	0.02%
	CCC	275,000	0.03%
Convertible Equity	NR	662,140	0.08%
Government Agencies	AAA	28,264,734	3.56%
	AGY	3,592,476	0.45%
	NR	4,308,675	0.54%
Government Bonds	AAA	28,666,599	3.61%
	BBB	896,243	0.11%
	D	486,000	0.06%
	TSY	1,985,468	0.25%
Index-Linked Government Bonds	AAA	19,482,061	2.45%
	TSY	3,461,558	0.44%
Short-Term Bills and Notes	AGY	96,388	0.01%
	TSY	13,350,887	1.68%
	NR	999,640	0.13%
Goldman Sachs Trust High Yield Fund	B	18,794,177	2.37%
Western Asset Opportunistic Yankee Fund	BBB	524,932	0.07%
Western Asset Opportunistic International Fund	AAA	14,180,806	1.78%
Western Asset Opportunistic Local Market Debt Fund	BBB	5,650,371	0.71%
Western Asset Opportunistic Emerging Markets	BB	1,214,489	0.15%
Western Asset Opportunistic High Yield	B	9,873,439	1.24%
Swaps/Options	NR	1,220,762	0.15%
Total		**$794,588,796**	**100.00%**

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, 2007 (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, 2007, KCERA had $9,710,174 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, 2007, 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	$20,774	-	$1,016	-	$19,758	$ -
Commercial Mortgage-Backed	24,049	-	-	-	24,049	-
Corporate Bonds	341,633	7,925	85,870	134,290	63,310	50,238
Corporate Convertible Bonds	398	-	123	-	275	-
Convertible Equity	662	-	-	-	-	662
Government Agencies	36,166	1,037	28,679	5,008	1,442	-
Government Bonds	32,034	-	2,471	9,336	20,227	-
Government Mortgage-Backed	182,736	187	-	906	73,636	108,007
Index-Linked Government Bonds	22,944	-	154	3,462	19,328	-
Non-Government-Backed C.M.O.s	117,525	20	2,658	-	114,847	-
Short-Term Bills and Notes	14,447	14,447	-	-	-	-
Swaps/Options	1,221	-	-	-	-	1,221
Total	**$794,589**	**$23,616**	**$120,971**	**$153,002**	**$336,872**	**$160,128**

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, 2007.

	Foreign Currency	Fair Value in USD
Cash	Argentine Peso	$ 25
	Australian Dollar	2,289,422
	Canadian Dollar	145,335
	Euro	3,141,767
	British Pound Sterling	1,243,292
	Hong Kong Dollar	1,530,433
	Japanese Yen	1,299,464
	Mexican Peso	8,667
	Swedish Krona	60,386
Equities	Australian Dollar	4,512,899
	Swiss Franc	33,727,913
	Euro	105,001,139
	British Pound Sterling	65,020,140
	Hong Kong Dollar	12,800,394
	Japanese Yen	54,473,914
	Swedish Krona	3,901,633
Fixed Income Securities	Brazilian Real	1,440,772
	Euro	8,468,869
	British Pound Sterling	269,766
Swaps	Brazilian Real	4,459,628
	Polish Zloty	(50,685)
	Turkish Lira	12,878
Total Foreign Cash and Investments		**$ 303,758,051**

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, 2007, 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, 2007 and 2006, the securities lending transactions collateralized by cash had a fair value of $310,143,558 and $296,156,601, respectively, and a collateral value of $318,117,639 and $301,660,091, respectively. At June 30, 2007 and 2006, the securities lending transactions collateralized by securities or letters of credit had a fair value of $15,597,087 and $21,152,547, respectively, and a collateral value of $16,063,715 and $21,506,925, 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, 2007 are 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	$ 32,267,060	$ 33,966,143	$ 5,647,647	$ 5,926,146
U.S. Agencies	33,217,231	33,817,544		
Corporates	49,806,656	50,933,540	5,412,267	5,509,053
Equities	147,113,801	150,742,282	351,411	359,755
U.S. Government	47,738,809	48,658,130	4,185,762	4,268,763
Totals	**$310,143,558**	**$318,117,639**	**$15,597,087**	**$16,063,715**

NOTE 5 – HIGHLY SENSITIVE INVESTMENTS & DERIVATIVES

Highly Sensitive Investments
The KCERA utilizes investments that are highly sensitive to interest rate changes in its fixed income, separately managed investment accounts. Highly sensitive investments include mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations.

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 credit and interest rate risks, including uncollectible mortgages or receivables backing a security, home mortgages that are prepaid at the option of the homeowner, and duration or maturity of the issues.

NOTE 5 – HIGHLY SENSITIVE INVESTMENTS & DERIVATIVES (continued)

Derivatives

The KCERA Investment Goals, Objectives and Policies allow the use of derivative instruments. A derivative instrument is defined as an instrument that derives its value, usefulness and marketability from an underlying instrument that represents a direct ownership of an asset or a direct obligation of an issuer. Derivative instruments include, but are not limited to, futures, options, options on futures, forward contracts and swap transactions. 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, and adverse movements in currency exchange rates and/or interest rates. Substitution and risk control are the two derivative strategies permitted. Derivative positions are tied to the performance of underlying securities, and gains and losses are recorded in the Statement of Changes in Plan Net Assets.

As of June 30, 2007, KCERA utilized various derivative instruments. Forward currency contracts were used 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. Options were used to manage risk exposures in certain accounts as a result of asset allocation requirements or unusual flows of cash to or from such accounts. Swap transactions were used to preserve a return or spread on investments to protect against currency fluctuations, as a duration management technique, or to protect against any increase in the price of securities. Futures contracts were used to hedge against a possible increase in the price of currency, to rebalance the portfolio to a target allocation on a daily basis, and 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. Futures contracts are priced "marking-to-market," and daily settlements are recorded as investment gains or losses.

Fair Value
(in thousands)

	June 30, 2007	June 30, 2006
Mortgage-Backed Securities	$ 206,785	$ 211,026
Asset-Backed Securities	20,774	25,923
Collateralized Mortgage Obligation Securities	117,525	122,528
Forward Currency Contracts (Receivables)	21,850	15,845
Forward Currency Contracts (Payables)	(21,982)	(15,657)
Swaps/Options	1,221	(3,513)
Rights/Warrants	1	138
Total	**$ 346,174**	**$ 356,290**

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 (CERL) with the establishment of the KCERA on January 1, 1945. As a condition of participation under the provisions of the CERL, members are required to pay a percentage of their salaries, depending upon their age at date of entry in the System.

The funding objective of the KCERA Board of Retirement is to provide sufficient assets to permit the payment of all regular benefits promised under KCERA and to minimize the volatility of contribution rates (for the participating employers and members) from year to year as a percentage of covered payroll. There are three sources of funding for KCERA retirement benefits: employer contributions, member contributions, and investment earnings of the KCERA.

