Comprehensive Annual Financial Report

For the Fiscal Years Ended June 30, 2009 and 2008

Issued by:

Anne M. Holdren
Executive Director

Sheryl Lawrence
Financial Officer

prudent investment + quality service

Kern County Employees' Retirement Association

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

Table of Contents

Table of Contents *(continued)*

Section I

Introductory

With a foundation of strength to rely on,
the KCERA Board continues to navigate
the broad, global investment world
with diligence and prudence.

prudent investment + quality service

October 19, 2009

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, 2009 and 2008. 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, 2009, the KCERA paid retirements to 5,919 members and continued supplemental benefits to 982 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA System added 348 service retirees, 4 nonservice-connected disability retirees, 13 service-connected disability retirees, 7 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, 2009, 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 Member
In January 2009, John Mainland was appointed by the Board of Supervisors to the vacant Fifth Member seat on the KCERA Board. Mr. Mainland is a retiree from the engineering industry and currently serves as foreman of the Kern County Grand Jury. He sits as a member on the Board's Budget and Human Resources Committees and as an alternate member on the Board's Investment Committee. His term expires December 31, 2010.

KCERA Building Project
On the advice of real estate consultant American Realty Advisors, KCERA's property management corporation, KPI, Inc., has purchased a 1.25-acre lot at the Riverwalk Corporate Center in Southwest Bakersfield, where a 14,300-square-foot facility will be built to accommodate KCERA operations and Board meetings. Architectural firm Taylor Teter Partnership and general contractor Wallace & Smith have been hired to develop building plans and oversee construction. KCERA's new building is tentatively scheduled for completion in 2011.

Pension Administration System
CPAS Systems Inc. was selected in 2008 as KCERA's new pension administration system provider. With the help of its oversight project manager, Linea Solutions, Inc., KCERA staff has met regularly with the CPAS and Linea project teams to hone system requirements, clarify responsibilities, automate processes and bring greater efficiency to KCERA operations. KCERA anticipates system implementation to conclude in early 2011.

Disability Process Overhaul
In the spring of 2009, KCERA overhauled its disability application process to create a more streamlined workflow that better serves its members and decreases the workload of disability staff. As a result of the changes, the Board's Disability Application Committee was disbanded, new procedures were adopted involving a greater role for hearing officers, and a new disability application handbook was created. The processing time for new applications is expected to decrease by several months.

Beneficiary Update Project
Anticipating the eventual conversion of its paper documents into electronic format, KCERA began the process of digitizing the contact information of all its retirees' beneficiaries. Phase 1 of the beneficiary update project began in the spring and involved the mailing of over 2,200 letters to pre-1995 retirees and beneficiaries, requesting updated contact information. Returned Beneficiary Designation forms were processed by staff and logged electronically. Phase 2 of the project, involving post-1995 retirees and beneficiaries, will be completed by the end of 2009.

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.

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 June 30, 2008, the funded ratio of the System was approximately 72.3% using actuarial assets and actuarial liabilities of $2,654,305,000 and $3,671,460,000, respectively. The funded percentage decreased 4.9% from 2007.

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 June 30, 2008, and certain changes to economic and non-economic assumptions were adopted by the Board. The assumed inflation rate was decreased from 3.50% to 3.25%; the assumed investment rate of return was decreased from 8.00% to 7.75%; retirement and termination assumptions were updated; assumed disability and reciprocity rates were reduced; probability of refund rates were increased; and mortality assumption rates were updated.

A detailed discussion of funding is provided in the Financial and Actuarial Sections of this report.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2009 and 2008 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, 2009 and 2008 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 2009, the investments of the Plan realized a loss of -21.87% (net of fees). The KCERA's annualized rate of return, net of fees, was -4.72% in the past three years, 1.42% in the past five years, and 2.72% 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, 2008. 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 the 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 KCERA for their confidence in KCERA and to 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 their continued commitment to the KCERA and their diligent work to ensure the successful administration of the System.

Respectfully submitted,

Anne M Holdren

Anne M. Holdren
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kern County

Employees' Retirement Association

California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2008

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

President

Executive Director

Members of the Board of Retirement

As of June 30, 2009

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

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

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

Jackie Denney
County Treasurer-Tax Collector
Ex-Officio Member

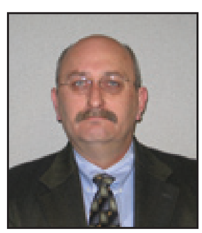
Jeff Frapwell
Elected by general members
Present term expires 12/31/2009

