

Comprehensive Annual Financial Report

For the Fiscal Years Ended
June 30, 2008 and 2007



Kern County Employees' Retirement Association
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Comprehensive Annual Financial Report

For the Fiscal Years Ended
June 30, 2008 and 2007

Issued by:

Anne M. Holdren
Executive Director

Sheryl Lawrence
Financial Officer



Kern County Employees' Retirement Association

1115 Truxtun Avenue Bakersfield, CA 93301-4639 (661) 868-3790 www.kcera.org



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Kern County boasts a wide range of climate, culture and activity. Nestled in the southern corner of the temperate San Joaquin Valley, the region offers a form of recreation to satisfy everyone's interests.



Atmosphere



Section I *Introductory*





BOARD OF RETIREMENT

Brad Barnes, Chairman
Joseph Hughes, Vice Chairman
Norman Briggs
Jackie Denney
Jeff Frapwell
Robert Jefferson
Mike Maggard
Mark Ratekin
Bart Camps, Alternate
Phil Franey, Alternate

Anne M. Holdren
Executive Director

Lee Blair
Assistant Executive Director

October 20, 2008

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, 2008 and 2007. 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, 2008, the KCERA paid retirements to 5,634 members and continued supplemental benefits to 1,000 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA System added 230 service retirees, 8 nonservice-connected disability retirees, 11 service-connected disability retirees, 3 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, 2008, thirteen 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, West Side Recreation and Park District, and the Kern County Superior Court.

The Plan is administered by the Kern County Board of Retirement (Board) which consists of nine members and two alternate members. The Board is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances, and managing the investments of the System's assets. The

Board oversees the Executive Director and the KCERA staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937 and the bylaws, procedures, and policies adopted by the KCERA Board.

MAJOR INITIATIVES

New Board Members

KCERA members voted in November 2007 to fill the Retirement Board's Third, Eighth and Eighth Alternate seats. The general membership elected Robert Jefferson from the Roads Department as the Board's Third Member. Norman Briggs, previously the Eighth Member Alternate, ran unopposed for the Eighth Member seat. And filling the vacated Eighth Member Alternate seat is Phil Franey, the former treasurer-tax collector of Kern County. Terms for the newly elected Board members will expire December 31, 2010.

Board Governance Report

As part of governance support services to the Board, Cortex Applied Research, Inc. provides an annual review of the extent to which Board practices are consistent with KCERA's governance structure. This year, Cortex reported that the KCERA, its Board and senior staff have adhered to the provisions of KCERA's various charters, which prescribe approximately 170 verifiable responsibilities.

Board Selects Pension Administration System Vendor

CPAS Systems Inc. was selected as KCERA's new pension administration system provider. Following an extensive process of issuing a comprehensive Request for Proposal (RFP) and evaluating proposals, the Retirement Board—aided by consultant L. R. Wechsler, Ltd.—decided to contract with CPAS due to the superiority of its browser-based solution and seasoned product team. KCERA anticipates implementation of the system to begin in November 2008 and conclude in December 2010.

RFP Issued for Oversight Project Manager

To assist KCERA in successfully implementing the new CPAS product over the next two years, the Board issued an RFP for an oversight project manager in May 2008. The decision on the selected provider is pending approval by the Board of Retirement.

Facility Assessment Project

Los Angeles-based American Realty Advisors was hired in 2007 to provide services related to facility assessment needs and market analysis for the future relocation of the KCERA office. After determining lease space in Bakersfield to be inadequate, American Realty recommended the Board pursue a build-to-suit development purchase. The KCERA Board began negotiations in July 2008 for the purchase of a 1.25-acre lot at the Riverwalk Corporate Center in Southwest Bakersfield. A proposed 15,000-square-foot facility will be built on the site to accommodate KCERA operations and Board meetings.

New File Management System

In January 2007, the KCERA Board approved the purchase of the SmeadSoft file management system, which enables staff to more efficiently track members' files by using a bar-coded label on each member's folder. Smead completed the file labeling conversion in June 2008.

New Investment Manager

Pyramis Global Advisors was hired to manage KCERA's international large cap and international small cap portfolios, representing 3.0% and 3.5% of the total Fund, respectively.

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, 2007, the funded ratio of the System was approximately 77.2% using actuarial assets and actuarial liabilities of \$2,589,818,000 and \$3,355,755,000, respectively. The funded percentage changed moderately from 2006.

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, 2008 and 2007 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 maintained an internal control system to provide reasonable assurance that assets are properly safeguarded from loss, theft, or misuse and the fair presentation of the financial statements and supporting schedules. Further, it should be recognized there are inherent limitations in the effectiveness of any system of internal controls due to changes in conditions. KCERA has established an audit committee for oversight of the financial reporting process and to review the scope and results of independent audits. The independent auditors have unrestricted access to the audit committee to discuss their related findings as to the integrity of the financial reporting and adequacy of internal controls.

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, 2008 and 2007 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 2008, the investments of the Plan realized a loss of -6.50% (net of fees). The KCERA’s annualized rate of return, net of fees, was 7.33% in the past three years, 9.98% in the past five years, and 6.35% 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 56 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, 2007. 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 well-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 ensure the successful administration of the System.

Respectfully submitted,



Anne M. Holdren
Executive Director

Certificate of Achievement for Excellence in Financial Reporting



Presented to
**Kern County Employees'
Retirement Association
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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.



Oliver S. Cox
President

Jeffrey R. Emer
Executive Director

MEMBERS OF THE BOARD OF RETIREMENT AS OF JUNE 30, 2008



Brad Barnes, Chairman
Appointed by Board of Supervisors
Present term expires 12/31/2010



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



Norman Briggs
Elected by retired members
Present term expires 12/31/2010



Jackie Denney
County Treasurer-Tax Collector
Ex-Officio Member



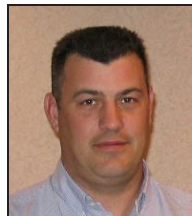
Jeff Frapwell
Elected by general members
Present term expires 12/31/2009



Robert Jefferson
Elected by general members
Present term expires 12/31/2010



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



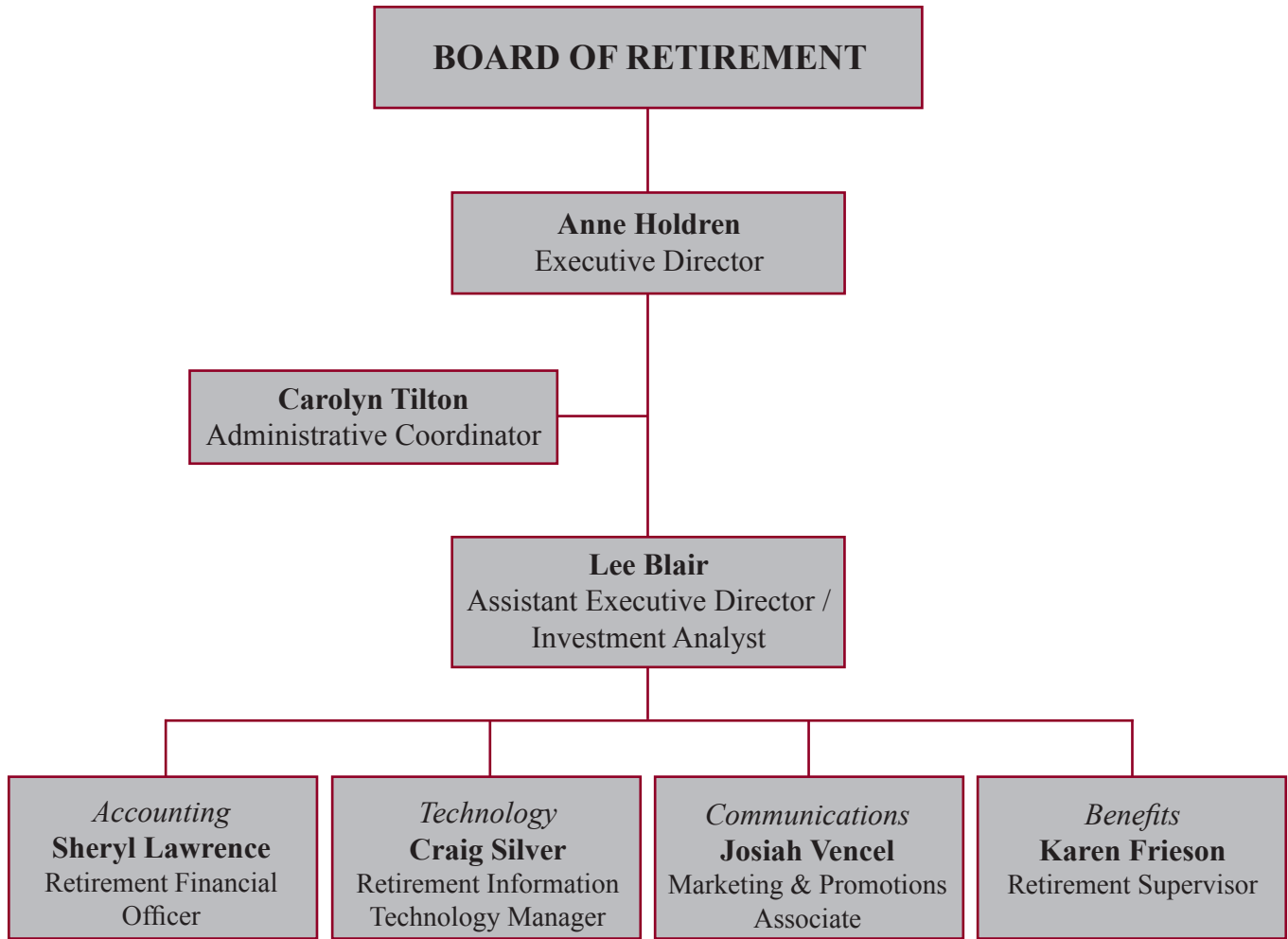
Phil Franey, Alternate
Elected by retired members
Present term expires 12/31/2010



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

ORGANIZATIONAL CHART

AS OF JUNE 30, 2008



LIST OF PROFESSIONAL CONSULTANTS

AS OF JUNE 30, 2008

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

INVESTMENT CONSULTANTS

Wilshire Associates, Inc.
Santa Monica, CA

American Realty Advisors,
Santa Monica, CA

OTHER SPECIALIZED SERVICES

Cortex Applied Research, Inc.
Toronto, Ontario (Canada)