Employer Contributions

Each year, an actuarial valuation is performed for the purpose of determining the funded position of the retirement plan and the employer contributions that are necessary to pay benefits accruing to KCERA members not otherwise funded by member contributions or investment earnings. For fiscal year 2007, the employer contribution rates are actuarially determined by using the Entry Age Funding method, approved by the Board of Retirement and adopted by the Board of Supervisors. 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. In fiscal year 2007, the UAAL is 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.

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, respectively. Therefore, different employer contribution rates are required to fund the unfunded liabilities for each class of participation.

Member Contributions

The member contribution rates are computed on the member's base pay plus compensable special pay, with the contribution rate being determined by the member's age at the date of entry and actuarially calculated benefits. For certain bargaining units, a flat member contribution rate is applied. As a result of prior negotiations, all, or a portion of, the member contribution rates are paid by the employer. Member contributions are made through payroll deductions on a pre-tax basis, per IRS Code Section 414(h)(2).

Interest is credited to member contributions semiannually on June 30 and December 31, in accordance with the County Employees Retirement Law of 1937, Article 5.5. Member contributions and credited interest are refundable upon termination of membership.

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 2007, the Plan had excess earnings; $11,573,825 is reserved to fund the employer COLA contributions in fiscal year 2008.

Effective April 1, 2002, provisions of a court settlement agreement granted a permanent increase of a 0.5% cost-of-living adjustment to retirees and their beneficiaries. The cost of the 0.5% 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 in order to bring all eligible recipients up to 80% of dollar purchasing power as of their retirement date. A $3,000 death benefit is also provided. The program is contingently funded from regular interest and one-half of "excess" earnings (i.e., earnings greater than the assumed actuarial rate of interest).

Contribution Rates

The following table summarizes the required contribution rates in effect on June 30, 2007. Member (i.e., "employee") contribution rates range from youngest to oldest age at date of entry. Employer contribution rates are expressed as a percentage of covered payroll.

Member Classification	Employee Rates	Employer Rates
General Members	5.89% - 10.95%	30.00%
General Members – Courts	8.39% - 13.45%	26.06%
Safety Members (hired prior to July 10, 2004)	10.83% - 15.32%	37.69%
Safety Members (hired on or after July 10, 2004)	10.83% - 16.98%	37.69%
Safety Members – Firefighters (flat rate)	11.56%	37.69%
Special Districts (electing MOU)	5.89% - 10.95%	33.13%
Special Districts (not electing MOU)	5.89% - 10.95%	30.51%
Special Districts (full pickup)	5.89% - 10.95%	33.94%
Special Districts (3%@60 prospectively only)	5.89% - 10.95%	31.02%

For members covered by Social Security, the member contribution rates shown above apply to monthly salaries over $350. (A one-third reduction in the rates applies to the first $350 of monthly salary.)

Total contributions made during fiscal years 2007 and 2006, respectively, amounted to $140,768,462 and $112,509,014, of which $128,134,672 and $100,734,230 were contributed by the County of Kern and Special Districts, and $12,633,790 and $11,774,784 were contributed by members.

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS

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

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

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

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.

COLA Contribution Reserve – monies reserved to credit future employer COLA contributions.

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, 2007, 2% of the Plan's net assets are reserved for contingencies.

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

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2007 and 2006 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	2007	2006
Members' deposit reserve, general	$ 134,690,329	$ 125,084,491
Members' deposit reserve, safety	56,867,548	53,228,037
Members' deposit reserve, special district	12,129,219	11,101,050
Employer's advance reserve, general	337,803,445	306,462,119
Employer's advance reserve, safety	282,399,726	256,798,609
Employer's advance reserve, special district	14,367,421	9,987,062
Cost of living reserve, general	317,281,672	282,015,919
Cost of living reserve, safety	246,527,425	222,840,438
Cost of living reserve, special district	14,922,698	12,192,888
Retired members' reserve, general	562,456,989	506,734,206
Retired members' reserve, safety	360,327,025	342,025,932
Supplemental retiree benefit reserve (SRBR)	113,710,425	89,836,300
SRBR allocated for 0.5% COLA	79,126,195	75,459,618
COLA Contribution Reserve (CCR)	24,817,352	0
Contingency reserve	58,245,555	32,701,207
Total reserves at five-year smoothed market actuarial valuation	2,615,673,024	2,326,467,876
Market stabilization reserve*	296,604,744	131,788,180
Total net assets held in trust for pension benefits	**$ 2,912,277,768**	**$ 2,458,256,056**

**This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2007 and 2006.*

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Capital Commitments

The KCERA allocates 6% of assets to private equity markets. As of June 30, 2007 the KCERA's Board of Retirement committed $305 million to eight private equity fund-of-funds managed by Pantheon Ventures, Inc. ($167.5 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, 2007, the KCERA had $98 million in private equity capital.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)

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, 2007 AND 2006

Schedule of Funding Progress
(Net of SRBR and $3,000 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)
12/31/06	$ 2,352,028	$ 3,109,038	$ 757,010	75.7%	$ 417,351	181.4%
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%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2007	$128,134,672	100%
2006	100,734,230	100%
2005	60,268,141	100%
2004	48,759,946	682% *
2003	58,246,723	100%
2002	41,881,569	100%

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

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, 2006 is as follows:

Valuation date:	December 31, 2006
Actuarial cost method:	Entry age funding method
Amortization method:	Level percent of salary, closed
Remaining amortization period:[1]	29 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 5,132 to 5,355. The average monthly benefit check increased from $1,857 to $1,989. This represents a 4.3% increase in retiree membership and a 7.1% increase in average monthly benefit.

The number of active members increased by 4.3% from 8,195 to 8,547. The average pay increased by 2.4% from $4,001 per month to $4,099 per month.

Actuarial Assumptions:

Revised Demographic Assumption:

The assumed deferral age for terminated participants with a vested benefit was changed from age 55 to age 50 for safety members and from age 62 to age 60 for general members. This revised assumption reflects the age at which members are entitled to full benefits.

Benefits:
The Supplemental Retiree Benefit Reserve (SRBR) death benefit was increased from $1,000 to $3,000.

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[1] Additional liabilities for Golden Handshake agreements made in 2004 and 2005 are amortized over a three-year period from the year in which they were granted. Beginning January 1, 2006, any liability attributable to Golden Handshake agreements is paid by the employer at the time they are granted.