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

John Mainland
Appointed by Board of Supervisors
Present term expires 12/31/2010

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

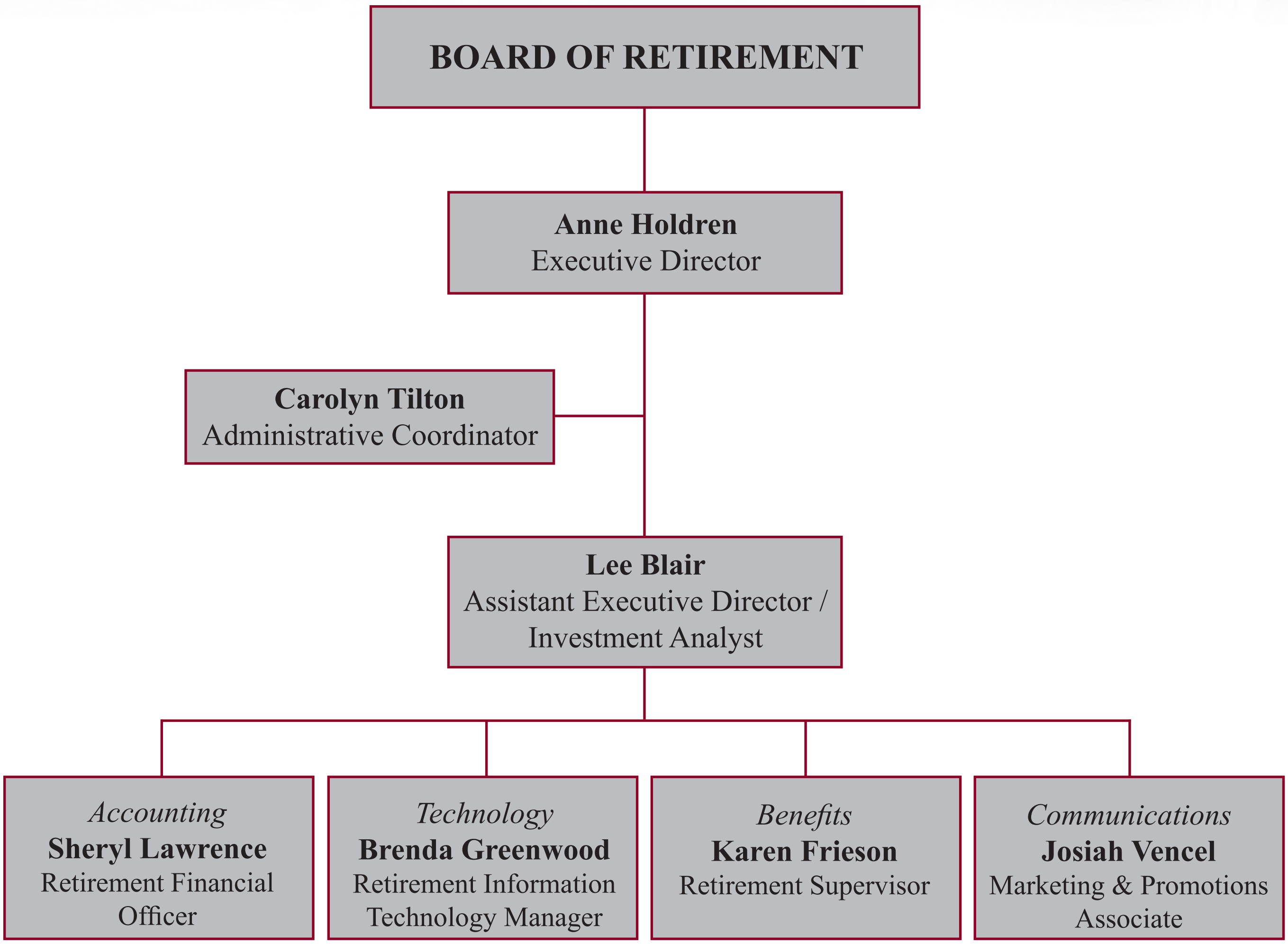


Bart Camps, Alternate
Elected by safety members
Present term expires 12/31/2009

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

Organizational Chart

As of June 30, 2009



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

List of Professional Consultants

As of June 30, 2009

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

K&L Gates, LLP
Boston, MA

Manatt Phelps Phillips
Los Angeles, CA

INVESTMENT CONSULTANTS
Wilshire Associates, Inc.
Santa Monica, CA

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

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

Linea Solutions Inc.
Los Angeles, CA

Section II

Financial

Grounded in a history of stability and trust,
the KCERA Board maintains its focus
on providing the promised benefit
to its retirees of today and tomorrow.

KCERA
prudent investment + quality service

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

BROWN ARMSTRONG
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

560 Central Avenue
Shafter, California 93263
Tel 661.746.2145 Fax 661.746.1218

8365 N. Fresno Street, Suite 440
Fresno, California 93720
Tel 559.476.3592 Fax 559.476.3593

INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement
Kern County Employees' Retirement Association

We have audited the accompanying Statement of Plan Net Assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2009 and 2008 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 2009, KCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

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, 2009 and 2008 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.

1

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 2009 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the Fiscal year 2009 basic financial statements taken as a whole. The Other Supplemental 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 19, 2009, on our consideration of KCERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
October 19, 2009

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, 2009 and 2008. 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 $686 million during the year ended June 30, 2009. The decrease was primarily due to underperformance in the equities and real return assets markets.
- As of June 30, 2008, the date of the most recent actuarial valuation, the funded ratio for the KCERA was 72.3%, compared to the funded ratio of 77.2% as of December 31, 2007.
- During the fiscal year ended June 30, 2009, the KCERA's total fund returned -21.87% (net of fees), a decrease from the prior fiscal year return of -6.50%.
- Member contributions increased by approximately $3.2 million, or 21.0%, due primarily to phasing in higher contribution rates for safety members, more safety and general members required to make contributions after attaining five years of service, and salary increases.
- Vested pension benefits increased by approximately $13.2 million, or 9.7%, over the prior year. The increase is attributable to a 1.8% increase in retired members and beneficiaries receiving pension benefits and a 4.4% increase in the average monthly benefit, which rose to $2,103 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.