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

L. R. Wechsler, Ltd.
Fairfax, VA

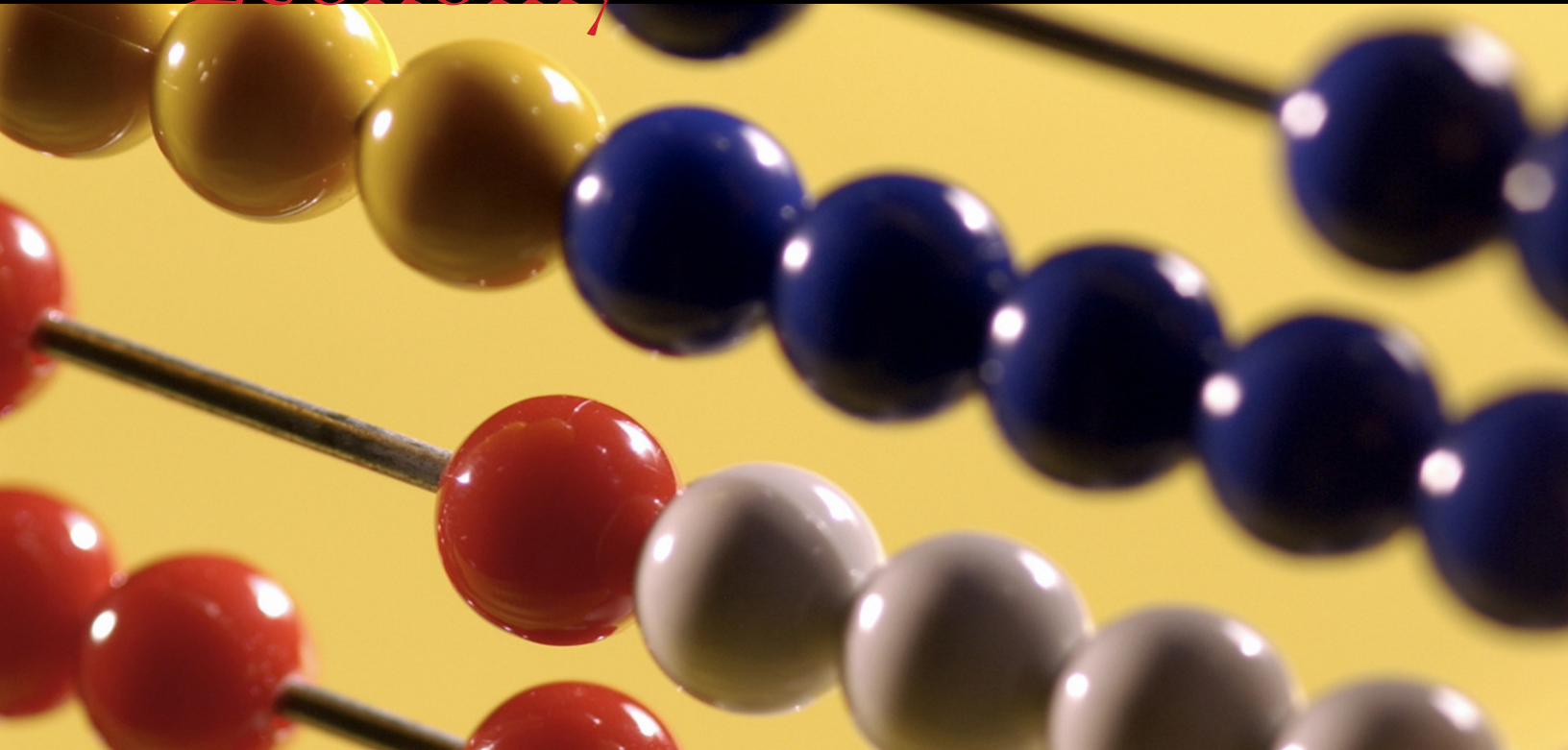
Note: A list of Investment Professionals is located on page 56 of the Investment Section of this report.



Kern County continues to enjoy a healthy, resilient economy. Its 835,000 residents loyally support the numerous locally owned businesses and handful of multi-national corporations that call Kern "home."

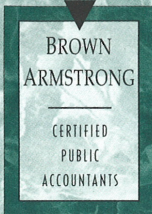


Economy



Section II *Financial*





BROWN ARMSTRONG
PAULDEN MCCOWN STARBUCK THORNBURGH & KEETER
CERTIFIED PUBLIC ACCOUNTANTS

■ Main Office
4200 Truxtun Ave., Suite 300
Bakersfield, California 93309
Tel 661-324-4971 Fax 661-324-4997
e-mail: info@bacpas.com

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

- Andrew J. Paulden, CPA
- Peter C. Brown, CPA
- Burton H. Armstrong, CPA, MST
- Steven R. Starbuck, CPA
- Aileen K. Keeter, CPA
- Chris M. Thornburgh, CPA
- Eric H. Xin, MBA, CPA
- Richard L. Halle, CPA, MST

INDEPENDENT AUDITOR'S REPORT



To the Board of Retirement
Kern County Employees' Retirement Association

- Harvey J. McCown, MBA, CPA
- Lynn R. Krausse, CPA, MST
- Rosalva Flores, CPA
- Connie M. Perez, CPA
- Diana H. Branthoover, CPA
- Thomas M. Young, CPA
- Alicia Dias, CPA, MBA
- Matthew R. Gilligan, CPA
- Hanna J. Sheppard, CPA
- Ryan L. Nielsen, CPA
- Jian Ou-Yang, CPA
- Ryan S. Johnson, CPA
- Jialan Su, CPA
- Ariadne S. Prunes, CPA
- Samuel O. Newland, CPA
- Brooke N. DeCuir, CPA
- Kenneth J. Witham, CPA
- Clint W. Baird, CPA

We have audited the accompanying Statement of Plan Net Assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2008 and 2007 and the related Statement of Changes in Plan Net Assets for the years then ended. These financial statements are the responsibility of KCERA management. 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, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

As discussed in Note 2 to the financial statements, in Fiscal Year 2008, KCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosure, an amendment of GASB Statements No. 25 and 27.*

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan Net Assets of KCERA as of June 30, 2008 and 2007 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 (MD&A) as listed in the Table of Contents is not a required part of the basic financial statements but is supplementary information required by the GASB. 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 as listed in the Table of Contents is presented for purposes of additional analysis, as required by GASB, and is not a required part of the basic financial statements. This information is the responsibility of KCERA's management. Such information has been subjected to the auditing procedures applied by us in the audit of the Fiscal Year 2008 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the Fiscal year 2008 basic financial statements taken as a whole. The Other Supplementary Information as listed in the table of contents, and the Investment, Actuarial and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of KCERA. The Other Supplementary Information as listed in the Table of Contents has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial and Statistical sections and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 20, 2008, on our consideration of KCERA's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

BROWN ARMSTRONG PAULDEN
McCOWN STARBUCK THORNBURGH & KEETER
ACCOUNTANCY CORPORATION



Bakersfield, California
October 20, 2008

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, 2008 and 2007. 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 decreased approximately \$201 million during the year ended June 30, 2008. The decrease was primarily due to underperformance in the equities and real return assets markets.
- As of December 31, 2007, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 77.2%, compared to the funded ratio of 75.7% as of December 31, 2006.
- During the fiscal year ended June 30, 2008, the KCERA's total fund returned -6.50% (net of fees), a decrease from the prior fiscal year return of 18.40%.
- Member contributions increased by approximately \$2.4 million, or 19.0%, due to phasing in higher contribution rates for safety members in addition to there being more safety and general members required to make contributions after attaining five years of service.
- Employer contributions during the year increased by approximately \$9.1 million, or 7.1%. The increase is due to an increase in active employee membership as well as an increase in salaries due to salary equity adjustments throughout the fiscal year.
- Vested pension benefits increased by approximately \$10.8 million, or 8.6%, over the prior year. The increase is attributable to a 2.7% increase in retired members and beneficiaries receiving pension benefits and a 5.8% increase in the average monthly benefit, which rose to \$2,014 in the fiscal year.

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.

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

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, 44 and 50.

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, 2008 were \$2.7 billion, a decrease of approximately \$201 million (-6.9%) from June 30, 2007. 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 (18.4%) from June 30, 2006. 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 \$15.0 million, \$12.6 million, and \$11.8 million for the years ended June 30, 2008, 2007, and 2006, respectively. Employer contributions were \$137.3 million, \$128.1 million, and \$100.7 million for the years ended June 30, 2008, 2007, and 2006, respectively.

Member contributions increased by approximately \$2.4 million (19.0%) in 2008 and increased by approximately \$0.8 million (7.3%) in 2007. The increase in member contributions in 2008 is due to phasing in higher contribution rates for safety members in addition to there being more safety and general members required to make contributions after attaining five years of service. 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.

Employer contributions increased by approximately \$9.1 million (7.1%) in 2008 and increased by approximately \$27.4 million (27.2%) in 2007. The increase in employer contributions in 2008 is primarily due to an increase in active employee membership as well as an increase in salaries due to salary equity adjustments throughout the fiscal year. 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.

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

Contributions and Income (continued)

Net investment income was (\$201.6) million, \$453.4 million and \$259.8 million for the years ended June 30, 2008, 2007 and 2006, respectively. The decrease in 2008 can be attributed to the underperformance of the U.S. equity, non-U.S. equity and real assets portfolios during the first two quarters of 2008. 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 KCERA's total fund return (net of fees) in fiscal year 2008 was -6.50%. For fiscal year 2008, the KCERA's U.S. equity composite returned -12.97%, the non-U.S. equity composite returned -10.05%, the fixed income composite returned -0.45%, and the real return assets composite returned -13.82%. The \$453.4 million increase in investment income in fiscal year 2007 resulted from a total fund return (net of fees) of 18.40% for the year. For fiscal year 2007, the KCERA's U.S. equity composite returned 19.16%, the non-U.S. equity composite returned 30.92%, the fixed income composite returned 8.15%, and the real return assets composite returned 12.89% (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 \$136.2 million, \$125.4 million, and \$113.3 million for the years ended June 30, 2008, 2007 and 2006, respectively. Pension benefits increased by approximately \$10.8 million (8.6%) in 2008 and by \$12.1 million (10.7%) in 2007. 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 higher final average compensation. Retired members and beneficiaries increased by 2.7% in 2008 and by 4.1% in 2007. The average monthly benefit increased by 5.8% in 2008 and 10.7% in 2007. 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 \$10.0 million, \$9.1 million and \$8.5 million for the years ended June 30, 2008, 2007 and 2006, respectively. Refunds of member contributions were \$2.4 million, \$2.5 million, and \$1.9 million for the years ended June 30, 2008, 2007 and 2006, respectively.

	June 2008	June 2007	June 2006
Average Monthly Benefit Payments	\$11.3 million	\$10.5 million	\$9.4 million
Retirees and Beneficiaries	5,634	5,487	5,272

The KCERA administrative expenses were \$3.3 million, \$3.0 million, and \$2.5 million for the years ended June 30, 2008, 2007 and 2006, respectively. Administration expenses increased by \$310,533 in fiscal year 2008, due primarily to union-negotiated salary equity adjustments.

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

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 8.0% from the total fund's actual return on net assets. The Market Stabilization Reserve was (\$197) million, \$297 million, and \$132 million for the years ended June 30, 2008, 2007 and 2006, 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 8.58% in fiscal year 2008 and 9.02% in fiscal year 2007.

KCERA Reserves

	2008	2007	2006
Member Reserve	\$ 222,417,963	\$ 203,687,096	\$ 189,413,578
Employer Reserve	724,646,669	634,570,592	573,247,790
Cost of Living Reserve	645,663,002	578,731,795	517,049,245
Retired Member Reserve	979,134,288	922,784,014	848,760,138
Supplemental Retiree Benefit Reserve	212,782,232	192,836,620	165,295,918
Contribution Credit Reserve	42,600,264	24,817,352	0
Contingency Reserve	81,333,256	58,245,555	32,701,207
Market Stabilization Reserve	<u>(197,469,135)</u>	<u>296,604,744</u>	<u>131,788,180</u>
Total	<u>\$ 2,711,108,539</u>	<u>\$ 2,912,277,768</u>	<u>\$ 2,458,256,056</u>

Fiduciary Responsibilities

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

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

Net Assets
(in thousands)

Table 1

	2008	Increase/ (Decrease) Amount	2007	Increase/ (Decrease) Amount	2006
Assets					
Current Assets	\$ 197,429	\$ (32,425)	\$ 229,854	\$ 13,688	\$ 216,166
Investments	2,704,312	(126,442)	2,830,754	392,991	2,437,763
Securities Lending Collateral	260,650	(57,468)	318,118	16,458	301,660
Capital Assets	83	0	83	32	51
Total Assets	\$ 3,162,474	\$ (216,335)	\$ 3,378,809	\$ 423,169	\$ 2,955,640
Liabilities					
Current Liabilities	\$ 190,715	\$ (42,302)	\$ 148,413	\$ (47,311)	\$ 195,724
Liabilities for Security Lending	260,650	(57,468)	318,118	16,458	301,660
Total Liabilities	\$ 451,365	\$ (15,166)	\$ 466,531	\$ (30,853)	\$ 497,384
Total Net Assets	\$ 2,711,109	\$ (201,169)	\$ 2,912,278	\$ 454,022	\$ 2,458,256