OTHER SUPPLEMENTAL INFORMATION

Schedule of Administrative Expenses
For the Years Ended June 30, 2007 and 2006

	2007	2006
Personnel Services:		
Salaries & Wages	$ 922,088	$ 806,006
Employee Benefits	537,543	461,679
Total Personnel Services	1,459,631	1,267,685
Professional Services:		
Legal Counsel	402,913	265,749
Audit	51,094	37,313
Medical/Hearing Officers	94,150	103,112
Disability Services	26,550	30,623
Consultants	272,080	185,432
Total Professional Services	846,787	622,228
Communication:		
Postage	32,353	23,851
Printing	3,166	7,016
Telephone	11,650	7,271
Education & Professional Development	63,206	69,618
Marketing & Promotions	22,826	21,043
Total Communication	133,201	128,799
Operating Expenses:		
Equipment Leases	26,088	25,312
Building Lease	75,600	73,200
Office Expense	29,440	24,882
Insurance	70,916	92,448
Equipment Maintenance	6,182	3,389
Memberships	5,490	10,845
Special Departmental Expense	19,394	16,101
Other Services	7,415	7,341
Pension Disbursement Fees	100,000	79,801
Utilities & Maintenance	33,215	17,320
Information Technology	205,799	132,189
Depreciation - Capital Assets	11,330	17,373
Total Operating Expenses	590,869	500,201
Total Administrative Expenses	**$ 3,030,488**	**$ 2,518,913**

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION

Schedule of Investment Expenses
For the Years Ended June 30, 2007 and 2006

	2007	2006
Investment Manager Fees:		
Equity		
Domestic	$ 1,639,937	$ 1,156,294
Non-U.S.	3,058,847	2,712,761
Fixed Income		
Global	1,613,498	2,222,492
Real Estate		
Investments in Real Estate	0	(9,883)
Securities (REITs)	606,573	303,875
Total Investment Manager Fees	6,918,855	6,385,539
Other Investment Expenses:		
Custodian	385,000	381,912
Actuarial Valuation	97,205	214,274
Investment Consultant	232,550	297,369
Legal Fees	28,820	58,114
Due Diligence	8,145	17,877
Policy Implementation Overlay Strategy	214,691	146,614
Total Other Investment Expenses	966,411	1,116,160
Total Fees and Other Investment Expenses	7,885,266	7,501,699
Security Lending Rebates and Bank Fees	15,974,295	11,683,135
Total Investment Expenses	**$ 23,859,561**	**$ 19,184,834**

See accompanying independent auditors' report.

OTHER SUPPLEMENTAL INFORMATION (continued)

Schedule of Payments to Consultants
For the Years Ended June 30, 2007 and 2006

		Commission / Fee	
Individual or Firm	**Nature of Service**	**2007**	**2006**
Advanced Records Technology	Imaging Services	$ 1,109	$ 4,100
American Realty Advisors	Office Space Planning	10,783	0
Brown Armstrong	External Auditors	51,094	37,313
Cortex Applied Research, Inc.	Policy Consultants	75,884	76,518
L. R. Wechsler Ltd.	Develop RFP for Pension Admin System	88,599	0
MAGwriter	Technical Writer	58,352	79,435
Milliman, Inc.	Actuarial Services	36,578	25,352
Hanson Bridgett	Legal Counsel	34,520	7,354
Kern County Counsel	Legal Counsel	317,864	258,395
Kronick Moskovitz et al.	Legal Counsel	15,010	0
The Law Offices of Wasser	Legal Counsel	17,370	0
Steefel, Levitt & Weiss	Legal Counsel	2,149	0
Young & Nichols	Legal Counsel	16,000	0
Other Specialized Services	-	775	27
Total Payments to Consultants		**$ 726,087**	**$ 488,494**

(A schedule of Investment Fees and Services is presented on pages 56 and 57 in the Investment Section.)

See accompanying independent auditors' report.

Investment Section

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September 27, 2007

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

Dear Ms. Holdren,

I am pleased to provide you with our report on the Kern County Employees' Retirement Association (KCERA) for the year ending June 30, 2007.

For the fiscal year ended June 30, 2007, the KCERA's retirement fund had an investment gain of 18.40% and ended the year with total assets of $2.909 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 February 2007.

At fiscal year end, the KCERA retirement fund's actual asset allocation was within reasonable rebalancing bands of the target allocations for most asset classes as adopted by the KCERA Board of Retirement. The KCERA adopted a new asset allocation in the Fall of 2006, and the actual implementation of some of the changes made will take time to accomplish. The most notable difference from target is for Domestic Equities, which is overweight relative to the target due to the gradual funding of the Real Estate and Absolute Return asset classes. 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, 2007.

Asset Class	Target Allocation	Actual Allocation
Domestic Equities	31%	37.5%
International Equities	25%	25.9%
Fixed Income	28%	27.4%
Real Estate	10%	4.8%
Absolute Return	6%	2.8%
Cash	0%	1.8%

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 18.40% for the year, versus the policy return of 17.80%. Outperformance versus policy was largely due to strong manager performance from the Fixed Income and International Equity managers and the Absolute Return portfolio, as well as the overweight to

WILSHIRE

both Domestic and International equities at the expense of Real Estate. The KCERA's median peer in our database returned 16.42%, indicating that the KCERA continues to be better positioned than the majority of its peers for the current market environment.

• The KCERA's Domestic Equity composite returned 19.16% versus a return of 20.46% for the Dow Jones Wilshire 5000. Performance has lagged generally due to two large cap managers which have suffered over the past year due to the inverted yield curve and the market's reduced reliance on fundamental valuation. Both of these are short term phenomena, and we expect these managers to perform better as the equity and bond markets return to normal. The median Equity return for KCERA's peers was 19.79%.

• The KCERA's Total Fixed Income composite returned 8.15% versus 6.79% 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 6.12%, 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 30.92% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned 30.14%. Moderate outperformance in a rapidly rising market by only one of the KCERA's developed markets managers resulted in slight outperformance relative to the benchmark. Moreover, the superior performance of the KCERA's Emerging Markets Equities portfolio with a return for the year of 52.08%, boosted the International Equity composite overall. The median client's International Equities portfolio in our database returned 28.33%, indicating that KCERA has outpaced the majority of its peers.

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. 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

OUTLINE OF INVESTMENT POLICIES
Adopted by the Board of Retirement February 14, 2007

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, 2007 are as follows:

			Target Ranges	
	Actual*	Target	Minimum	Maximum
Domestic Equities	34.4%	25.0%	21.0%	29.0%
International Equities	25.8%	25.0%	21.0%	29.0%
Fixed Income	27.3%	28.0%	24.0%	32.0%
Real Estate	4.8%	10.0%	7.0%	13.0%
Private Equity	3.1%	6.0%	4.0%	8.0%
Absolute Return	2.8%	6.0%	4.0%	8.0%
Cash / Other	1.8%	0.0%	0.0%	3.0%
Totals	**100.0%**	**100.0%**		