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

Overview of the Financial Statements and Accompanying Information (continued)

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

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

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, 50 and 51.

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, 2009 were $2.0 billion, a decrease of approximately $686 million (-25.3%) from June 30, 2008. 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. Key elements of the decrease in net assets are described below and in Tables 1 and 2 on page 21.

Contributions and Income

Additions to plan net assets include member and employer contributions, and investment income. Member contributions were approximately $18.2 million, $15.0 million and $12.6 million for the years ended June 30, 2009, 2008, and 2007, respectively. Employer contributions were $138.8 million, $137.3 million and $128.1 million for the years ended June 30, 2009, 2008 and 2007, respectively.

Member contributions increased by approximately $3.2 million (21.0%) in 2009 and increased by approximately $2.4 million (19.0%) in 2008. The increase in member contributions in 2009 was attributable to phasing in higher contribution rates for safety members, more safety and general members required to make contributions after attaining five years of service, and salary increases. The increase in member contributions in 2008 was 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 increased by approximately $1.6 million (1.1%) in 2009 and increased by approximately $9.1 million (7.1%) in 2008. The increase in employer contributions in 2009 is due to an increase in covered payroll. 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.

Contributions and Income (continued)

Net investment income was ($677.3) million, ($201.6) million and $453.4 million for the years ended June 30, 2009, 2008 and 2007, respectively. The decrease in 2009 can be attributed to broad market dislocations affecting all public asset classes. The decrease in 2008 can be attributed to the underperformance of the U.S. equity, non-U.S. equity and real assets portfolios throughout 2008.

The KCERA's total fund return (net of fees) in fiscal year 2009 was -21.87%. For fiscal year 2009, the KCERA's U.S. equity composite returned -28.27%, the non-U.S. equity composite returned -30.74%, the fixed income composite returned -1.01%, and the real return assets composite returned -42.23%. The $201.6 million decrease in investment income in fiscal year 2008 resulted from a total fund return (net of fees) of -6.50% for the year. 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% (see Investment Section).

Benefits, Refunds and Expenses

Deductions to plan net assets include pension benefits, lump sum payments, supplemental benefits, refunds of member contributions, and administrative expenses. The pension benefits (annuity, pension, and cost-of-living allowances) were $149.4 million, $136.2 million, and $125.4 million for the years ended June 30, 2009, 2008 and 2007, respectively. Pension benefits increased by approximately $13.2 million (9.7%) in 2009 and $10.8 million (8.6%) in 2008. These increases were mainly due to an increase in retired members and beneficiaries receiving pension benefits, and an increase in the average monthly benefit, attributable to higher final average compensations. Retired members and beneficiaries increased by 5.1% in 2009 and by 2.7% in 2008. The average monthly benefit for retirees and beneficiaries increased by 4.4% in 2009 and 5.8% in 2008.

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 $10.5 million, $10.0 million and $9.1 million for the years ended June 30, 2009, 2008 and 2007, respectively. Refunds of member contributions were $2.6 million, $2.4 million, and $2.5 million for the years ended June 30, 2009, 2008 and 2007, respectively.

	June 2009	June 2008	June 2007
Average Monthly Benefit Payments	$12.4 million	$11.3 million	$10.5 million
Retirees and Beneficiaries	5,919	5,634	5,487

The KCERA administrative expenses were $3.1 million, $3.3 million, and $3.0 million for the years ended June 30, 2009, 2008 and 2007, respectively. Administration expenses decreased by $268,403 in fiscal year 2009, due primarily to a decrease in technology and professional services expenses.

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 8.00% from the total fund's actual return on net assets. The Market Stabilization Reserve was ($880) million, ($197) million, and $297 million for the years ended June 30, 2009, 2008 and 2007, respectively.

Interest at the actuarial rate of 8.00%, 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 3.47% in fiscal year 2009 and 8.58% in fiscal year 2008. In addition, in fiscal year 2009, -0.77% was credited into the contingency reserve, in accordance with the Board of Retirement's Interest Crediting Policy.

KCERA Reserves

	2009	2008	2007
Member Reserve	$ 232,426,076	$ 222,417,963	$ 203,687,096
Employer Reserve	710,573,914	724,646,669	634,570,592
Cost of Living Reserve	683,059,242	645,663,002	578,731,795
Retired Member Reserve	1,072,575,351	979,134,288	922,784,014
Supplemental Retiree Benefit Reserve	210,073,794	212,782,232	192,836,620
Contribution Credit Reserve	19,030,483	42,600,264	24,817,352
Contingency Reserve	(22,739,210)	81,333,256	58,245,555
Market Stabilization Reserve	(879,782,342)	(197,469,135)	296,604,744
Total	**$ 2,025,217,308**	**$ 2,711,108,539**	**$ 2,912,277,768**