Changes in Net Assets
(in thousands)

Table 2

	2008	Increase/ (Decrease) Amount	2007	Increase/ (Decrease) Amount	2006
Additions					
Member Contributions	\$ 15,031	\$ 2,397	\$ 12,634	\$ 859	\$ 11,775
Employer Contributions	137,264	9,129	128,135	27,401	100,734
Net Investment Income	(201,562)	(654,924)	453,362	193,602	259,760
Total Additions	\$ (49,267)	\$ (643,398)	\$ 594,131	\$ 221,862	\$ 372,269
Deductions					
Pension Benefits	\$ 136,190	\$ 10,774	\$ 125,416	\$ 12,079	\$ 113,337
Supplemental Retirement Benefits	9,997	849	9,148	659	8,489
Refunds of Member Contributions	2,374	(140)	2,514	575	1,939
Administrative Expenses	3,341	311	3,030	511	2,519
Miscellaneous Expenses	0	(1)	1	1	0
Total Deductions	\$ 151,902	\$ 11,793	\$ 140,109	\$ 13,825	\$ 126,284
Increase (Decrease), Net Assets	\$ (201,169)	\$ (655,191)	\$ 454,022	\$ 208,037	\$ 245,985
Net Assets					
Beginning of Year	\$ 2,912,278	\$ 454,022	\$ 2,458,256	\$ 245,985	\$ 2,212,271
End of Year	\$ 2,711,109	\$ (201,169)	\$ 2,912,278	\$ 454,022	\$ 2,458,256

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
Assets		
Cash in County Pool	\$ 6,261,261	\$ 10,677,466
Short-Term Investment Funds	113,780,597	130,843,512
Total Cash and Short-Term Investment Funds	120,041,858	141,520,978
Receivables:		
Investments Sold	66,051,213	78,460,549
Interest and Dividends	9,789,330	8,844,008
Contributions and Other Receivables	1,416,621	1,028,808
Mark to Market Receivables	129,695	0
Total Receivables	77,386,859	88,333,365
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	798,263,973	738,163,554
International Bonds	65,662,747	56,425,242
Domestic Stocks	864,318,110	1,068,136,672
International Stocks	687,198,369	753,151,429
Real Estate Investments	53,474,171	36,466,586
Alternative Investments	235,395,053	178,410,319
Collateral Held for Securities Lending	260,650,054	318,117,639
Total Investments	2,964,962,477	3,148,871,441
Capital Assets, net of accumulated depreciation of \$117,977 and \$78,701, respectively	82,805	82,754
Total Assets	3,162,473,999	3,378,808,538
Liabilities		
Securities Purchased	188,266,824	145,163,594
Collateral Held for Securities Lent	260,650,054	318,117,639
Other Liabilities	2,448,582	3,041,667
Mark to Market Payables	0	207,870
Total Liabilities	451,365,460	466,530,770
Net Assets Held in Trust for Pension Benefits	\$ 2,711,108,539	\$ 2,912,277,768

(A schedule of funding progress is presented on page 40.)

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, 2008 AND 2007

	2008	2007
Additions		
Contributions		
Employer	\$ 137,263,673	\$ 128,134,672
Member	<u>15,031,419</u>	<u>12,633,790</u>
Total Contributions	<u>152,295,092</u>	<u>140,768,462</u>
Investment Income		
Net Appreciation in Fair Value of Investments	(281,625,951)	390,236,551
Interest	64,315,286	54,265,426
Dividends	19,962,893	13,611,508
Real Estate Investments	3,282,781	2,407,415
Other Investment Income	<u>335</u>	<u>478</u>
Total Investment Income	(194,064,656)	460,521,378
Less: Investment Expenses	<u>8,995,490</u>	<u>7,885,266</u>
Net Investment Income	<u>(203,060,146)</u>	<u>452,636,112</u>
Securities Lending Income		
Earnings	12,255,345	16,700,929
Less: Rebates & Bank Fees	<u>10,757,676</u>	<u>15,974,295</u>
Net Securities Lending Income	<u>1,497,669</u>	<u>726,634</u>
Total Additions	<u>(49,267,385)</u>	<u>594,131,208</u>
Deductions		
Retirement and Survivor Benefits	136,189,351	125,416,661
Supplemental Retirement Benefits	9,997,296	9,147,994
Refunds of Member Contributions	2,374,071	2,513,648
Administrative Expenses	3,341,021	3,030,488
Miscellaneous Expenses	<u>105</u>	<u>705</u>
Total Deductions	<u>151,901,844</u>	<u>140,109,496</u>
Net Increase (Decrease)	(201,169,229)	454,021,712
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	<u>2,912,277,768</u>	<u>2,458,256,056</u>
End of Year	<u>\$ 2,711,108,539</u>	<u>\$ 2,912,277,768</u>

See accompanying notes to the financial statements.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
 JUNE 30, 2008 AND 2007
 NOTES TO FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF PLAN

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

As of June 30, 2008, employee membership data related to the pension plan was as follows:

	<u>General</u>	<u>Safety</u>	<u>Total</u>
Active employees	7,263	1,842	9,105
Terminated employees – vested	919	128	1,047
Retirees and beneficiaries currently receiving benefits	<u>4,234</u>	<u>1,400</u>	<u>5,634</u>
	<u>12,416</u>	<u>3,370</u>	<u>15,786</u>

Benefit Provisions

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

SERVICE RETIREMENT BENEFIT

- All eligible employees must participate in the Kern County Employees' Retirement Association. A member may retire after reaching the age of 50 with 10 years of service. Or, general members may retire with 30 years of service, and safety members may retire with 20 years of service, regardless of age. Members who retire at or after age 50 with 10 or more years of service are entitled to pension benefits for the remainder of their lives. The amount of such monthly 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 or registered domestic partner.

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

NOTE 1 – DESCRIPTION OF PLAN (continued)

- Pension provisions include deferred allowances whereby a member may terminate his or her employment with the County after five or more years of County service. If the member does not withdraw his or her accumulated contributions, the member is entitled to all pension benefits after being vested five years and 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 or registered domestic partner 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 or registered domestic partner 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, registered domestic partner 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, registered domestic partner or minor children will receive a 100% continuance of their retirement allowance.

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

NOTE 1 – DESCRIPTION OF PLAN (continued)

DISABILITY BENEFIT

- A member with five years of service, regardless of age, who becomes permanently incapacitated for the performance of duty will be eligible for a 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, plus \$1 million for computer technology, as set forth under Government Code Sections 31580.2 and 31580.3.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Valuation of Investments

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

Publicly traded stocks	Most recent exchange closing price. International securities reflect currency exchange rates in effect at June 30, 2008 & 2007.
Short-term investments and bonds	Institutional evaluations or priced at par.
OTC securities	Evaluations based on good faith opinion as to what a buyer in the marketplace would pay for a security.
Commingled funds	Net asset value provided by the investment manager.
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.

Income Taxes

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

Management's Estimates

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

New Accounting Pronouncements

Governmental Accounting Standards Board (GASB) Statement No. 50, Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27, was issued in May 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits (OPEB). The reporting changes required by this statement amend applicable note disclosures and RSI requirements of Statement No. 25, Financial Reporting For Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and No. 27, Accounting for Pensions by State and Local Governmental Employers, to conform with requirements of Statement No. 43, Financial Reporting for Post-employment Benefit Plans Other than Pension Plans, and No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions. The provisions of the statement are effective for periods beginning after June 15, 2007. The KCERA implemented GASB 50 beginning with the fiscal year ending June 30, 2008.

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

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.

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, 2008 (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, 2008, KCERA had \$1,329,177 in deposits held at Northern Trust Company that were uninsured and uncollateralized.

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.

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

NOTE 3 – CASH AND INVESTMENTS (continued)

Credit Risk (continued)

At June 30, 2008, 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	\$23,090,636	2.67%
	AA	2,316,285	0.27%
	A	1,903,803	0.22%
	BBB	390,159	0.05%
	BB	384,201	0.04%
	B	44,430	0.01%
	NR	131,102	0.02%
Commercial Mortgage-Backed	AAA	24,989,912	2.89%
	NR	4,457,194	0.52%
Government Mortgage-Backed Securities	AAA	1,911,197	0.22%
	AGY	243,236,432	28.15%
Non-Government-Backed C.M.O.s	AAA	110,528,574	12.79%
	AA	1,185,133	0.14%
	B	29,565	0.00%
	NR	7,484,136	0.87%
Corporate Bonds	AAA	7,990,735	0.92%
	AA	15,876,706	1.84%
	A	34,725,328	4.02%
	BBB	63,305,133	7.33%
	BB	83,699,874	9.69%
	B	88,587,779	10.25%
	CCC	16,799,856	1.94%
	NR	18,998,138	2.20%
	AAA	18,656,386	2.16%
Government Agencies	BBB	637,346	0.07%
	AGY	355,492	0.04%
	AAA	20,653,645	2.39%
Government Bonds	BBB	2,183,623	0.25%
	B	932,450	0.11%
	TSY	1,766,576	0.20%
Index-Linked Government Bonds	AAA	20,205,844	2.34%
Short-Term Bills and Notes	AGY	2,393,798	0.28%
	TSY	9,016,291	1.04%
	NR	16,520,314	1.91%
Goldman Sachs Trust High Yield Fund	NR	16,520,314	1.91%
Western Asset Opportunistic International Fund	AAA	7,131,709	0.83%
Western Asset Opportunistic Local Market Debt Fund	BBB	8,684,968	1.01%
Western Asset Opportunistic High Yield Fund	BB	10,659,812	1.23%
Swaps/Options	NR	(7,937,842)	-0.92%
Total		\$863,926,720	100.00%

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

NOTE 3 – CASH AND INVESTMENTS (continued)

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, 2008, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) as of June 30, 2008				Maturity Not Determined
		Less Than 1	1-5	6-10	More Than 10	
Asset-Backed Securities	\$ 28,261	\$ -	\$ 174	\$ 71	\$ 28,016	\$ -
Commercial Mortgage-Backed	29,447	-	-	-	29,447	-
Corporate Bonds	372,980	8,516	109,672	139,922	71,873	42,997
Government Agencies	19,649	381	16,680	-	2,588	-
Government Bonds	25,536	-	3,971	109	21,456	-
Government Mortgage-Backed	245,148	-	649	5,126	121,209	118,164
Index-Linked Government Bonds	20,206	-	-	662	19,544	-
Non-Government-Backed C.M.O.s	119,228	2,162	30	-	117,036	-
Short-Term Bills and Notes	11,410	11,410	-	-	-	-
Swaps/Options	(7,938)	-	-	-	-	(7,938)
Total	\$863,927	\$ 22,469	\$ 131,176	\$ 145,890	\$ 411,169	\$ 153,223

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

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 25% 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 direct holdings represent KCERA's exposure to foreign currency risk as of June 30, 2008.

	Foreign Currency	Fair Value in USD	
Cash	Argentine Peso	\$ 3	
	Australian Dollar	13,129	
	Canadian Dollar	542,086	
	Swiss Franc	(5)	
	Euro	298,503	
	British Pound Sterling	68,905	
	Hong Kong Dollar	11,633	
	Japanese Yen	381,008	
	Norwegian Krone	8,565	
	Singapore Dollar	31,558	
	Equities	Australian Dollar	12,606,342
		Canadian Dollar	8,390,999
		Swiss Franc	26,042,516
Danish Krone		901,383	
Euro		109,056,838	
British Pound Sterling		49,831,132	
Hong Kong Dollar		9,816,854	
Japanese Yen		53,168,195	
South Korean Won		3,571,464	
Norwegian Krone		1,985,066	
Swedish Krona		2,417,973	
Singapore Dollar		2,171,543	
Fixed Income Securities		Brazilian Real	504,621
	Euro	12,451,282	
	Hungarian Forint	1,060,777	
	Swaps	Brazilian Real	(169,680)
Euro		(112,386)	
Rights/Warrants	Hungarian Forint	(45,165)	
	Norwegian Krone	1,586	
Total Foreign Cash and Investments		\$ 295,006,725	

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

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.