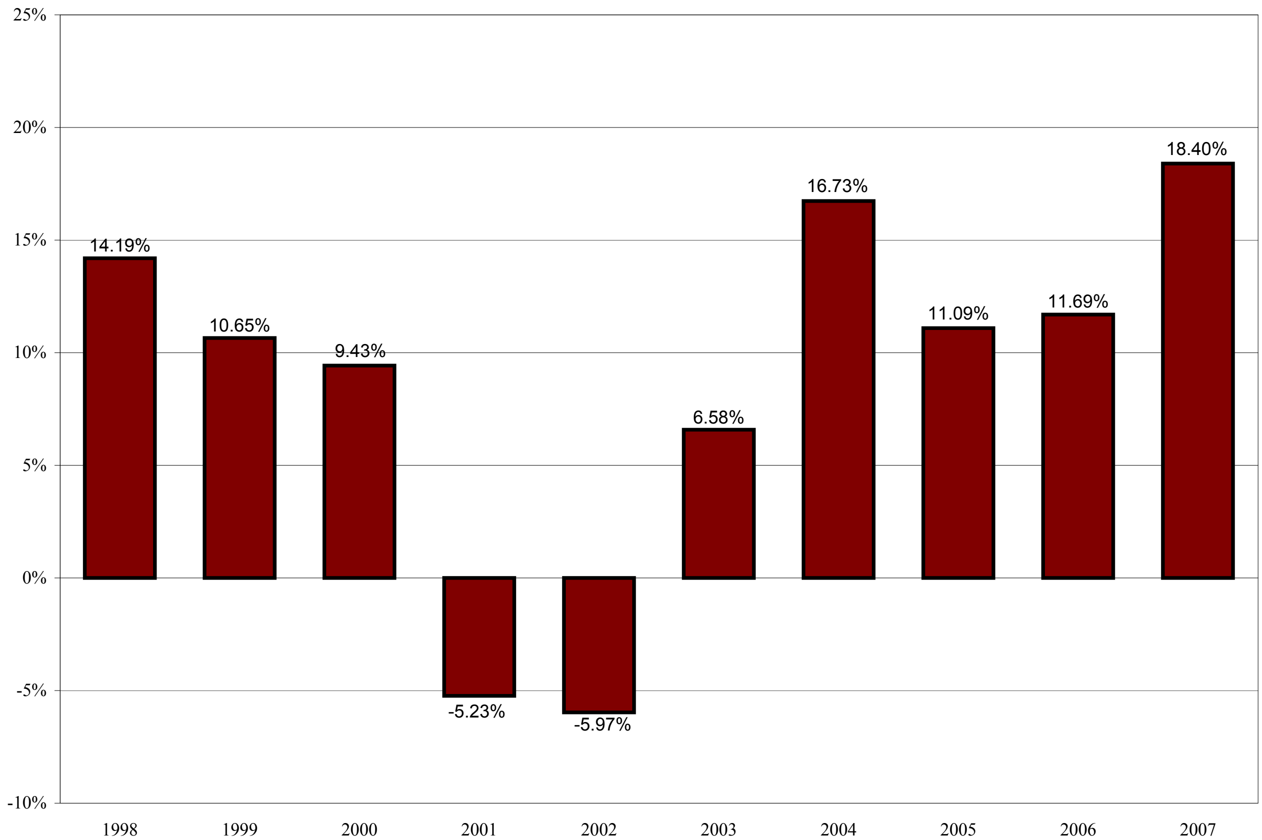
The June 30, 2007 asset allocation is based upon Wilshire Associates's June 30, 2007 Kern County Employees' Retirement Association Investment Performance Analysis.

Investment Summary
For the Year Ended June 30, 2007

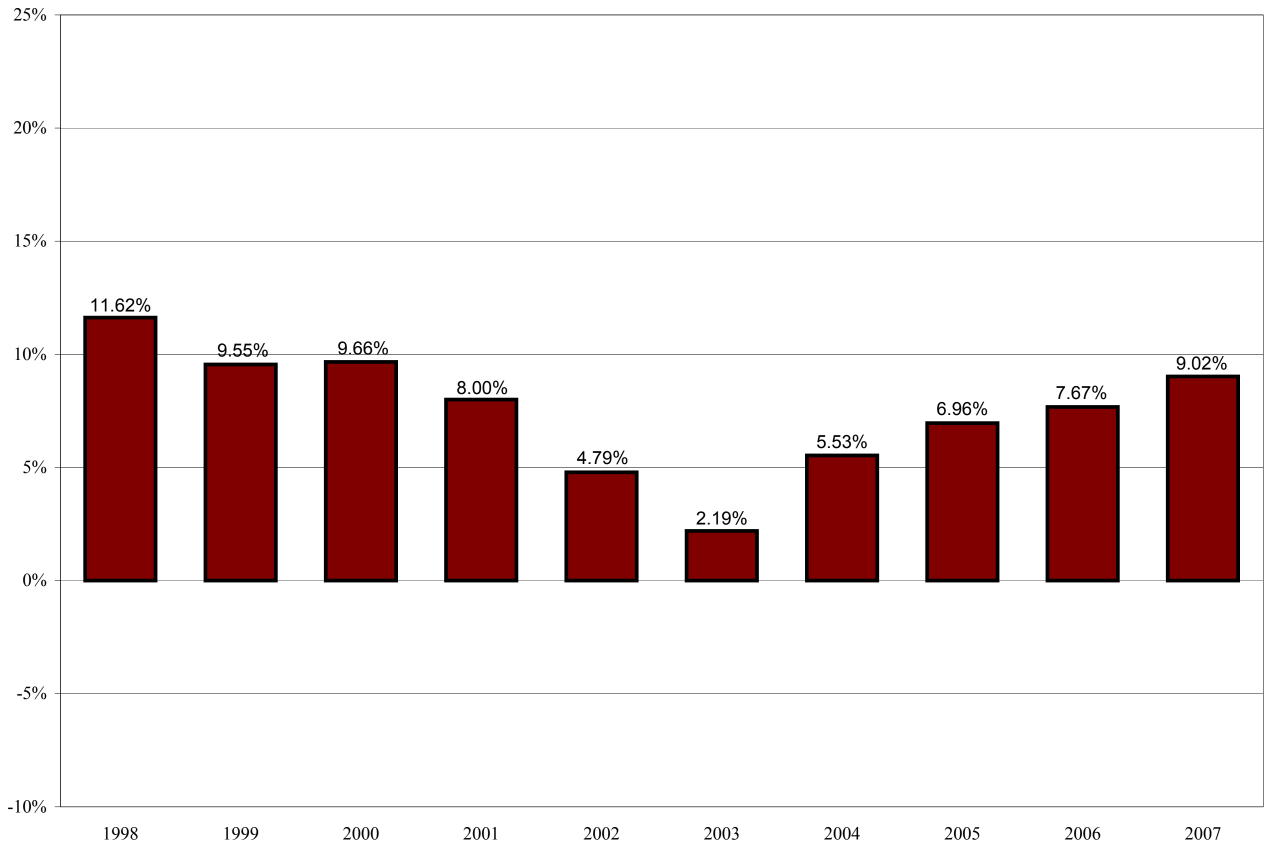
Type of Investment	Fair Value (in thousands)	% of Total Fair Value
Domestic Equities		
Large Cap Index Fund	$ 242,733	8.34%
Large Cap Enhanced Strategies	515,004	17.70%
Small Cap Core Securities	242,748	8.34%
Total Domestic Equities	1,000,485	34.38%
International Equities		
Active EAFE Securities	675,405	23.22%
Emerging Markets Growth Fund	76,358	2.62%
Total International Equities	751,763	25.84%
Fixed Income		
Core Plus Global Fixed Income	618,170	21.25%
High Yield Bonds	170,213	5.85%
Co-Investments in Commercial Mortgages	5,540	0.19%
Total Fixed Income	793,923	27.29%
Real Estate		
Public / Private Real Estate Investments	31,526	1.08%
Securities (REITs)	108,587	3.73%
Total Real Estate	140,113	4.81%
Alternative Investments	170,135	5.85%
Cash & Cash Equivalents	10,940	0.38%
Policy Implementation Overlay Strategy	41,612	1.43%
Total Investments	**$ 2,908,971**	