Fiduciary Responsibilities

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

**Net Assets
(in thousands)**

Table 1

	2009	Increase/ (Decrease) Amount	2008	Increase/ (Decrease) Amount	2007
Assets					
Current Assets	$ 159,016	$ (38,413)	$ 197,429	$ (32,425)	$ 229,854
Investments	1,999,885	(704,427)	2,704,312	(126,442)	2,830,754
Securities Lending Collateral	150,204	(110,446)	260,650	(57,468)	318,118
Capital Assets	1,486	1,403	83	0	83
Total Assets	**$ 2,310,591**	**$ (851,883)**	**$ 3,162,474**	**$ (216,335)**	**$ 3,378,809**
Liabilities					
Current Liabilities	$ 135,170	$ (55,545)	$ 190,715	$ 42,302	$ 148,413
Liabilities for Security Lending	150,204	(110,446)	260,650	(57,468)	318,118
Total Liabilities	**$ 285,374**	**$ (165,991)**	**$ 451,365**	**$ (15,166)**	**$ 466,531**
Total Net Assets	**$ 2,025,217**	**$ (685,892)**	**$ 2,711,109**	**$ (201,169)**	**$ 2,912,278**

**Changes in Net Assets
(in thousands)**

Table 2

	2009	Increase/ (Decrease) Amount	2008	Increase/ (Decrease) Amount	2007
Additions					
Member Contributions	$ 18,191	$ 3,160	$ 15,031	$ 2,397	$ 12,634
Employer Contributions	138,815	1,551	137,264	9,129	128,135
Net Investment Income	(677,336)	(475,774)	(201,562)	(654,924)	453,362
Total Additions	**$ (520,330)**	**$ (471,063)**	**$ (49,267)**	**$ (643,398)**	**$ 594,131**
Deductions					
Pension Benefits	$ 149,365	$ 13,175	$ 136,190	$ 10,774	$ 125,416
Supplemental Retirement Benefits	10,495	498	9,997	849	9,148
Refunds of Member Contributions	2,629	255	2,374	(140)	2,514
Administrative Expenses	3,073	(268)	3,341	311	3,030
Miscellaneous Expenses	0	0	0	(1)	1
Total Deductions	**$ 165,562**	**$ 13,660**	**$ 151,902**	**$ 11,793**	**$ 140,109**
Increase (Decrease), Net Assets	**$ (685,892)**	**$ (484,723)**	**$ (201,169)**	**$ (655,191)**	**$ 454,022**
Net Assets					
Beginning of Year	**$ 2,711,109**	**$ (201,169)**	**$ 2,912,278**	**$ 454,022**	**$ 2,458,256**
End of Year	**$ 2,025,217**	**$ (685,892)**	**$ 2,711,109**	**$ (201,169)**	**$ 2,912,278**

Kern County Employees' Retirement Association

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2009 AND 2008

	2009	2008
Assets		
Cash in County Pool	$ 9,131,805	$ 6,261,261
Short-Term Investment Funds	70,858,603	113,780,597
Total Cash and Short-Term Investment Funds	79,990,408	120,041,858
Receivables:		
Investments Sold	68,919,657	66,051,213
Interest and Dividends	8,421,352	9,789,330
Contributions and Other Receivables	1,684,232	1,416,621
Mark to Market Receivables	0	129,695
Total Receivables	79,025,241	77,386,859
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	600,791,283	798,263,973
International Bonds	82,333,667	65,662,747
Domestic Stocks	515,880,069	864,318,110
International Stocks	485,443,135	687,198,369
Real Estate Investments	101,680,633	53,474,171
Alternative Investments	213,757,148	235,395,053
Collateral Held for Securities Lending	150,203,682	260,650,054
Total Investments	2,150,089,617	2,964,962,477
Computer Software	1,232,012	0
Equipment/Computers	434,995	200,782
Accumulated Depreciation/Amortization	(180,696)	(117,977)
Total Capital Assets	1,486,311	82,805
Total Assets	2,310,591,577	3,162,473,999
Liabilities		
Securities Purchased	129,977,328	188,266,824
Collateral Held for Securities Lent	150,203,682	260,650,054
Other Liabilities	5,193,259	2,448,582
Total Liabilities	285,374,269	451,365,460
Net Assets Held in Trust for Pension Benefits	**$ 2,025,217,308**	**$ 2,711,108,539**

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, 2009 AND 2008

	2009	2008
Additions		
Contributions		
Employer	$ 138,814,789	$ 137,263,673
Member	18,191,402	15,031,419
Total Contributions	157,006,191	152,295,092
Investment Income		
Net Appreciation in Fair Value of Investments	(738,918,986)	(281,625,951)
Interest	50,633,025	64,315,286
Dividends	14,809,826	19,962,893
Real Estate Investments	(557,179)	3,282,781
Other Investment Income	37,581	335
Total Investment Income	(673,995,734)	(194,064,656)
Less: Investment Expenses	5,147,021	8,995,490
Net Investment Income	(679,142,754)	(203,060,146)
Securities Lending Income		
Earnings:	3,564,590	12,255,345
Less: Rebates & Bank Fees	1,757,531	10,757,676
Net Securities Lending Income	1,807,059	1,497,669
Total Additions	(520,329,504)	(49,267,385)
Deductions		
Retirement and Survivor Benefits	149,365,037	136,189,351
Supplemental Retirement Benefits	10,494,730	9,997,296
Refunds of Member Contributions	2,629,343	2,374,071
Administrative Expenses	3,072,618	3,341,021
Miscellaneous Expenses	0	105
Total Deductions	165,561,728	151,901,844
Net Increase (Decrease)	**(685,891,232)**	**(201,169,229)**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	**2,711,108,539**	**2,912,277,768**
End of Year	**$ 2,025,217,308**	**$ 2,711,108,539**

See accompanying notes to the financial statements.