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, 2008, 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, 2008 and 2007, the securities lending transactions collateralized by cash had a fair value of \$252,930,611 and \$310,143,558, respectively, and a collateral value of \$260,650,054 and \$318,117,639, respectively. At June 30, 2008 and 2007, the securities lending transactions collateralized by securities or letters of credit had a fair value of \$1,316,757 and \$15,597,087, respectively, and a collateral value of \$1,372,764 and \$16,063,715, 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, 2008 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 Corporates	\$ 584,541	\$ 616,292	\$ -	\$ -
Global Government	1,060,760	1,121,050	-	-
Global Equities	29,887,918	31,610,120	726,245	768,185
U.S. Agencies	12,465,352	12,754,239	411,854	421,751
Corporates	46,336,956	47,630,787	102,219	104,675
Equities	128,200,077	131,788,515	-	-
U.S. Government	34,395,007	35,129,051	76,439	78,153
Totals	\$ 252,930,611	\$ 260,650,054	\$ 1,316,757	\$ 1,372,764

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.

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, 2008, 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.

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

NOTE 5 – HIGHLY SENSITIVE INVESTMENTS & DERIVATIVES (continued)

Fair Value

(in thousands)

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Mortgage-Backed Securities	\$ 274,595	\$ 206,785
Asset-Backed Securities	28,261	20,774
Collateralized Mortgage Obligation Securities	119,227	117,525
Forward Currency Contracts (Receivables)	19,540	21,850
Forward Currency Contracts (Payables)	(19,982)	(21,982)
Swaps/Options	(7,938)	1,221
Rights/Warrants	<u>2</u>	<u>1</u>
Total	<u>\$ 413,705</u>	<u>\$ 346,174</u>

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 2008, 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 2008, the UAAL is amortized over 29 years.

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

NOTE 6 – CONTRIBUTIONS (continued)

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.

Contribution Rates

The following table summarizes the required contribution rates in effect on June 30, 2008. 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 Tier I	5.89% - 10.95%	24.35%
General Members Tier II	4.09% - 8.42%	24.35%
General Members – Courts	8.39% - 13.45%	21.62%
Safety Members (hired prior to July 10, 2004)	10.83% - 16.32%	30.81%
Safety Members (hired on or after July 10, 2004)	10.83% - 16.98%	30.81%
Safety Members – Firefighters, Probation and Detention Officer Lieutenants (flat rate)	11.56%	30.81%
Special Districts (electing MOU)	5.89% - 10.95%	27.75%
Special Districts (not electing MOU)	5.89% - 10.95%	25.26%
Special Districts (full pickup)	5.89% - 10.95%	27.92%
Special Districts (3%@60 prospectively only)	5.89% - 10.95%	23.97%

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 2008 and 2007, respectively, amounted to \$152,295,092 and \$140,768,462, of which \$137,263,673 and \$128,134,672 were contributed by the County of Kern and Special Districts, and \$15,031,419 and \$12,633,790 were contributed by members.

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

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 2008, the Plan had excess earnings; \$42,600,264 was reserved to fund the employer COLA contributions in fiscal year 2009.

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).

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.

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

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

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, 2008, 3% of the Plan's net assets are reserved for contingencies.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2008 and 2007 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	2008	2007
Members' deposit reserve, general	\$ 147,060,917	\$ 134,690,329
Members' deposit reserve, safety	61,906,822	56,867,548
Members' deposit reserve, special district	13,450,224	12,129,219
Employer's advance reserve, general	389,677,113	337,803,445
Employer's advance reserve, safety	316,679,942	282,399,726
Employer's advance reserve, special district	18,289,614	14,367,421
Cost of living reserve, general	355,864,851	317,281,672
Cost of living reserve, safety	271,963,887	246,527,425
Cost of living reserve, special district	17,834,264	14,922,698
Retired members' reserve, general	605,439,615	562,456,989
Retired members' reserve, safety	373,694,673	360,327,025
Supplemental retiree benefit reserve (SRBR)	130,328,390	113,710,425
SRBR allocated for 0.5% COLA	82,453,842	79,126,195
COLA Contribution Reserve (CCR)	42,600,264	24,817,352
Contingency reserve	<u>81,333,256</u>	<u>58,245,555</u>
Total reserves at five-year smoothed market actuarial valuation	2,908,577,674	2,615,673,024
Market stabilization reserve*	<u>(197,469,135)</u>	<u>296,604,744</u>
Total net assets held in trust for pension benefits	<u>\$ 2,711,108,539</u>	<u>\$ 2,912,277,768</u>

*This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2008 and 2007.

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

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Capital Commitments

The KCERA allocates 6% of assets to private equity markets. As of June 30, 2008, KCERA's Board 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, 2008, the KCERA had \$155 million in private equity capital.

Litigation

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

NOTE 9 – SUBSEQUENT EVENTS

Land Development

The KCERA Board of Retirement has entered into a real estate commitment in the amount of \$871,200 to purchase commercial land at the corner of Stockdale Highway and Buena Vista Road as the future site of the retirement association. The 1.25-acre lot is on the easternmost corner of the Riverwalk Corporate Center located in Southwest Bakersfield.

Securities Lending Core USA Collateral Pool

On September 19, 2008, the Northern Trust Company determined a collateral deficiency existed in the Core USA Collateral Pool due to the recent financial market crisis, which caused an illiquid market resulting in the impairment of short-term cash funds. The amount of the deficiency was calculated based on the difference between book value and vended prices at that time. A loss arising from a collateral deficiency is allocated pro rata among all the participating lenders as of the date the collateral deficiency occurs, based on each participating lender's portion of the total market value of borrowed securities attributable to the collateral pool on that date. The KCERA's pro rata share of the collateral deficiency is \$3,261,169, which was booked as a liability to the Plan. The opportunity to reduce the liability exists if assets in the collateral pool appreciate in value or mature at par.

Recent Market Events

Subsequent to June 30, 2008, the global investment markets have been experiencing unprecedented, adverse events. Such events include restricted availability of capital and the continued write-down of mortgage-related assets led by defaults in sub-prime mortgages and the declining U.S. housing market. These events resulted in federal intervention due to the failure of several large domestic financial institutions. The markets continue to suffer significant turmoil from a general uncertainty about how to best address the expanded global credit crisis and losses that financial institutions are facing.

It is management's opinion that while the value of the KCERA fund has been affected by the turbulent market environment, the long-term nature of the Plan and its investment diversity are strengths. Because the values

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

NOTE 9 – SUBSEQUENT EVENTS (continued)

of individual investments fluctuate based on volatile market conditions, the amount of losses that KCERA will recognize in its future financial statements, if any, cannot be determined. Market fluctuations are a normal investment risk for a pension fund.

Extraordinary circumstances that occurred subsequent to the balance sheet date, but prior to the issuance of financial statements, are disclosed because they could have a material impact on the value of investments after the date of the financial statements. Negative returns on the Plan's assets through October 20, 2008 could affect the funded status of the Plan. The ultimate impact on the funded status will be determined based on market conditions in effect when the actuarial annual valuation for the year ended June 30, 2009 is performed.

NOTE 10 – FUNDED STATUS AND FUNDING PROGRESS

KCERA's funded status as of December 31, 2007, the most recent actuarial valuation date, is as follows:

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)
12/31/07	\$2,589,818	\$3,355,755	\$765,937	77.2%	\$453,412	168.9%

(Dollars in thousands)

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. 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 RSI.

Additional information as of the latest actuarial valuation dated December 31, 2007 is as follows:

Valuation date:	December 31, 2007
Actuarial cost method:	Entry age funding method
Amortization method:	Level percent of salary, closed
Remaining amortization period:	28 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%

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
REQUIRED SUPPLEMENTARY INFORMATION
 FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

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)
12/31/07	\$ 2,589,818	\$ 3,355,755	\$ 765,937	77.2%	\$ 453,412	168.9%
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%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2008	\$137,263,673	100%
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%

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

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

NOTE 1 – ACTUARIAL ASSUMPTIONS AND METHODS

The information presented in the supplemental schedules was determined as part of the actuarial valuations as of the dates indicated. Additional information, as of the most recent actuarial valuation date, December 31, 2007, is as follows:

Economic Assumptions:

Actuarial Assumed Interest Rate: 8.00% per annum

Assumed Salary Increases: Rates vary by service

Assumed Inflation Rate: 3.5% per annum

Cost-of-Living Adjustments: The maximum annual increase in retirement allowance is 2.5% per year for all members. The increases are based on the change in the Los Angeles-Riverside-Orange County Area Consumer Price Index for the calendar year prior to the April 1 effective date.

Actuarial Methods:

Actuarial Cost Method: Entry age actuarial cost method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed maximum retirement age.

Asset Valuation Method: The Actuarial Value of Assets is determined by recognizing investment earnings greater than (or less than) the assumed investment return over 10 six-month interest crediting periods. For valuation purposes, the Actuarial Value of Assets is reduced by the value of the non-valuation reserves, such as the Supplemental Retirees Benefit Reserve and the Contingency Reserve.

Amortization of Unfunded Actuarial Accrued Liability: The amortization payment is the portion of the contribution rate that is designed to pay interest on, and to amortize, the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is the difference between the actuarial value of assets and the present value of benefits plus expenses not covered by future normal costs. The UAAL attributable to benefit changes and all other actuarial gains and losses is amortized as a level percentage of payroll over a 28-year period beginning with the December 31, 2007 valuation. 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.

Amortization Method: Level percent of payroll, closed. To remain as a level percentage of payroll, amortization payments are scheduled to increase by the total payroll, which is the assumed annual inflation rate plus the assumed salary increases (4.0% per annum).

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (CONTINUED)

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Demographics:

Total payments to retirees and their beneficiaries increased from 5,355 to 5,552. The average monthly benefit check increased from \$1,989 to \$2,088. This represents a 3.7% increase in retiree membership and a 5.0% increase in average monthly benefit.

The number of active members increased by 4.5% from 8,547 to 8,928. The average annual pay increased by 4.0% from \$49,191 to \$51,157.

Actuarial Assumptions:

Assumption Change:

One technical change was made between the 2006 and 2007 valuations. Earlier valuations amortized the UAAL amount as if the contribution rate changes were effective on the valuation date. In practice, any contribution rate changes as determined by the valuation will not be effective until July 1, 2008. Therefore, in computing the contribution rates, this six-month delay is recognized in the mathematical computations. This assumption change was approved by the Board on September 26, 2007.