The June 30, 2007 investment summary is based upon Wilshire Associates' June 30, 2007 Kern County Employees' Retirement Association Investment Performance Analysis.

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



History of Investment Earnings
Five-Year Smoothed Asset Valuation
Periods Ended June 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

	Current Year	Annualized 3-year	Annualized 5-year	Annualized 10-year
Total Portfolio:	18.40	13.68	12.90	8.50
Benchmark: Composite Policy*	17.80	12.97	11.76	7.89
TUCS Master Trust Median	16.42	11.63	10.81	8.19
U.S. Equity:	19.16	12.32	11.60	7.91
Benchmark: DJ Wilshire 5000 Index	20.46	12.73	11.96	7.68
TUCS Equity Median	19.79	13.60	12.93	9.00
Non-U.S. Equity:	30.92	24.84	19.54	8.30
Benchmark: MSCI ACWI Fr X US (G)	30.14	25.02	19.93	8.57
TUCS International Equity Median	28.33	23.25	19.00	10.69
Fixed Income:	8.15	5.67	6.94	6.71
Benchmark: 85% Lehman Aggregate / 15% High Yield Custom Index**	6.79	4.45	4.77	6.16
TUCS Fixed Income Median	6.12	4.28	4.89	6.27
Real Estate:	12.89	23.19	19.27	13.81
Benchmark: 50% DJ Wilshire Real Estate Securities Index / 50% NCREIF	14.81	20.47	17.26	13.47
Cash & Cash Equivalents:	5.22	4.45	3.79	4.56
Benchmark: 91-Day T-Bill	5.18	3.76	2.75	3.78

* Kern County Composite Policy:	36%	DJ Wilshire 5000 Index
	27%	MSCI ACWI ex-U.S. Index
	22%	Lehman Aggregate Bond Index
	6%	50% WRE Securities Index / 50% NCREIF Index
	6%	50% ML HY Master II / 25% ML HY B 2% / 25% ML HY BB 2%
	3%	91-Day Treasury Bills + 5%

** Kern County High Yield Composite: 50% ML HY Master II / 25% Lehman HY B 2% / 25% Lehman HY BB 2%

Note: Return calculations were prepared using a time-weighted rate of return based on market values (fair values).

Investment Professionals
As of June 30, 2007

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 (cont.)

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

Largest Stock Direct Holdings (By Market Value)
As of June 30, 2007

Shares	Stocks	Market Value
149,760	Total	$ 12,188,089
259,800	ENI	9,438,480
478,800	HSBC Holdings	8,727,280
2,113,377	Vodafone Group	7,115,012
819,410	Tesco	6,880,238
105,400	UBS	6,329,504
41,231	Siemens	5,934,300
220,380	GlaxoSmithKline	5,770,181
45,004	BNP	5,370,534
13,800	Nestle	5,247,063

Largest Bond Direct Holdings (By Market Value)
As of June 30, 2007

Par	Bonds	Market Value
37,000,000	FNMA Single Family Mortgage 5.0% 30 Years July	$ 34,664,375
27,600,000	FNMA 30 Year Pass-Throughs 5.5% 30 Years July	26,616,750
16,500,000	FNMA 30 Years Single Family Mortgage 6.0% 30 Years July	16,319,523
14,000,000	GNMA TBA Pool 6.0% 30 Years July	13,925,632
12,660,000	FNMA TBA 30 Year Pass-Throughs 6.5% 30 Years July	12,778,688
10,000,000	FNMA Note 4.15% 09/10/2009	9,787,500
7,665,537	CMO Harborview Mortgage Pass-Throughs 03/19/2038	7,669,530
6,480,000	General Motors 8.0% due 11/01/2031	6,626,325
6,000,000	U.S. Treasury Notes 4.875% due 08/15/2016	5,926,404
5,600,000	U.S. Treasury Bonds Inflation Indexed 2.375% due 01/15/2025	5,901,791

A complete list of portfolio holdings is available upon request.

Assets Under Management and Schedule of Investment Fees
For the Years Ended June 30, 2007 and 2006

	2007	2006
Assets Under Management		
U.S. Equity Managers	$ 1,068,136,672	$ 1,013,659,731
Non-U.S. Equity Managers	753,151,429	524,426,083
Fixed Income Managers	794,588,796	739,322,989
Real Estate Managers	36,466,586	34,315,871
Alternative Investments	178,410,319	126,038,820
Total Assets Under Management	**$ 2,830,753,802**	**$ 2,437,763,494**
Investment Manager Fees		
U.S. Equity Managers	$ 1,639,937	$ 1,156,294
Non-U.S. Equity Managers	3,058,847	2,712,761
Fixed Income Managers	1,613,498	2,222,492
Real Estate Managers	606,573	293,992
Total Investment Manager Fees	**$ 6,918,855**	**$ 6,385,539**
Other Investment Service Fees		
Master Custodian Fees	$ 385,000	$ 381,912
Policy Overlay Fees	214,691	146,614
Actuarial Fees	97,205	214,274
Investment Consultant Fees	232,550	297,369
Legal Fees	28,820	58,114
Due Diligence	8,145	17,877
Security Lending Fees	15,974,295	11,683,135
Total Other Investment Service Fees	**$ 16,940,706**	**$ 12,799,295**

Investment Manager Fees and Other Investment Service Fees
For the Years Ended June 30, 2007 and 2006

	2007	2006
Investment Managers' Fees		
U.S. Equity Managers:		
AXA Rosenberg Investment Management	$ 287,642	$ 108,621
Barclays Global Investors, N.A.	649,334	744,053
State Street Global Advisors	444,833	82,152
Westridge Capital Management, Inc.	258,128	221,468
Total U.S. Equity Managers	1,639,937	1,156,294
Non-U.S. Equity Managers:		
Barclays Global Investors, N.A.	1,982,917	1,782,944
JP Morgan Fleming Asset Management	1,075,930	929,817
Total Non U.S. Equity Managers	3,058,847	2,712,761
High Yield Managers:		
Goldman Sachs Asset Management	406,019	311,997
Western Asset Management	142,883	108,881
Total High Yield Managers	548,902	420,878
Global Fixed Income Managers:		
Goldman Sachs Asset Management	484,111	1,189,055
Western Asset Managment	580,485	612,559
Total Global Fixed Income Managers	1,064,596	1,801,614
Real Estate Managers:		
Fidelity Real Estate Asset Manager	0	(8,573)
Heitman Capital Management Corp.	0	(1,310)
LaSalle Securities Limited	606,573	303,875
Total Real Estate Managers	606,573	293,992
Total Investment Managers' Fees	**$ 6,918,855**	**$ 6,385,539**