NOTE 1 – DESCRIPTION OF PLAN

The Kern County Employees' Retirement Association (KCERA) was established on January 1, 1945 by the County of Kern Board of Supervisors under the provisions of the County Employees Retirement Law of 1937. KCERA is a cost-sharing, multiple-employer defined benefit plan (the Plan) covering all permanent employees of the County of Kern and of the following agencies: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito & Vector Control District, North of the River Sanitation District, San Joaquin Valley Unified Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito Abatement District, 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, 2009, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	7,166	1,854	9,020
Terminated employees – vested	926	133	1,059
Retirees and beneficiaries currently receiving benefits	4,436	1,483	5,919
	12,528	3,470	15,998

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.

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 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.

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 and the Board of Supervisors 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.

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, 2009 & 2008.
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.
Private equity real estate investments	Estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Investments without a public market are valued based on assumptions made and multiple valuation techniques used by the investment manager.

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. In fiscal year 2008-09, costs associated with the application development stage of a new pension administration system were capitalized.

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
The Governmental Accounting Standards Board (GASB) has issued Statement No. 51, "Accounting and Financial Reporting for Intangible Assets." This statement establishes accounting and financial reporting requirements for intangible assets, including easements, water rights, timber rights, patents, trademarks and computer software. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. KCERA implemented GASB 51 beginning with the fiscal year ending June 30, 2009.

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, 2009 (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, 2009, KCERA had $932,069 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.

NOTE 3 – CASH AND INVESTMENTS (continued)

Credit Risk (continued)

At June 30, 2009, 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	$ 9,417,982	1.38%
	AA	507,007	0.07%
	A	161,915	0.02%
	BBB	671,619	0.10%
	BB	489,583	0.07%
	B	1,194,930	0.17%
	CCC	2,023,848	0.30%
	NR	124,638	0.02%
Commercial Mortgage-Backed	AAA	16,853,561	2.47%
	NR	3,016,338	0.44%
Government Mortgage-Backed Securities	AAA	794,885	0.12%
	NR	24,298	0.00%
	AGY	196,131,455	28.71%
Non-Government-Backed C.M.O.s	AAA	35,995,787	5.27%
	AA	4,022,796	0.59%
	A	3,958,543	0.58%
	BBB	2,436,745	0.36%
	BB	3,154,019	0.46%
	B	5,096,427	0.75%
	CCC	207,705	0.03%
	NR	3,026,548	0.44%
Corporate Bonds	AAA	2,452,834	0.36%
	AA	8,721,432	1.28%
	A	43,236,645	6.33%
	BBB	67,031,193	9.81%
	BB	84,403,786	12.36%
	B	55,775,247	8.16%
	CCC	26,355,755	3.86%
	CC	1,804,184	0.26%
	C	537,780	0.08%
	NR	3,403,019	0.50%
		7,869,133	1.15%
Government Agencies	AAA	18,035,635	2.64%
	A	695,219	0.10%
	BBB	1,473,963	0.22%
	NR	9,354,425	1.37%
	AGY	504,807	0.07%
Government Bonds	AAA	4,609,955	0.67%
	BBB	1,229,121	0.18%
	B	734,606	0.11%
	AGY	6,462,217	0.95%
Guaranteed Fixed Income	AAA	709,361	0.10%
Index-Linked Government Bonds	AAA	18,171,231	2.66%

(continued on next page)

NOTE 3 – CASH AND INVESTMENTS (continued)

Credit Risk (continued)

Type of Investment	S & P Credit Quality	Fair Value	Percent
Municipal/Provincial Bonds	NR	1,631,694	0.24%
Short-Term Bills and Notes	CCC	99,250	0.01%
Goldman Sachs Trust HY Fund	B	13,968,018	2.04%
Western Asset Opp. International Inv. Grade Fund	AAA	5,126,550	0.75%
Western Asset Opp. Local Market Debt Fund	BBB	4,645,613	0.68%
Western Asset Opp. HY Fund	B+	9,487,828	1.39%
Swaps/Options	NR	(4,716,180)	-0.69%
Total		**$ 683,124,950**	**100.00%**

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, 2009, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

		Investment Maturities (in years) as of June 30, 2009				
Investment Type	**Fair Value (in thousands)**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Maturity Not Determined**
Asset-Backed Securities	$ 14,591	$ -	$ -	$ 44	$ 14,547	$ -
Commercial Mortgage-Backed	19,870	-	-	-	19,870	-
Corporate Bonds	333,122	8,319	120,977	117,320	53,278	33,228
Government Agencies	31,761	-	20,687	9,226	1,848	-
Government Bonds	13,036	-	1,843	1,028	10,165	-
Government Mortgage-Backed	196,951	-	550	13,400	124,480	58,521
Guaranteed Fixed Income	709	-	709	-	-	-
Index-Linked Government Bonds	18,171	3,328	2,556	887	11,400	-
Municipal/Provincial Bonds	1,632	-	1,632	-	-	-
Non-Government-Backed C.M.O.s	57,899	-	28	-	57,871	-
Short-Term Bills and Notes	99	99	-	-	-	-
Swaps/Options	(4,716)	-	-	-	-	(4,716)
Total	**$ 683,125**	**$ 11,746**	**$ 148,982**	**$ 141,905**	**$ 293,459**	**$ 87,033**

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, 2009.