Benefits:

Effective October 27, 2007, the County of Kern adopted CERL 31676.01 (1.62% at 65) for general members hired with the County of Kern and one participating agency, North of the River Sanitation District.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
OTHER SUPPLEMENTAL INFORMATION

**Schedule of Administrative Expenses
For the Years Ended June 30, 2008 and 2007**

	2008	2007
<i>Personnel Services:</i>		
Salaries & Wages	\$ 1,077,725	\$ 922,088
Employee Benefits	<u>685,529</u>	<u>537,543</u>
Total Personnel Services	<u>1,763,254</u>	<u>1,459,631</u>
<i>Professional Services:</i>		
Legal Counsel	314,506	402,303
Audit	62,378	51,094
Medical/Hearing Officers	110,572	94,150
Other Professional Services	<u>268,049</u>	<u>299,240</u>
Total Professional Services	<u>755,505</u>	<u>846,787</u>
<i>Communication:</i>		
Postage	28,107	32,353
Printing	5,182	3,166
Telephone	12,661	11,650
Education & Professional Development	73,451	63,206
Marketing & Promotions	<u>25,772</u>	<u>22,826</u>
Total Communication	<u>145,173</u>	<u>133,201</u>
<i>Operating Expenses:</i>		
Information Technology	235,720	205,799
Equipment Leases	22,610	26,088
Building Lease	75,600	75,600
Office Expense	29,597	29,440
Insurance	74,620	70,916
Equipment Maintenance	14,507	6,182
Memberships	10,511	5,490
Special Departmental Expense	38,893	19,394
Other Services	24,957	7,415
Pension Disbursement Fees	100,000	100,000
Depreciation and Amortization	39,276	11,330
Utilities & Maintenance	<u>10,798</u>	<u>33,215</u>
Total Operating Expenses	<u>677,089</u>	<u>590,869</u>
Total Administrative Expenses	<u>\$ 3,341,021</u>	<u>\$ 3,030,488</u>

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
OTHER SUPPLEMENTAL INFORMATION (CONTINUED)

**Schedule of Investment Expenses
For the Years Ended June 30, 2008 and 2007**

	2008	2007
<i>Investment Manager Fees:</i>		
Equity		
Domestic	\$ 1,711,554	\$ 1,639,937
Non-U.S.	3,968,568	3,058,847
Fixed Income		
Global	1,729,682	1,613,498
Real Estate		
Securities (REITs)	654,108	606,573
Total Investment Manager Fees	<u>8,063,912</u>	<u>6,918,855</u>
<i>Other Investment Expenses:</i>		
Custodian	385,000	385,000
Actuarial Valuation	81,718	97,205
Investment Consultant	257,415	232,550
Legal Fees	21,435	28,820
Due Diligence	14,062	8,145
Policy Implementation Overlay Strategy	171,948	214,691
Total Other Investment Expenses	<u>931,578</u>	<u>966,411</u>
Total Fees and Other Investment Expenses	<u>8,995,490</u>	<u>7,885,266</u>
<i>Security Lending Rebates and Bank Fees</i>	<u>10,757,676</u>	<u>15,974,295</u>
Total Investment Expenses	<u><u>\$ 19,753,166</u></u>	<u><u>\$ 23,859,561</u></u>

See accompanying independent auditors' report.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
OTHER SUPPLEMENTAL INFORMATION (CONTINUED)

**Schedule of Payments to Consultants
For the Years Ended June 30, 2008 and 2007**

Individual or Firm	Nature of Service	Commission / Fee	
		2008	2007
American Realty Advisors	Office Space Planning	\$ 0	\$ 10,783
Brown Armstrong	External Auditors	62,378	51,094
Cortex Applied Research, Inc.	Policy Consultants	51,367	75,884
L. R. Wechsler Ltd.	Develop RFP for Pension Admin System	151,476	88,599
MAGwriter	Technical Writer	525	58,352
Milliman, Inc.	Actuarial Services	25,340	36,578
Hanson Bridgett	Legal Counsel	22,011	34,520
Kern County Counsel	Legal Counsel	265,628	317,864
Kronick Moskovitz et al.	Legal Counsel	2,118	15,010
The Law Offices of Wasser	Legal Counsel	125	17,370
Young & Nichols	Legal Counsel	0	16,000
Other Specialized Services	-	<u>37,664</u>	<u>4,033</u>
Total Payments to Consultants		<u>\$ 618,632</u>	<u>\$ 726,087</u>

(A Schedule of Investment Fees is presented on pages 58 and 59 in the Investment Section.)

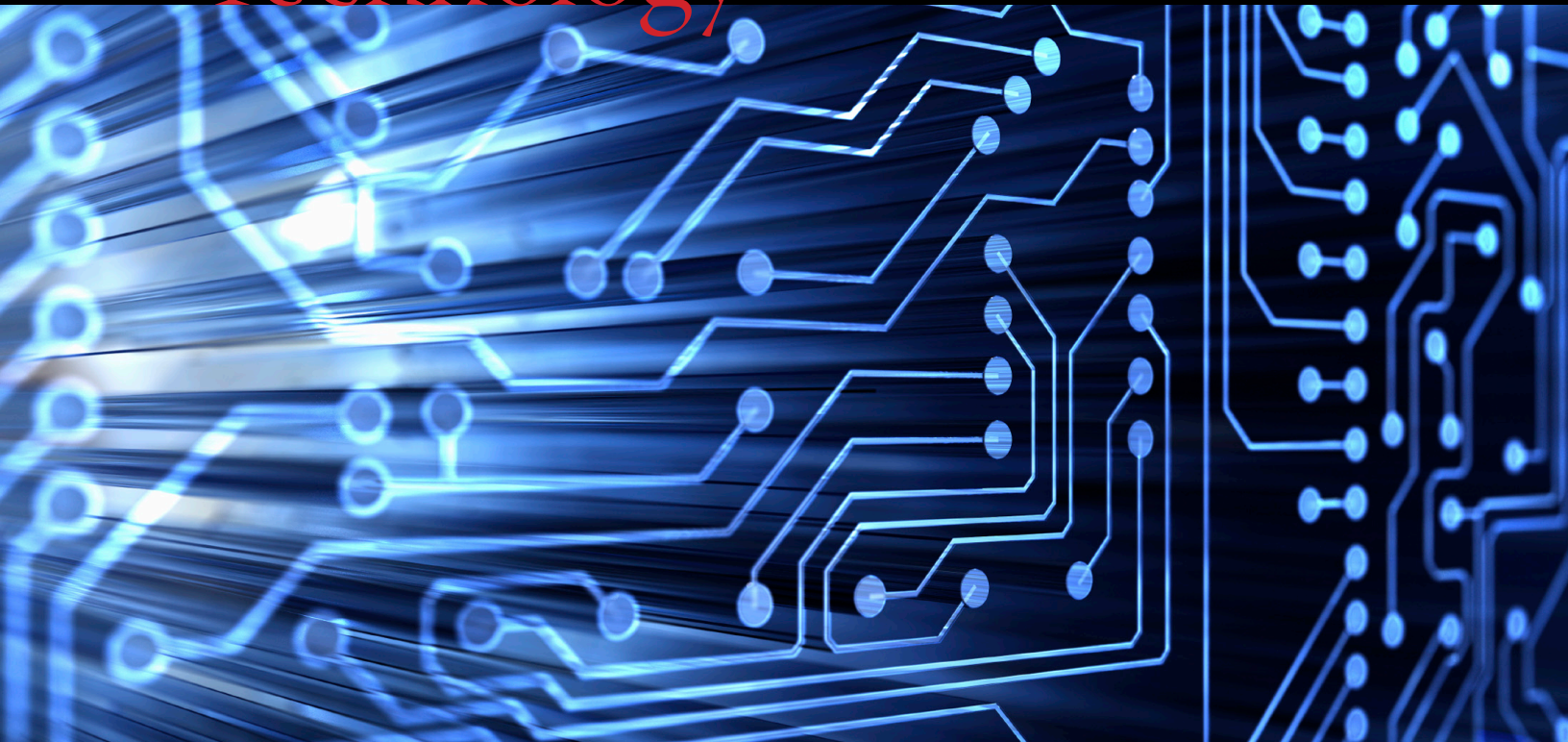
See accompanying independent auditors' report.



*Technology is no stranger to Kern.
Industries such as aerospace, energy,
railway and healthcare have long
benefited from the local innovations
developed to meet new challenges.*



Technology



Section III *Investment*

October 7, 2008

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



Dear Ms. Holdren:

I am pleased to provide you with our report on the Kern County Employees' Retirement Association ("KCERA") for the fiscal year period ending June 30, 2008. Wilshire independently calculated the Fund's fiscal year performance results using the individual portfolio market valuations and transactions provided by the Fund's custodian bank, the Northern Trust Company. These performance calculations were prepared in compliance with the Global Investment Performance Standards® ("GIPS®") published by the CFA Institute. For the fiscal year ended June 30, 2008, the KCERA's retirement fund had an investment loss of -6.50% and ended the year with total assets of \$2.702 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 May 2008.

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 is still underway. 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, 2008.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Actual Allocation</u>
Domestic Equities	25%	28.4%
International Equities	25%	25.0%
Private Equities	6%	5.4%
Fixed Income	28%	29.9%
Real Return	10%	6.4%
Absolute Return	6%	3.0%
Cash	0%	1.8%

The total fund failed to meet the actuarial discount rate used to value the System's liabilities due to the negative impacts from the de-leveraging and subprime market impacts. Some highlights follow:



- The KCERA's total fund returned -6.50% for the fiscal year, versus the policy return of -3.83%. Underperformance versus policy was largely due to poor relative manager performance in all the public market asset classes, as well as the overweight to both Domestic and International equities at the expense of Real Estate and Absolute Return. The KCERA's median peer in our database returned -4.68%.
- The KCERA's Domestic Equity composite returned -12.97% versus a return of -12.53% for the Dow Jones Wilshire 5000. Performance lagged modestly due to the relative results of two quantitative managers as quantitative strategies were heavily impacted by the de-leveraging activity which began during July and August of 2007. This impact is expected to be short term and we expect these managers to perform better when the markets are not so technically driven by negative sentiment and fear and when fundamentals return as the market focus. The median Equity return for KCERA's peers was -12.45%.
- The KCERA's Core Fixed Income composite returned -0.27% versus 7.13% for the Lehman Aggregate Bond Index. Both core plus portfolios underperformed chiefly due to higher than market credit exposures and the performance of their respective structured securities, which were negatively impacted by the subprime crisis even though the KCERA holdings were high quality issues. The median Fixed Income return for KCERA's peers was 5.92%, which shows that plan sponsors, as a group, struggled in their respective fixed income portfolios.
- The KCERA's High Yield Bond composite returned -1.29% versus -0.74% for the Custom Policy Index. Both managers underperformed their respective benchmarks for various reasons as it was a difficult market environment given the spillover effects from the subprime crisis.
- The KCERA's International Equity composite rose -10.05% while the MSCI All-Country World excluding-USA (ACWI x-US) Index returned -6.20%. Underperformance by two of the three managers coupled with an underweighting to Emerging Markets were behind these relative results. The median client's International Equities portfolio in our database returned -7.92%, indicating that KCERA's peers also had difficulty adding value in this asset class during the fiscal year period.
- In the alternatives asset classes, the KCERA had mixed results. The Private Equities since inception composite IRR was 7.85% and the Absolute Return composite was 0.38%, both of which provided positive returns and good diversification benefits in mostly negative capital markets during the fiscal year. However, the KCERA Real Estate composite returned -13.82% due largely to the poor relative since inception IRR performance of the newest private real estate portfolio.

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,

A handwritten signature in cursive script that reads "Eileen L. Neill".