Investment Manager Fees and Other Investment Service Fees (continued)
For the Years Ended June 30, 2007 and 2006

	2007	2006
Custodial Fees		
The Northern Trust Company	$ 385,000	$ 381,912
Policy Implementation Overlay Strategy		
The Clifton Group	214,691	146,614
Actuarial Fees		
Buck Consultants	0	45,000
Milliman, Inc.	97,205	169,274
Investment Consultant Fees		
CB Richard Ellis	0	55,333
Cortex Applied Research, Inc.	0	15,250
Glass, Lewis & Co.	32,550	43,500
Wilshire Associates, Inc.	200,000	183,286
Legal Fees		
Bullivant Houser Bailey	0	1,472
Hanson Bridgett	2,301	0
Kern County Counsel	21,652	29,316
Paul Hastings Janofsky Walker LLP	4,732	16,272
Steefel, Levitt & Weiss	135	4,265
Tatro Tekosky Sandwick LLP	0	6,789
Due Diligence		
Trustees / KCERA Management	8,145	17,877
Security Lending Fees		
The Northern Trust Company	15,974,295	11,683,135
Total Investment Fees and Services	**$ 23,859,561**	**$ 19,184,834**

Actuarial Section

A MILLIMAN GLOBAL FIRM

Milliman

Consultants and Actuaries

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August 17, 2007

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, 2006 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, 2007.

Contribution Rates

The financing objective of KCERA is to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a closed 29-year period as of December 31, 2006, while maintaining contribution rates that will tend to remain level as percentages of payroll. As of December 31, 2006 there is a UAAL of $757.01 million.

Due primarily to experience losses and changes in assumptions, the Total Plan calculated contribution rate increased from 31.70% of pay based on the December 31, 2005 valuation to 32.26% of pay based on the December 31, 2006 valuation. The application of the COLA Contribution Reserve (CCR) credit reduces the Total Plan contribution rate to 29.49%.

Funding Status

Based on the December 31, 2006 actuarial valuation, the Funded Rate increased during the past year from 75.6% to 75.7% due to experience 0.4% and assumption changes (0.3%). The Funded Rate is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability.

Supplemental Retirement Benefit Reserve (SRBR) Funding Status

Based on the December 31, 2006 actuarial valuation, the Funded Rate decreased during the past year from 88.1% to 81.6% due primarily to the increased in the death benefit (3.7%) and inflation higher than expected (2.1%). The Funded Rate is the ratio of the actuarial value of the assets over the value of the present value of all SRBR benefits.

Assumptions

A complete investigation of experience was performed as of December 31, 2005 and all actuarial assumptions were reviewed and many were updated. As of December 31, 2006 the deferral age for terminated participants with a vested benefit was further refined to be the age at which members are entitled to full benefits. Our December 31, 2006 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, 2006 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	Daniel R. Wade, FSA, EA, MAAA
Consulting Actuary	Consulting Actuary

KIS/DRW/nlo

Enclosure

Summary of Actuarial Assumptions and Methods

Economic Assumptions

Interest Rate: 8.0%

Salary Increases - Individual: Rates vary by service, as shown in Table I.

Inflation Assumption: 3.5%

Actuarial Methods

Funding Method: Entry Age Funding Method, with costs allocated as a level percent of salary.

Actuarial Cost Method: Entry Age Actuarial Cost Method, the actuarial present value of theprojected benefits of each member is allocated as a level percentage of the member's projected compensation between entry age and assumed exit (maximum retirement age).

Amortization Period: The actuarial present value of benefits expected to be paid in the future is the Normal Cost. The difference between the Normal Cost and the actuarial present value of all future benefits for contributing members, former contributing members and their survivors is the Actuarial Accrued Liability (AAL). The sum of all AAL and the actuarial value of the assets is the Unfunded Actuarial Accrued Liability (UAAL).

The UAAL is amortized over 29 years, beginning December 31, 2006. Additional UAAL incurred through the granting of Golden Handshake agreements made in 2004 and 2005 was amortized over a three-year period from the year in which they were granted. Beginning January 1, 2006, any liability attributable to Golden Handshakes is paid by the employer at the time the handshake is granted.

Demographic Assumptions

Post-Retirement Mortality:

A) General Members and Safety Members: 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.

Summary of Actuarial Assumptions and Methods (continued)

Demographic Assumptions (continued)

B) Beneficiaries:	Rates are the same as a service retiree of the opposite gender.
C) Disability Retirement:	RP-2000 Healthy 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 active members and 60% of female active employees are assumed to have a spouse or qualified domestic partner eligible for the 60% continuance at retirement. Wives are assumed to be four years younger than their husbands.
Rate of Termination of Employment:	Rates vary by years of service, as shown in Table 2.
Reciprocal Agency:	For current active members, the probability of joining a reciprocal agency immediately after terminating is 60% for Safety members and General members.
Deferred Retirement Age for Vested Termination:	Age 50 for Safety members. Age 60 for General members.

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, 2006.

Assumed Rate of Salary Increase ***Table 1***
As of December 31, 2006

Annual Increase in Salary (before wage inflation)

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%

Annual Increase in Salary (with wage inflation)

Years of Service	General Members	Safety Members
0	10.24%	10.24%
1	9.20%	9.20%
2	8.16%	8.16%
3	7.12%	7.12%
4	6.60%	6.60%
5	6.34%	6.34%
6	6.08%	6.08%
7	5.82%	5.82%
8	5.56%	5.56%
9	5.35%	5.35%
10	5.14%	5.14%
11	4.94%	4.94%
12	4.83%	4.83%
13	4.73%	4.78%
14	4.62%	4.78%
15 or more	4.52%	4.78%

Probabilities of Separation from Active Service *Table 2*

(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	100
60	66	0	22	2,500	32	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	22	2,200	32	30 & above	0
70	0	0	0	10,000	0	30 & above	0
Safety Members - All							
20	10	2	0	0	3	0	800
30	12	2	0	0	28	10	170
40	30	2	0	0	78	20 & above	0
50	60	2	0	1,200	198	20 & above	0
60	66	2	0	10,000	0	20 & above	0
70	0	0	0	0	0	20 & above	0

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
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	0.2%
	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%**
12/31/06	General	6,862	$ 320,078,067	$ 46,645	1.6%
	Safety	1,685	100,355,950	59,558	5.6%
	Total	**8,547**	**420,434,017**	**49,191**	**2.4%**