Cash	Australian Dollar	$ 130,640
	Canadian Dollar	6,261
	Swiss Franc	5,070
	Euro	106,943
	British Pound Sterling	99,040
	Hong Kong Dollar	191,948
	Japanese Yen	353,981
	Mexican Peso	3,593
	South Korean Won	5,176
	Swedish Krona	35,792
Equities	Australian Dollar	7,833,465
	Canadian Dollar	4,602,265
	Swiss Franc	16,922,130
	Danish Krone	194,681
	Euro	69,335,050
	British Pound Sterling	38,519,349
	Hong Kong Dollar	8,659,309
	Japanese Yen	40,288,989
	South Korean Won	1,427,917
	Norwegian Krone	563,718
	Swedish Krona	1,305,629
	Singapore Dollar	748,451
Fixed Income Securities	British Pound Sterling	74,108
	Euro	8,459,692
Swaps	South Korean Won	(256)
Rights/Warrants	Australian Dollar	102,810
	British Pound Sterling	86,425
Total Foreign Cash and Investments		**$ 200,062,176**

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, 2009, 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, 2009 and 2008, the securities lending transactions collateralized by cash had a fair value of $145,419,791 and $252,930,611, respectively, and a collateral value of $150,203,682 and $260,650,054, respectively. At June 30, 2009 and 2008, the securities lending transactions collateralized by securities or letters of credit had a fair value of $86,400 and $1,316,757, respectively, and a collateral value of $88,767 and $1,372,764, 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, 2009 are as follows:

Security Type	Fair Value of Loaned Securities Securitized by Cash	Cash Collateral	Fair Value of Loaned Securities Securitized by Non-Cash	Non-Cash Collateral
Global Equities	$ 24,785,077	$ 26,281,987	$ -	$ -
U.S. Agencies	7,645,639	7,826,687	-	-
Corporates	29,542,352	30,310,813	-	-
Equities	61,512,265	63,375,332	37,839	39,052
U.S. Government	21,934,458	22,408,863	48,561	49,715
Totals	**$ 145,419,791**	**$ 150,203,682**	**$ 86,400**	**$ 88,767**

As of the third quarter of 2009, KCERA's securities lending account contained a collateral deficiency of material impact. The funding deficiency began in late 2008 and carried forward into 2009 as a result of realized losses, primarily due to the failures of Lehman Brothers and CIT Group. However, KCERA's liability has been slightly reduced by The Northern Trust Company's 2008 capital contribution of $437,580 into the KCERA account and a slight improvement in the overall market associated with the sub-fund unit purchases.

NOTE 4 – SECURITIES LENDING (continued)

Details of KCERA's securities lending collateral deficiency as of June 30, 2009 are as follows:

Securities Lending Collateral Fund Holdings:	
Lehman Brothers	$ (3,637,346)
CIT Group	(61,403)
Total Collateral Deficiency Amount	(3,698,749)
Purchase of Sub-fund Unit Assets to Date:	
Lehman Brothers	69,669
Remaining Collateral Deficiency Amount	$ (3,629,080)

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, 2009, 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. Futures contracts are priced "marking to market," and daily settlements are recorded as investment gains or losses.

NOTE 5 – HIGHLY SENSITIVE INVESTMENTS & DERIVATIVES (continued)

Fair Value
(in thousands)

	June 30, 2009	June 30, 2008
Mortgage-Backed Securities	$ 216,821	$ 274,595
Asset-Backed Securities	14,592	28,261
Collateralized Mortgage Obligation Securities	57,899	119,227
Forward Currency Contracts (Receivables)	12,172	19,540
Forward Currency Contracts (Payables)	(12,452)	(19,982)
Swaps/Options	(4,531)	(7,938)
Rights/Warrants	192	2
Total	**$ 284,693**	**$ 413,705**

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 2009, 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 2009, the UAAL is amortized over 28 years.

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, 2009. 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	6.34% - 11.25%	21.62%
Safety Members (hired prior to July 10, 2004)	7.22% - 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%	35.60%
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 2009 and 2008, respectively, amounted to $157,006,191 and $152,295,092, of which $138,814,789 and $137,263,673 were contributed by the County of Kern and Special Districts, and $18,191,402 and $15,031,419 were contributed by members.

** Employer rates are adjusted by the COLA Contribution Reserve credits as a pecentage of pay.*
*** Employees in these special districts pay 50% of the full rates for the first 30 years of service, regardless of hire date.*

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; $24,238,240 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. The remaining SRBR funds of this allocation on June 30, 2009 is $81,580,277.

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.