Eileen L. Neill, CFA
Managing Director

OUTLINE OF INVESTMENT POLICIES **Adopted by the Board of Retirement May 21, 2008**

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.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

ASSET ALLOCATION

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

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

The target asset allocation and the actual asset allocation at June 30, 2008 are as follows:

	<u>Actual*</u>	<u>Target</u>	<u>Target Ranges</u>	
			<u>Minimum</u>	<u>Maximum</u>
Domestic Equities	28.4%	25.0%	21.0%	29.0%
International Equities	25.1%	25.0%	21.0%	29.0%
Fixed Income	29.9%	28.0%	24.0%	32.0%
Real Return Assets	6.4%	10.0%	7.0%	13.0%
Global Private Equities	5.4%	6.0%	4.0%	8.0%
Absolute Return	3.0%	6.0%	4.0%	8.0%
Cash / Other	1.8%	0.0%	0.0%	3.0%
Totals	100.0%	100.0%		

The June 30, 2008 asset allocation is based upon Wilshire Associates's June 30, 2008 Kern County Employees' Retirement Association Investment Performance Analysis.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

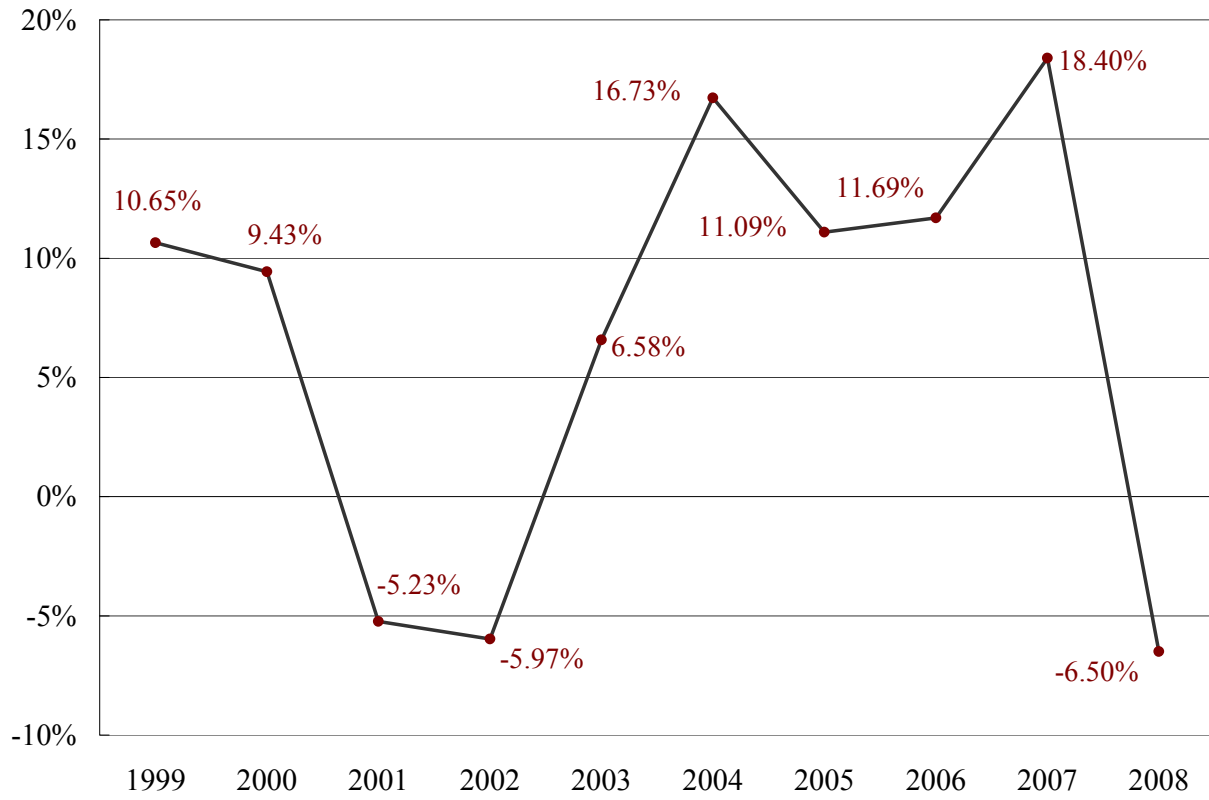
**Investment Summary
For the Year Ended June 30, 2008**

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
<i>Domestic Equities</i>		
Large Cap Index Fund	\$ 155,297	5.75%
Large Cap Enhanced Strategies	413,062	15.28%
Small Cap Core Securities	200,184	7.41%
Total Domestic Equities	768,543	28.44%
<i>International Equities</i>		
Active EAFE Securities	497,669	18.42%
International Small Cap Core	92,874	3.44%
Emerging Markets Growth Fund	88,452	3.27%
Total International Equities	678,995	25.13%
<i>Fixed Income</i>		
Core Plus Global Fixed Income	632,966	23.42%
High Yield Bonds	174,777	6.47%
Total Fixed Income	807,743	29.89%
<i>Real Return Assets</i>		
Public / Private Real Estate Investments	53,475	1.98%
Securities (REITs) - Domestic	97,548	3.61%
Securities (REITs) - Global	22,827	0.84%
Total Real Return Assets	173,850	6.43%
<i>Alternative Investments</i>		
Private Equities	143,851	5.32%
Hedge Funds	80,844	2.99%
Total Alternative Investments	224,695	8.31%
<i>Cash & Cash Equivalents</i>	10,777	0.40%
<i>Policy Implementation Overlay Strategy</i>	37,848	1.40%
Total Investments	\$ 2,702,451	

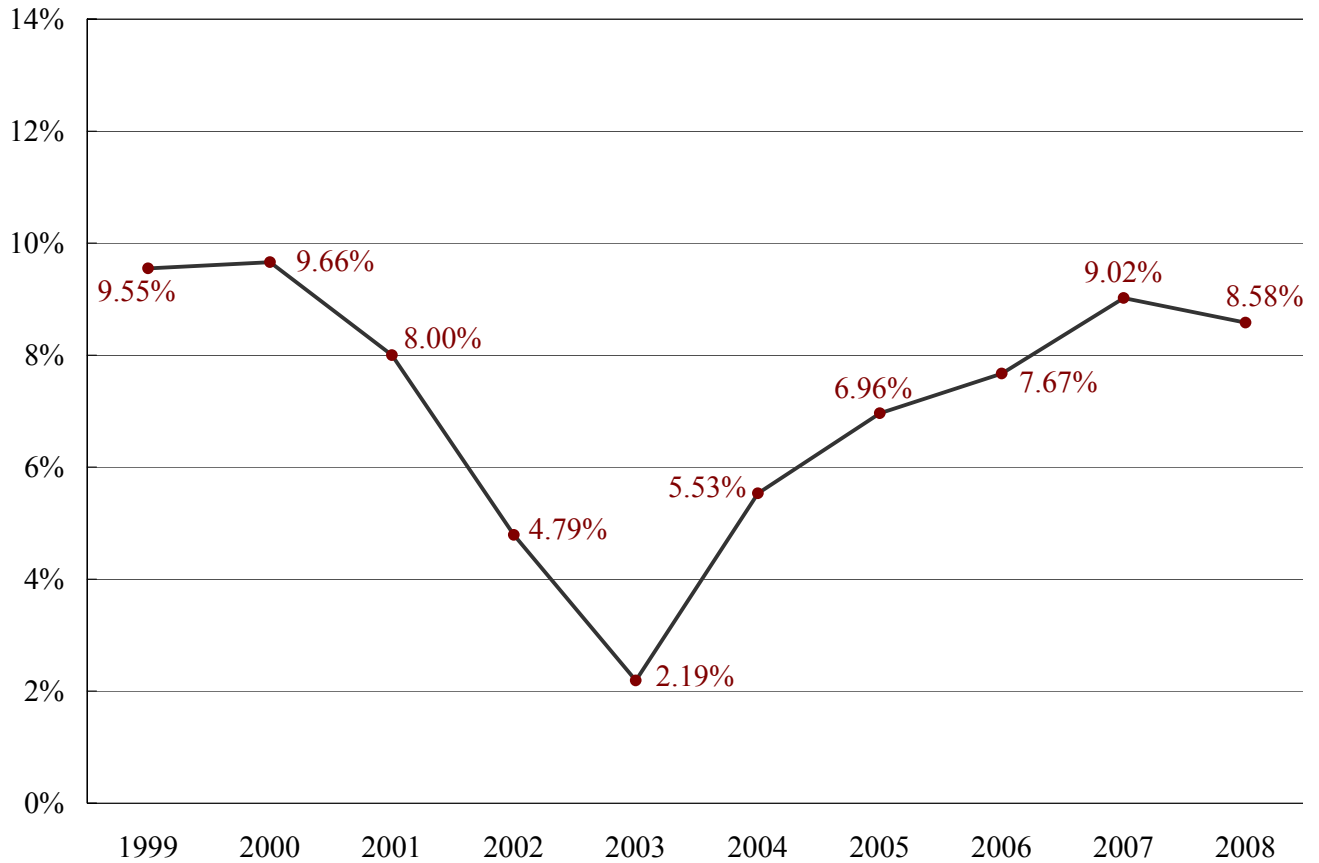
The June 30, 2008 investment summary is based upon Wilshire Associates' June 30, 2008 Kern County Employees' Retirement Association Investment Performance Analysis.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Investment Results
Returns for Periods Ended June 30

	Current Year	Annualized		
		3-year	5-year	10-year
Total Portfolio:	-6.50	7.33	9.98	6.35
Benchmark: Composite Policy*	-3.83	7.82	9.96	6.06
TUCS Master Trust Median	-4.68	6.51	8.67	5.78
U.S. Equity:	-12.97	4.65	8.32	3.77
Benchmark: DJ Wilshire 5000 Index	-12.53	5.02	8.73	3.59
TUCS Equity Median	-12.45	4.95	9.42	5.28
Non-U.S. Equity:	-10.05	14.41	17.68	7.71
Benchmark: MSCI ACWI Fr x-US (G)	-6.20	16.16	19.42	7.73
TUCS International Equity Median	-7.92	14.31	17.96	9.23
Fixed Income:	-0.45	2.66	3.96	5.63
Benchmark: 75% Lehman Aggregate / 25% High Yield Custom Index**	5.94	4.19	3.91	5.71
TUCS Fixed Income Median	5.92	4.23	4.07	5.84
Real Estate:	-13.82	6.58	14.86	11.37
Benchmark: 50% DJ Wilshire Real Estate Securities Index / 50% NCREIF	-3.46	10.12	15.17	11.70
Global Private Equities:	12.29	13.02	N/A	N/A
Benchmark: DJ Wilshire 5000 + 5%	-7.53	10.02	N/A	N/A
Cash & Cash Equivalents:	5.46	5.01	4.13	4.55
Benchmark: 91-Day T-Bill	3.63	4.26	3.17	3.60

* Kern County Composite Policy: 31% DJ Wilshire 5000 Index
25% MSCI ACWI x-U.S. Index
22% Lehman Aggregate Bond Index
10% 50% DJW RESI / 50% NCREIF Index
6% 50% ML HY Master II / 25% Lehman HY B 2% / 25% Lehman HY BB 2%
6% 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).

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Investment Professionals
As of June 30, 2008**

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

Pyramis Global Advisors Trust Co.
Boston, MA

GLOBAL FIXED INCOME

Goldman, Sachs & Co.
New York, NY

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

CONSULTANTS

Wilshire Associates, Inc.
Santa Monica, CA

American Realty Advisors
Santa Monica, CA

ACTUARY

Milliman, Inc.
Seattle, WA

CUSTODIAN

The Northern Trust Company
Chicago, IL

**POLICY IMPLEMENTATION
OVERLAY STRATEGY**

The Clifton Group
Minneapolis, MN

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Largest Stock Direct Holdings (By Market Value)
As of June 30, 2008**

Shares	Stocks	Market Value
94,760	Total	\$ 8,092,012
136,900	Royal Dutch Shell	5,637,131
358,800	HSBC Holdings	5,563,219
132,244	ENI	4,938,062
101,820	Nestle	4,614,187
1,493,377	Vodafone Group	4,432,804
21,590	E.ON AG	4,359,166
95,410	BHP Billiton Ltd	4,001,181
20,060	Roche Holdings	3,623,640
461,464	Tesco	3,391,587

**Largest Bond Direct Holdings (By Market Value)
As of June 30, 2008**

Par	Bonds	Market Value
43,400,000	FNMA Single Family Mortgage 5% 30 Yrs July	\$ 41,596,209
25,300,000	FNMA Single Family Mortgage 5% 30 Yrs August	24,193,125
18,900,000	FNMA 30 Yr Pass-Throughs 5.5% 30 Yrs August	18,581,063
15,500,000	FNMA 30 Yr Pass-Throughs 5.5% 30 Yrs July	15,277,188
10,000,000	FNMA Note 4.15% due 9/10/2009	10,140,600
7,200,000	U.S. Treasury Bonds 6.625% due 02/15/2027	9,024,754
8,298,261	FNMA Pool 7% due 04/01/2037	8,707,365
6,690,000	U.S. Treasury Bonds Inflation Indexed 2.0% due 01/15/2026	7,169,952
7,000,001	FNMA Pool 5.5% due 12/01/2037	6,908,686
6,400,000	European Investment Bank 4.25% due 07/15/2013	6,493,792