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*
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
2006	5,132	408	185	5,355	15,910,761	2,446,976	127,812,860	11.8%	23,868

* Excludes SRBR amounts

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)
12/31/01	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%
12/31/06	197,506,875	1,629,003,347	1,282,527,384	3,109,037,606	2,352,028,020	100%	100%	41%

Actuarial Analysis of Financial Experience
(Rounded to nearest thousand)

	Gain (or Loss) for Year		
	2006	**2005**	**2004**
Investment Performance Greater (Less) than Expected	$ 3,900,000	$ (1,700,000)	$ (25,900,000)
New Entrants into System (Greater) Less than Expected	(7,400,000)	(5,800,000)	(1,100,000)
Individual Salary Increases (Greater) Less than Expected	(16,800,000)	24,200,000	(31,000,000)
Demographic Changes Greater (Less) than Expected	(12,200,000)	(127,800,000)	(16,500,000)
Change in Benefits	-	(163,800,000)	-
Change in Assumptions/Methodology	(13,600,000)	(84,600,000)	(110,300,000)
Composite Gain (or Loss) During Year	**$ (46,100,000)**	**$ (359,500,000)**	**$ (184,800,000)**

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 and Special Districts.

Membership

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

Final Average Salary

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

Vested

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

Member Contribution Rates

The basic contribution is computed on the member's base pay plus compensable special pay, with the contribution rate being determined by the member's entry age into the System, the classification of the member, the Plan's economic assumptions and the member's life expectancy at the retirement age specified in the County Employees' Retirement Law of 1937. The normal rates of contribution are such as to provide, for each year of service, an average annuity at age 55 of 1.0% of the final compensation for General members and at age 50 of 1.5% of final compensation for Safety members, according to the tables adopted by the Board of Supervisors, for each year of service rendered after entering the Plan.

Member contributions made through payroll deductions are made on a pre-tax basis, per IRS Code Section 414(h)(2).

Interest is credited to contributions semiannually on June 30 and December 31 in accordance with the County Employees' Retirement Law of 1937, Article 5.5.

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.

Service Retirement Benefit

General members with at least 10 years of retirement service credit who are age 50 or older, have 30 years of retirement service credit regardless of age, or are age 70 regardless of service are eligible for service retirement. Benefit is 3.0% of final compensation for each year of service at age 60, mulitplied by Government Code Section 31676.17 law factors. Two General Districts, Berrenda Mesa and Inyokern, still have Government Code Section 31676.14 for service prior to January 1, 2005.

Summary of Major Plan Provisions (continued)

Service Retirement Benefit (continued)
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 3.0% of final compensation for each year of service at age 50, mulitplied by Government Code Section 31664.1 law factors.

For members integrated with Social Security, benefits based on $350 of monthly final average salary are reduced by one-third.

Disability Benefit
Members with five years of retirement service credit, regardless of age, are eligible for nonservice-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 nonservice-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 $3,000 is payable to the designated beneficiary or estate.

If the retirement was for service or nonservice-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%).

Summary of Major Plan Provisions (continued)

Supplemental Retiree Benefit Reserve (SRBR) Benefits

The Board of Retirement adopted California Government Code 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. The SRBR approved benefits include all Tier 1, Tier 2 and death benefits as well as Tier 3 benefits approved through the December 31, 2006 Actuarial Valuation.

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 monthly, 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 benefits to maintain 80% purchasing power protection.
	Death Benefit:	A one-time payment of $3,000 to a member's beneficiary. Prior to 2007, the death benefit was $1,000.
	0.5% COLA	$64.7 million allocation of funds to initially pay for a 0.5% cost-of-living allowance, arisen from a litigation judgment entered on January 24, 2002.

C) Funding — Crediting of interest and the allocation of undistributed earnings, the amount that remains after net earnings have been used to credit interest to the Plan's reserves.

Statistical Section

Schedule of Changes in Plan Net Assets
Last 10 Fiscal Years

	1998	1999	2000	2001	2002
Additions					
Employer Contributions	$ 35,420,517	$ 40,159,103	$ 37,575,583	$ 41,067,487	$ 41,881,569
Member Contributions	4,403,959	5,446,223	6,145,942	9,173,557	11,287,597
Net Investment Income	171,314,190	161,883,259	140,569,826	(99,791,394)	(76,247,977)
Total Additions	**$ 211,138,666**	**$ 207,488,585**	**$ 184,291,351**	**$ (49,550,350)**	**$ (23,078,811)**
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	$ 60,269,443	$ 64,301,967	$ 67,624,699	$ 73,120,070	$ 80,613,013
Administrative Expenses	1,349,468	1,392,610	1,601,849	1,903,426	2,167,965
Miscellaneous	3,571	323,400	5,677	89,427	48,290
Total Deductions	**$ 61,622,482**	**$ 66,017,977**	**$ 69,232,225**	**$ 75,112,923**	**$ 82,829,268**
Change in Plan Net Assets	**$ 149,516,184**	**$ 141,470,608**	**$ 115,059,126**	**$ (124,663,273)**	**$ (105,908,079)**

	2003	2004	2005	2006	2007
Additions					
Employer Contributions	$ 343,338,853*	$ 48,759,946	$ 60,268,141	$ 100,734,230	$ 128,134,672
Member Contributions	12,748,788	10,450,868	10,350,993	11,774,784	12,633,790
Net Investment Income	87,935,189	296,074,040	224,442,133	259,760,478	453,362,746
Total Additions	**$ 444,022,830**	**$ 355,284,854**	**$ 295,061,267**	**$ 372,269,492**	**$ 594,131,208**
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	$ 94,302,059	$ 104,960,374	$ 111,006,082	$ 123,765,490	$ 137,078,303
Administrative Expenses	2,166,624	2,551,741	2,500,768	2,518,913	3,030,488
Miscellaneous	780,444	0	2,745	111	705
Total Deductions	**$ 97,249,127**	**$ 107,512,115**	**$ 113,509,595**	**$ 126,284,514**	**$ 140,109,496**
Change in Plan Net Assets	**$ 346,773,703**	**$ 247,772,739**	**$ 181,551,672**	**$ 245,984,978**	**$ 454,021,712**

**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 2007-2003
(in thousands)

	2007	2006	2005	2004	2003
Service Retirement Benefits					
General	$ 65,324	$ 58,529	$ 50,436	$ 44,539	$ 41,497
Safety	37,075	33,334	29,594	26,029	22,616
Total	102,399	91,863	80,030	70,568	64,113
Disability Benefits					
General	7,209	6,846	6,295	6,381	5,684
Safety	11,609	10,771	10,051	9,035	8,187
Total	18,818	17,617	16,346	15,416	13,871
Beneficiary Benefits					
General	7,452	6,991	6,671	6,109	5,724
Safety	5,575	5,109	4,904	4,386	3,901
Total	13,027	12,100	11,575	10,495	9,625
Retroactive Payments					
General	0	2	347	2,730	2,097
Safety	0	0	517	3,454	2,775
Total	0	2	864	6,184	4,872
Lump Sum Death Benefits	320	244	259	382	220
Total Benefit Payments	**134,564**	**121,826**	**109,074**	**103,045**	**92,701**
Refunds	2,514	1,939	1,932	1,915	1,601
Total Benefit Expenses	**$ 137,078**	**$ 123,765**	**$ 111,006**	**$ 104,960**	**$ 94,303**