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, 2009, -1.1% of the Plan's net assets are in contingencies, according to the Board of Retirement's Interest Credit Policy.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2009 and 2008 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

	2009	2008
Members' deposit reserve, general	$ 156,041,743	$ 147,060,917
Members' deposit reserve, safety	61,703,332	61,906,822
Members' deposit reserve, special district	14,681,001	13,450,224
Employer's advance reserve, general	393,087,757	389,677,113
Employer's advance reserve, safety	296,024,368	316,679,942
Employer's advance reserve, special district	21,461,789	18,289,614
Cost of living reserve, general	378,315,542	355,864,851
Cost of living reserve, safety	284,667,772	271,963,887
Cost of living reserve, special district	20,075,928	17,834,264
Retired members' reserve, general	657,565,159	605,439,615
Retired members' reserve, safety	415,010,192	373,694,673
Supplemental retiree benefit reserve (SRBR)	128,493,517	130,328,390
SRBR allocated for 0.5% COLA	81,580,277	82,453,842
COLA Contribution Reserve (CCR)	19,030,483	42,600,264
Contingency reserve	(22,739,210)	81,333,256
Total reserves at five-year smoothed market actuarial valuation	2,904,999,650	2,908,577,674
Market stabilization reserve*	(879,782,342)	(197,469,135)
Total net assets held in trust for pension benefits	**$ 2,025,217,308**	**$ 2,711,108,539**

** This amount represents the difference between the five-year smoothed market value of the fund and the market value at June 30, 2009 and 2008.*

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Capital Commitments

The KCERA allocates 6% of assets to private equity markets. As of June 30, 2009, KCERA's Board committed $355 million to nine private equity fund-of-funds managed by Pantheon Ventures, Inc. ($167.5 million) and Abbott Capital Management ($187.5 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, 2009, the KCERA's commitments in private equity was $170.9 million, with a market value of $142.7 million.

The KCERA allocates 5% of total assets to private equity real estate investments. As of June 30, 2009, KCERA's Board committed $140 million to two Fidelity Real Estate Growth (FREG) commingled funds managed by Pyramis Global Advisors Trust Company. In this relationship, the general partner draws down invested capital from all limited partners, when necessary, to fund investments. The FREG funds can directly invest in property or indirectly invest in property through private companies or partnerships. As of June 30, 2009, the KCERA's commitment in the two FREG funds was $56 million, with a market value of $25 million. KCERA is invested in an additional FREG fund, which is in liquidation. The partnership has one remaining investment in the fund and is scheduled to terminate on December 31, 2010. As of June 30, 2009, the liquidating fund's market value was $376 thousand.

Litigation

Receivership of WG Trading Company (WGTC), Westridge Capital Management, Inc., (Westridge), WG Trading Investors, L.P. (WGTI) and affiliated companies (collectively, "WG").

The KCERA holds assets in an index arbitrage strategy with Westridge Capital Management and WG Trading Company, L.P. (hereafter "entities"), which are currently under a civil investigation with the Commodity Futures Trading Commission and the Securities and Exchange Commission. On February 25, 2009, the United States District Court Southern District of New York appointed a Receiver for the entities. From February 25, 2009 through May 22, 2009, the Receiver focused on managing an orderly liquidation, identifying and securing assets, determining the positions carried on the records for the investors, performing forensic accounting, communicating with the investors, and studying business records and financial documents to develop an understanding of the business operations on the entities.

In summary, the Receiver revealed the entities employed fraudulent accounting practices in an apparent attempt to conceal the true financial condition of WG Trading Company, L.P. Based on all the information that was available to the Receiver, it appears there will be a shortfall of approximately 40% of the claims from all investors. The KCERA's market value of the investment with WG Trading Company, L.P. at January 1, 2009 was $85,540,788. At June 30, 2009, KCERA wrote down this investment to $51,324,473.

On September 2, 2009, the Receiver sent out a Notice to Investor summarizing the investment as shown on the books of WG Trading Company, L.P. at $85,540,788. After the Notice objection period, the Receiver will file a motion with the Court with a proposed claims verification procedure. Thereafter, the issue of a distribution procedure will be addressed. KCERA has hired an attorney, Manatt, Phelps & Phillips, L.P., to recover its portion of the distributions. The ultimate recovery cannot be estimated at this time.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)

Litigation (continued)
County of Kern and Kern County Employees Association v. Fireman's Fund Insurance Company of Ohio, Hartford Casualty Insurance Company, Green-Hazel &Associates, Inc., Business Professional Insurance Associates, Inc., and Does 1-50 (Los Angeles County Superior Court Case No. BC 406674).

In October, 2008, KCERA and the County of Kern jointly filed a complaint to recover damages from insurance companies and brokers that provided insurance covering professional liability and commercial general liability to KCERA's prior actuary, Public Pension Professionals (P^3) due to errors made by P^3 in setting employer contribution rates. The case alleges that KCERA was damaged due to the professional negligence and breach of contract by its prior actuary, Public Pension Professionals (P^3) and that the defendants, as insurers or insurance brokers of P^3, have wrongfully denied coverage (the insurance carrier defendants) or failed to obtain coverage (the insurance broker defendants) that would compensate KCERA for the losses it sustained due to their insured's negligence. KCERA is suing the insurance carriers and brokers both directly and derivatively, through claims assigned to KCERA by P^3 as part of a settlement agreement reached with P^3. Pursuant to a settlement agreement with P^3, judgment was entered against P^3 in the amount of $8,470,000 to KCERA, so P^3's liability is not an issue in the pending litigation against the defendant insurance companies and brokers. The insurance companies and brokers continue to take the position that, as P^3 had failed to timely renew its insurance policies, those policies had lapsed and the insurance companies are not obligated to provide coverage. The case is currently in the discovery and motion stage, and KCERA is preparing to file its Second Amended Complaint following a second successful demurrer. KCERA intends to continue to pursue recovery from insurance companies and brokers against which KCERA has a reasonable claim in order to collect the damages owed to the KCERA. The likely outcome is uncertain at this time.