A complete list of portfolio holdings is available upon request.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Assets Under Management and Schedule of Investment Fees
For the Years Ended June 30, 2008 and 2007**

	2008	2007
Assets Under Management		
U.S. Equity Managers	\$ 864,318,110	\$ 1,068,136,672
Non-U.S. Equity Managers	687,198,369	753,151,429
Global Fixed Income Managers	863,926,720	794,588,796
Real Estate Managers	53,474,171	36,466,586
Alternative Investments	235,395,053	178,410,319
Total Assets Under Management	\$ 2,704,312,423	\$ 2,830,753,802

	2008	2007
Schedule of Investment Fees		
<i>Investment Managers' Fees</i>		
U.S. Equity Managers:		
AXA Rosenberg Investment Management	\$ 875,628	\$ 287,642
Barclays Global Investors, N.A.	206,259	649,334
State Street Global Advisors	288,612	444,833
Westridge Capital Management, Inc.	341,055	258,128
Total U.S. Equity Managers	<u>1,711,554</u>	<u>1,639,937</u>
Non-U.S. Equity Managers:		
Barclays Global Investors, N.A.	2,849,005	1,982,917
JP Morgan Investment Management	1,119,563	1,075,930
Total Non-U.S. Equity Managers	<u>3,968,568</u>	<u>3,058,847</u>
High Yield Managers:		
Goldman Sachs Asset Management	496,346	406,019
Western Asset Management	176,560	142,883
Total High Yield Managers	<u>672,906</u>	<u>548,902</u>
Global Fixed Income Managers:		
Goldman Sachs Asset Management	423,292	484,111
Western Asset Management	633,484	580,485
Total Global Fixed Income Managers	<u>1,056,776</u>	<u>1,064,596</u>
Real Return Assets Managers:		
LaSalle Securities - Domestic	490,183	606,573
LaSalle Securities - Global	163,925	0
Total Real Return Assets Managers	<u>654,108</u>	<u>606,573</u>
Total Investment Managers' Fees	\$ 8,063,912	\$ 6,918,855

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Investment Fees (continued)

	2008	2007
<i>Custodial Fees</i>		
The Northern Trust Company	\$ 385,000	\$ 385,000
<i>Policy Implementation Overlay Strategy</i>		
The Clifton Group	171,948	214,691
<i>Actuarial Fees</i>		
Milliman, Inc.	81,718	97,205
<i>Investment Consultant Fees</i>		
American Realty Advisors	21,940	0
Glass, Lewis & Co.	35,475	32,550
Wilshire Associates, Inc.	200,000	200,000
<i>Legal Fees</i>		
Hanson Bridgett	0	2,301
Kern County Counsel	17,254	21,652
Notary Public	700	0
Paul Hastings Janofsky Walker LLP	0	4,732
Steeffel, Levitt & Weiss	3,481	135
<i>Due Diligence</i>		
Trustees / KCERA Management	14,062	8,145
<i>Security Lending Fees</i>		
The Northern Trust Company	<u>10,757,676</u>	<u>15,974,295</u>
Total Investment Fees	<u>\$ 19,753,166</u>	<u>\$ 23,859,561</u>



From the migrant farmers of the Dust Bowl era to the oil field workers of present day, industry remains the backbone of Kern County. Hard work, ingenuity and perseverance are not mere words here; they are ways of life.



Industry



Section IV *Actuarial*





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Suite 3800
Seattle, WA 98101-2605
USA

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Fax +1 206 623 3485

milliman.com



June 27, 2008

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, 2007 annual actuarial valuation for the Kern County Employees Retirement Association. It is anticipated that future actuarial valuations will be performed every year as of June 30, beginning with the next valuation as of June 30, 2008.

Contribution Rates

The financing objective of KCERA is to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a closed 28-year period as of December 31, 2007, while maintaining contribution rates that will tend to remain level as percentages of payroll. As of December 31, 2007 there is a UAAL of \$765.9 million.

Due primarily to experience gains and increased member contributions, as well as the addition of a new benefit tier for new General members, the Total Plan calculated contribution rate decreased from 32.26% of pay based on the December 31, 2006 valuation to 31.22% of pay based on the December 31, 2007 valuation. The application of the COLA Contribution Reserve (CCR) credit reduces the Total Plan contribution rate to 25.88%.

Funding Status

Based on the December 31, 2007 actuarial valuation, the Funded Ratio increased during the past year from 75.7% to 77.2% due to experience (0.3% increase) and UAAL amortization (1.2% increase). The Funded Ratio 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, 2007 actuarial valuation, the Funded Ratio for all SRBR benefits increased during the past year from 81.6% to 110.7% due primarily to a large asset gain due to a transfer from excess earnings and inflation lower than expected (0.8% increase). The Funded Ratio is the ratio of the actuarial value of the SRBR 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. Our December 31, 2007 actuarial valuation report presented summaries of the actuarial assumptions and methods used in the valuation. The next investigation of experience is scheduled to be performed as of June 30, 2008.

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, 2007 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.

Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements (such as the end of an amortization period or additional cost or contribution requirements based on the plan's funded status); and changes in plan provisions or applicable law.

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 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, FSA, EA, MAAA
Consulting Actuary
KIS/DRW/nlo
Enclosure



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

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 the projected 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 28 years, beginning December 31, 2007. 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 1.00% for females. Safety disability rates are the same as General, except they are set forward two years.

Proportion of Members with Spouse or Partner 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 three 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, 2007.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Assumed Rate of Salary Increase
As of December 31, 2007**

Table 1

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%

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

Tier I Tier II

20	10	0	2	0	0	3	0	2,000
30	12	0	3	0	0	4	10	240
40	30	0	7	0	0	10	20	132
50	60	0	19	600	300	29	30 & above	100
60	66	0	22	2,500	1,500	32	30 & above	0
70	0	0	0	10,000	10,000	0	30 & above	0

General Members - Female

Tier I Tier II

20	3	0	2	0	0	3	0	2,000
30	4	0	3	0	0	4	10	240
40	10	0	7	0	0	10	20	132
50	24	0	19	600	300	29	30 & above	100
60	56	0	22	2,200	1,200	32	30 & above	0
70	0	0	0	10,000	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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/01	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%
12/31/07	General	7,127	\$ 345,308,360	\$ 48,451	3.9%
	Safety	1,801	111,418,703	61,865	3.9%
	Total	8,928	456,727,063	51,157	4.0%

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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 *
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
2007	5,355	374	177	5,552	13,845,079	2,524,520	139,133,420	8.9%	25,060

* Excludes SRBR amounts

Solvency Test

Valuation Date	Aggregate Accrued Liabilities				Portion of Accrued Liabilities Covered by Reported Assets			
	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/Vested Members	Active Members (Employer Financed Portion)
12/31/02	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%
12/31/07	215,281,539	1,773,556,434	1,366,916,822	3,355,754,795	2,589,817,297	100%	100%	44%

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Actuarial Analysis of Financial Experience
(Rounded to nearest thousand)**

	Gain (or Loss) for Year		
	2007	2006	2005
Investment Performance Greater (Less) than Expected	\$ 34,700,000	\$ 3,900,000	\$ (1,700,000)
New Entrants into System (Greater) Less than Expected	(5,700,000)	(7,400,000)	(5,800,000)
Individual Salary Increases (Greater) Less than Expected	(33,400,000)	(16,800,000)	24,200,000
Demographic Changes Greater (Less) than Expected	7,700,000	(12,200,000)	(127,800,000)
Change in Benefits	-	-	(163,800,000)
Change in Assumptions/Methodology	-	(13,600,000)	(84,600,000)
Composite Gain (or Loss) During Year	\$ 3,300,000	\$ (46,100,000)	\$ (359,500,000)

Summary of Major Plan Provisions

Benefit Sections 31676.01, 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 final compensation for General Tier I members, an average annuity at age 60 of 0.833% of final compensation for General Tier II members, and an average annuity 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 resigns, 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 Tier I is 3.0% of final compensation for each year of service at age 60, multiplied by Government Code Section 31676.17 factors. Benefit Tier II is 1.62% of final compensation for each year of service at age 65, multiplied by Government Code Section 31676.01 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, multiplied by Government Code Section 31664.1 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, registered domestic partner 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, registered domestic partner 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, registered domestic partner 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, registered domestic partner 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.
- 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.

Perhaps the defining characteristic of Kern County is its abundant, fertile land. Cultivated for generations, our rich soil produces more than 250 different crops for U.S. and international consumers. Kern County might well be called the Bread Basket of California.



Agriculture



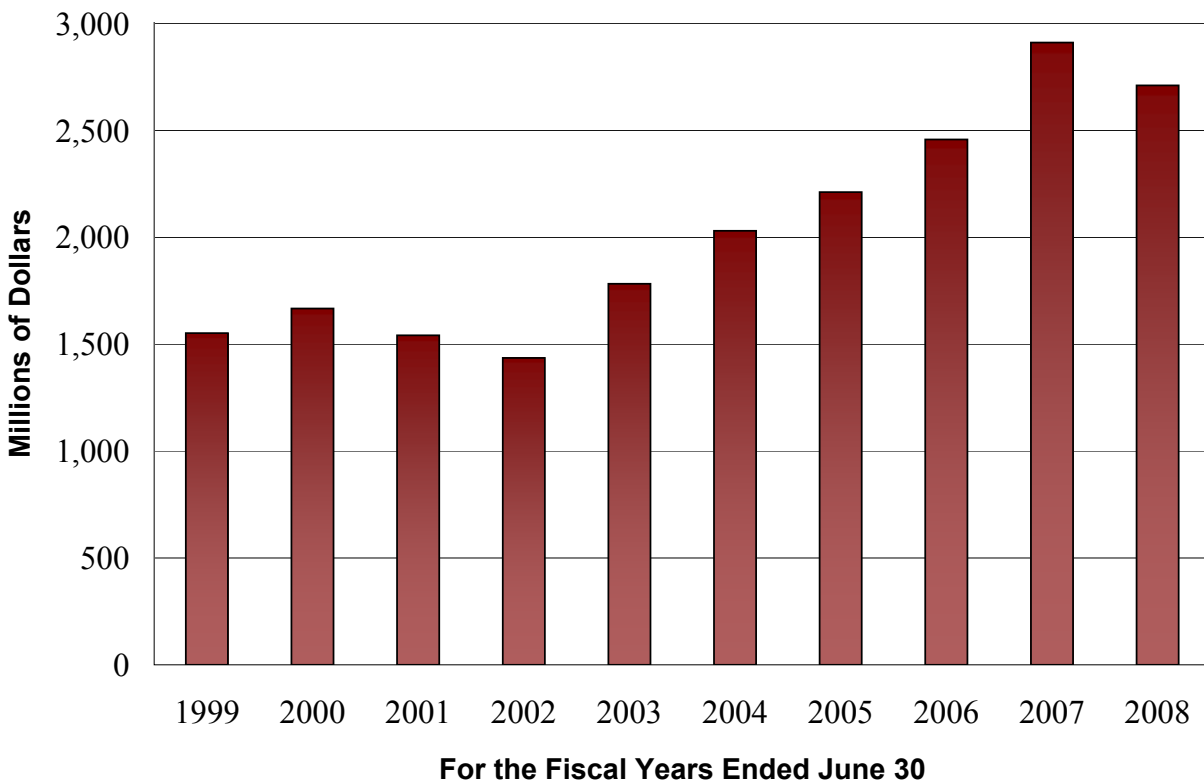
Section V *Statistical*



Statistical Section Overview

This section provides additional historical perspective and detail to proffer a more comprehensive understanding of this year's financial statements, note disclosures and supplementary information that cover the Plan. This section also provides a 10-year trend of financial and operating information to facilitate a thorough understanding of how KCERA's financial position and performance have changed over time. More specifically, the financial and operating information provides contextual data for KCERA's changes in net assets, benefit expenses, retirement types, benefit payments and membership data. The financial and operating trend information is located on the following pages.