Schedule of Benefit Expenses by Type (continued)
For Fiscal Years 2002-1998
(in thousands)

	2002	2001	2000	1999	1998
Service Retirement Benefits					
General	$ 38,542	$ 36,675	$ 34,123	$ 32,826	$ 31,135
Safety	18,436	14,614	13,168	12,297	11,779
Total	56,978	51,289	47,291	45,123	42,914
Disability Benefits					
General	$ 5,482	5,136	4,928	4,600	3,836
Safety	7,508	6,932	6,249	5,906	5,703
Total	12,990	12,068	11,177	10,506	9,539
Beneficiary Benefits					
General	5,394	5,151	4,832	4,598	3,963
Safety	3,630	3,224	3,027	2,857	2,252
Total	9,024	8,375	7,859	7,455	6,215
Retroactive Payments					
General	0	0	0	0	0
Safety	0	0	0	0	0
Total	0	0	0	0	0
Lump Sum Death Benefits	185	165	155	175	209
Total Benefit Payments	**79,177**	**71,897**	**64,482**	**63,259**	**58,877**
Refunds	1,436	1,223	1,142	1,043	1,392
Total Benefit Expenses	**$ 80,613**	**$ 73,120**	**$ 67,624**	**$ 64,302**	**$ 60,269**

Schedule of Retired Members by Type of Benefit
As of June 30, 2007

Amount of Monthly Benefit	Number of Retirants	Type of Retirement 1	2	3	4	5	6	7	8	9
$1-500	477	116	4	0	197	88	26	2	22	22
501-1,000	951	404	64	19	217	129	42	3	48	25
1,001-1,500	884	430	69	128	112	81	16	1	31	16
1,501-2,000	695	351	23	161	48	61	11	4	27	9
2,001-3,000	1,054	558	11	285	42	82	5	19	40	12
3,001-4,000	569	376	4	121	23	23	1	1	14	6
4,001-5,000	304	243	0	46	8	4	0	1	2	0
5,001-6,000	195	188	1	2	1	1	0	0	2	0
Over 6,000	358	345	2	4	3	3	0	0	1	0
Totals	**5,487**	**3,011**	**178**	**766**	**651**	**472**	**101**	**31**	**187**	**90**

Amount of Monthly Benefit	Number of Retirants	Option Selected: Option 1	Option 2	Option 3	Option 4	Unmodified A	Unmodified B	Unmodified C
$1-500	477	10	7	0	0	199	260	1
501-1,000	951	7	21	1	0	352	559	11
1,001-1,500	884	11	22	2	0	339	431	79
1,501-2,000	695	5	14	1	0	255	320	100
2,001-3,000	1,054	13	31	3	1	371	423	212
3,001-4,000	569	2	21	1	0	272	169	104
4,001-5,000	304	1	9	1	0	183	69	41
5,001-6,000	195	2	4	1	1	147	37	3
Over 6,000	358	1	9	1	0	303	40	4
Totals	**5,487**	**52**	**138**	**11**	**2**	**2,421**	**2,308**	**555**

Type of Retirement

1 – Normal retirement for age and service
2 – Nonservice-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 12/31/97								
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	191	222	163	125	120	84	30	1
Valuation date 12/31/01								
Average Monthly Benefit:								
General	1,375	1,469	1,126	837	582	409	364	311
Safety	3,290	2,739	2,363	2,054	1,376	1,020	792	0
Number of Active Retirants:								
General	833	745	506	514	448	282	94	19
Safety	226	188	151	124	110	101	37	0

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 12/31/02								
Average Monthly Benefit:								
General	1,516	1,517	1,184	911	624	451	394	357
Safety	3,946	2,763	2,556	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	64	22
Valuation date 12/31/06								
Average Monthly Benefit:								
General	2,331	1,569	1,685	1,301	917	660	451	368
Safety	4,393	3,824	3,200	2,792	2,416	1,551	1,169	921
Number of Active Retirants:								
General	1,103	819	699	454	425	333	152	57
Safety	434	231	184	144	114	98	78	30

Note: Data for final average salary is not available due to constraints; data will be available in future years.

Participating Employers and Active Members
As of June 30
Last 10 Fiscal Years

	1998*	1999*	2000	2001	2002
County of Kern:					
General Members			5,272	5,624	6,130
Safety Members			1,527	1,620	1,630
Total			6,799	7,244	7,760
Participating Agencies (General Membership):					
Berrenda Mesa Water District			12	12	12
Buttonwillow Recreation and Park District			1	2	3
East Kern Cemetery District			2	2	2
Inyokern Community Services District			2	2	3
Kern County Water Agency			61	59	67
Kern Mosquito & Vector Control District			21	20	20
North of the River Sanitation District			9	9	9
San Joaquin Valley Unified Air Pollution Control District			175	198	219
Shafter Recreation and Park District			2	0	0
West Side Cemetery District			6	5	6
West Side Mosquito Abatement District			7	7	8
West Side Recreation and Park District			12	12	12
Total			310	328	361
Total Active Membership:					
General Members			5,582	5,952	6,491
Safety Members			1,527	1,620	1,630
Total			**7,109**	**7,572**	**8,121**

Note: Information is not available for fiscal years 1998 and 1999.
Data retrieved from the Plan's database.

Participating Employers and Active Members (continued)
As of June 30
Last 10 Fiscal Years

	2003	2004	2005	2006	2007
County of Kern:					
General Members	6,006	6,011	6,029	6,222	6,952
Safety Members	1,609	1,609	1,632	1,646	1,738
Total	7,615	7,620	7,661	7,868	8,690
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	12	14	14	12
Buttonwillow Recreation and Park District	3	3	3	3	3
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	2	2
Kern County Water Agency	66	70	68	67	72
Kern Mosquito & Vector Control District	20	18	19	19	19
North of the River Sanitation District	7	8	7	8	9
San Joaquin Valley Unified Air Pollution Control District	237	250	253	267	272
Shafter Recreation and Park District	0	1	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito Abatement District	8	8	8	8	8
West Side Recreation and Park District	12	11	10	11	11
Total	374	390	391	406	415
Total Active Membership:					
General Members	6,380	6,401	6,420	6,628	7,367
Safety Members	1,609	1,609	1,632	1,646	1,738
Total	**7,989**	**8,010**	**8,052**	**8,274**	**9,105**

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