KCERA Net Asset Value



KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Schedule of Changes in Plan Net Assets
Last 10 Fiscal Years**

	1999	2000	2001	2002	2003
Additions					
Employer Contributions	\$ 40,159,103	\$ 37,575,583	\$ 41,067,487	\$ 41,881,569	\$ 343,338,853*
Member Contributions	5,446,223	6,145,942	9,173,557	11,287,597	12,748,788
Net Investment Income	161,883,259	140,569,826	(99,791,394)	(76,247,977)	87,935,189
Total Additions	\$ 207,488,585	\$ 184,291,351	\$ (49,550,350)	\$ (23,078,811)	\$ 444,022,830
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	\$ 64,301,967	\$ 67,624,699	\$ 73,120,070	\$ 80,613,013	\$ 94,302,059
Administrative Expenses	1,392,610	1,601,849	1,903,426	2,167,965	2,166,624
Miscellaneous	323,400	5,677	89,427	48,290	780,444
Total Deductions	\$ 66,017,977	\$ 69,232,225	\$ 75,112,923	\$ 82,829,268	\$ 97,249,127
Change in Plan Net Assets	\$ 141,470,608	\$ 115,059,126	\$ (124,663,273)	\$ (105,908,079)	\$ 346,773,703

	2004	2005	2006	2007	2008
Additions					
Employer Contributions	\$ 48,759,946	\$ 60,268,141	\$ 100,734,230	\$ 128,134,672	\$ 137,263,673
Member Contributions	10,450,868	10,350,993	11,774,784	12,633,790	15,031,419
Net Investment Income	296,074,040	224,442,133	259,760,478	453,362,746	(201,562,477)
Total Additions	\$ 355,284,854	\$ 295,061,267	\$ 372,269,492	\$ 594,131,208	\$ (49,267,385)
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	\$ 104,960,374	\$ 111,006,082	\$ 123,765,490	\$ 137,078,303	\$ 148,560,718
Administrative Expenses	2,551,741	2,500,768	2,518,913	3,030,488	3,341,021
Miscellaneous	0	2,745	111	705	105
Total Deductions	\$ 107,512,115	\$ 113,509,595	\$ 126,284,514	\$ 140,109,496	\$ 151,901,844
Change in Plan Net Assets	\$ 247,772,739	\$ 181,551,672	\$ 245,984,978	\$ 454,021,712	\$ (201,169,229)

*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.

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Schedule of Benefit Expenses by Type
For Fiscal Years 2008-2004
(in thousands)**

	2008	2007	2006	2005	2004
<i>Service Retirement Benefits</i>					
General	\$ 71,725	\$ 65,324	\$ 58,529	\$ 50,436	\$ 44,539
Safety	39,650	37,075	33,334	29,594	26,029
Total	111,375	102,399	91,863	80,030	70,568
<i>Disability Benefits</i>					
General	7,547	7,209	6,846	6,295	6,381
Safety	12,515	11,609	10,771	10,051	9,035
Total	20,062	18,818	17,617	16,346	15,416
<i>Beneficiary Benefits</i>					
General	7,962	7,452	6,991	6,671	6,109
Safety	6,297	5,575	5,109	4,904	4,386
Total	14,259	13,027	12,100	11,575	10,495
<i>Retroactive Payments</i>					
General	0	0	2	347	2,730
Safety	0	0	0	517	3,454
Total	0	0	2	864	6,184
<i>Lump Sum Death Benefits</i>					
	490	320	244	259	382
Total Benefit Payments	146,186	134,564	121,826	109,074	103,045
<i>Refunds</i>					
General	2,084	2,206	1,770	1,794	1,834
Safety	290	308	169	138	81
Total	2,374	2,514	1,939	1,932	1,915
Total Benefit Expenses	\$ 148,560	\$ 137,078	\$ 123,765	\$ 111,006	\$ 104,960

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Benefit Expenses by Type (continued)
For Fiscal Years 2003-1999
(in thousands)

	2003	2002	2001	2000	1999
<i>Service Retirement Benefits</i>					
General	\$ 41,497	\$ 38,542	\$ 36,675	\$ 34,123	\$ 32,826
Safety	22,616	18,436	14,614	13,168	12,297
Total	64,113	56,978	51,289	47,291	45,123
<i>Disability Benefits</i>					
General	5,684	5,482	5,136	4,928	4,600
Safety	8,187	7,508	6,932	6,249	5,906
Total	13,871	12,990	12,068	11,177	10,506
<i>Beneficiary Benefits</i>					
General	5,724	5,394	5,151	4,832	4,598
Safety	3,901	3,630	3,224	3,027	2,857
Total	9,625	9,024	8,375	7,859	7,455
<i>Retroactive Payments</i>					
General	2,097	0	0	0	0
Safety	2,775	0	0	0	0
Total	4,872	0	0	0	0
<i>Lump Sum Death Benefits</i>					
	220	185	165	155	175
Total Benefit Payments	92,701	79,177	71,897	66,482	63,259
<i>Refunds</i>					
General	1,503	1,326	1,121	1,030	934
Safety	98	110	102	112	109
Total	1,601	1,436	1,223	1,142	1,043
Total Benefit Expenses	\$ 94,302	\$ 80,613	\$ 73,120	\$ 67,624	\$ 64,302

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

**Schedule of Retired Members by Type of Benefit
As of June 30, 2008**

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
\$1-500	453	106	2	0	194	84	22	0	22	23
501-1,000	933	383	62	17	225	129	40	5	45	27
1,001-1,500	881	419	75	118	119	76	20	1	34	19
1,501-2,000	703	361	28	155	49	57	11	3	28	11
2,001-3,000	1,127	586	14	311	42	97	5	19	41	12
3,001-4,000	586	385	8	118	24	26	1	2	17	5
4,001-5,000	332	249	6	55	11	7	0	1	2	1
5,001-6,000	211	202	1	3	1	2	0	0	2	0
Over 6,000	408	398	3	1	3	3	0	0	0	0
Totals	5,634	3,089	199	778	668	481	99	31	191	98

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
\$1-500	453	10	6	0	0	190	246	1
501-1,000	933	4	22	1	0	345	552	9
1,001-1,500	881	9	24	3	0	339	434	72
1,501-2,000	703	4	15	1	0	265	325	93
2,001-3,000	1,127	14	30	3	1	391	461	227
3,001-4,000	586	2	20	1	0	270	186	107
4,001-5,000	332	1	10	0	0	190	77	54
5,001-6,000	211	1	6	0	1	161	39	3
Over 6,000	408	2	12	2	0	343	47	2
Totals	5,634	47	145	11	2	2,494	2,367	568

- 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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Schedule of Average Benefit Payment Amounts

	Number of Years Since Retirement							
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35
<i>Valuation date 12/31/98</i>								
Average Monthly Benefit:								
General	1,264	1,120	872	654	484	399	254	171
Safety	2,135	2,175	1,821	1,595	1,112	880	577	0
Number of Active Retirants:								
General	956	683	569	465	325	154	34	3
Safety	271	152	137	101	82	54	4	0
<i>Valuation date 12/31/99</i>								
Average Monthly Benefit:								
General	1,346	1,327	958	744	498	413	292	146
Safety	2,580	2,480	2,039	1,666	1,126	888	729	0
Number of Active Retirants:								
General	803	658	535	521	429	259	81	11
Safety	208	159	163	112	120	85	15	0
<i>Valuation date 12/31/00</i>								
Average Monthly Benefit:								
General	1,341	1,393	1,048	794	534	398	292	213
Safety	2,441	2,480	2,007	1,743	1,196	953	686	1,476
Number of Active Retirants:								
General	840	700	507	540	437	264	86	11
Safety	191	222	163	125	120	84	30	1
<i>Valuation date 12/31/01</i>								
Average Monthly Benefit:								
General	1,375	1,469	1,126	837	582	409	364	311
Safety	3,290	2,739	2,363	2,054	1,376	1,020	792	0
Number of Active Retirants:								
General	833	745	506	514	448	282	94	19
Safety	226	188	151	124	110	101	37	0
<i>Valuation date 12/31/02</i>								
Average Monthly Benefit:								
General	1,516	1,517	1,184	911	624	451	394	357
Safety	3,946	2,763	2,556	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

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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
<i>Valuation date 12/31/03</i>								
Average Monthly Benefit:								
General	1,645	1,505	1,358	973	714	487	398	315
Safety	4,144	2,823	2,768	2,298	1,713	1,239	940	916
Number of Active Retirants:								
General	792	814	570	515	425	302	127	31
Safety	318	213	140	135	101	103	69	2
<i>Valuation date 12/31/04</i>								
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
<i>Valuation date 12/31/05</i>								
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
<i>Valuation date 12/31/06</i>								
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
<i>Valuation date 12/31/07</i>								
Average Monthly Benefit:								
General	2,430	1,685	1,753	1,359	1,040	692	503	363
Safety	4,226	4,454	3,192	3,002	2,581	1,669	1,288	930
Number of Active Retirants:								
General	1,178	803	743	475	431	328	155	65
Safety	408	275	197	151	124	90	92	37

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

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

	1999*	2000	2001	2002	2003
<i>County of Kern:</i>					
General Members		5,272	5,624	6,130	6,006
Safety Members		1,527	1,620	1,630	1,609
Total		6,799	7,244	7,760	7,615
<i>Participating Agencies (General Membership):</i>					
Berrenda Mesa Water District		12	12	12	12
Buttonwillow Recreation and Park District		1	2	3	3
East Kern Cemetery District		2	2	2	1
Inyokern Community Services District		2	2	3	2
Kern County Water Agency		61	59	67	66
Kern Mosquito & Vector Control District		21	20	20	20
North of the River Sanitation District		9	9	9	7
San Joaquin Valley Unified Air Pollution Control District		175	198	219	237
Shafter Recreation and Park District		2	0	0	0
West Side Cemetery District		6	5	6	6
West Side Mosquito Abatement District		7	7	8	8
West Side Recreation and Park District		12	12	12	12
Total		310	328	361	374
<i>Total Active Membership:</i>					
General Members		5,582	5,952	6,491	6,380
Safety Members		1,527	1,620	1,630	1,609
Total		7,109	7,572	8,121	7,989

*Note: Information is not available for fiscal year 1999.
Data retrieved from the Plan's database.*

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Participating Employers and Active Members (continued)

As of June 30

Last 10 Fiscal Years

	2004	2005	2006	2007	2008
<i>County of Kern:</i>					
General Members	6,011	6,029	6,222	6,537	6,348
Safety Members	1,609	1,632	1,646	1,738	1,842
Total	7,620	7,661	7,868	8,275	8,190
<i>Participating Agencies</i>					
<i>(General Membership):</i>					
Berrenda Mesa Water District	12	14	14	12	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	70	68	67	72	89
Kern Mosquito & Vector Control District	18	19	19	19	19
North of the River Sanitation District	8	7	8	9	10
San Joaquin Valley Unified Air Pollution Control District	250	253	267	272	280
Shafter Recreation and Park District	1	0	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito Abatement District	8	8	8	8	9
West Side Recreation and Park District	11	10	11	11	11
Kern County Superior Court					473
Total	390	391	406	415	915
<i>Total Active Membership:</i>					
General Members	6,401	6,420	6,628	6,952	7,263
Safety Members	1,609	1,632	1,646	1,738	1,842
Total	8,010	8,052	8,274	8,690	9,105

Note: Beginning in fiscal year 2007-08, the Kern County Superior Court was reported separately from the general membership of the County of Kern. Going forward, KCERA will identify the Superior Court as a Participating Agency.

Kern County Employees' Retirement Association

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