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

NOTE 9 – FUNDED STATUS AND FUNDING PROGRESS

KCERA's funded status as of June 30, 2008, 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)
06/30/08	$2,654,305	$3,671,460	$1,017,155	72.3%	$482,879	210.6%

(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 June 30, 2008 is as follows:

Valuation date:	June 30, 2008
Actuarial cost method:	Entry age funding method
Amortization method:	Level percent of salary, closed
Remaining amortization period:	27.5 years
Asset valuation method:	Five-year smoothed market value
Actuarial assumptions:	
Investment rate of return:	7.75%
Projected salary increases:	Rates varying by service
Includes inflation at:	3.25%
Annual increase in system benefits cap:	2.50%

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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)
06/30/08	$ 2,654,305	$ 3,671,460	$ 1,017,155	72.3%	$ 482,879	210.6%
12/31/07	2,589,817	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%

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed
2009	$ 138,814,789	100%
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% **

** Prior actuarial valuations were performed as of December 31 of each year, including December 31, 2007. Beginning on June 30, 2008, however, actuarial valuations will be performed each year as of June 30.*

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

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

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, June 30, 2008, is as follows:

Economic Assumptions:

Actuarial Assumed Interest Rate: 7.75% per annum

Assumed Salary Increases: Rates vary by service

Assumed Inflation Rate: 3.25% 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 Retiree 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 27.5-year period beginning with the June 30, 2008 valuation. Beginning January 1, 2006, any liability attributable to Golden Handshakes is paid by the employer at the time the handshake is 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).

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Demographics:

Total payments to retirees and their beneficiaries increased by 1.8% from 5,552 to 5,651. The average monthly benefit increased by 3.0% from $2,088 to $2,150.

The number of active members increased by 1.4% from 8,928 to 9,057. The average annual pay increased by 5.1% from $51,157 to $53,775.

Actuarial Assumptions:

Assumption Changes:

As a result of the Investigation of Experience for the period from January 1, 2006 through June 30, 2008, changes have been made in the KCERA's assumptions for investment return, mortality and the probabilities for retirement, disability, terminations, refunds and reciprocity. The changes in assumptions are as follows:

Economic Assumptions:

- Price Inflation: Reduced from 3.50% to 3.25%.
- Investment Rate of Return: Reduced from 8.00% to 7.75%.
- Real Wage Growth: Increased from 0.50% to 0.75%.

Demographic Assumptions:

- Retiree Mortality: Updated using the RP-2000 Combined Healthy Mortality table.
- Retirement: Updated rates for all male members.
- Termination: Updated rates for all members.
- Disability: Reduced rates for all members.
- Reciprocity: Reduced rates for all members.
- Probable Refunds: Increased rates for all members.

Actuarial Methods:

- Member Contribution Rates: Changes in mortality, real wage growth and investment return assumptions resulted in increases in the basic member contribution rates.

Timing of Valuation:

Prior actuarial valuations were performed as of December 31 of each year, including December 31, 2007. Beginning on June 30, 2008, however, actuarial valuations will be performed each year as of June 30.

Schedule of Administrative Expenses
For the Years Ended June 30, 2009 and 2008

	2009	2008
Personnel Services:		
Salaries & Wages	$ 1,136,837	$ 1,077,725
Employee Benefits	630,632	685,529
Total Personnel Services	1,767,469	1,763,254
Professional Services:		
Legal Counsel	297,566	314,506
Audit	36,776	62,378
Medical/Hearing Officers	138,389	110,572
Other Professional Services	122,463	268,049
Total Professional Services	595,194	755,505
Communication:		
Postage	28,001	28,107
Printing	4,028	5,182
Telephone	10,359	12,661
Education & Professional Development	69,473	73,451
Marketing & Promotions	24,928	25,772
Total Communication	136,789	145,173
Operating Expenses:		
Information Technology	137,813	235,720
Equipment Leases	22,402	22,610
Building Lease	75,600	75,600
Office Expense	25,284	29,597
Insurance	97,842	74,620
Equipment Maintenance	13,664	14,507
Memberships	14,245	10,511
Special Departmental Expense	1,320	38,893
Other Services	8,189	24,957
Pension Disbursement Fees	100,000	100,000
Depreciation and Amortization	62,720	39,276
Utilities & Maintenance	14,087	10,798
Total Operating Expenses	573,166	677,089
Total Administrative Expenses	**$ 3,072,618**	**$ 3,341,021**

See accompanying independent auditors' report.

Schedule of Investment Expenses
For the Years Ended June 30, 2009 and 2008

	2009	2008
Investment Manager Fees:		
Equity		
Domestic	$ 700,327	$ 1,711,554
Non-U.S.	1,400,271	3,968,568
Fixed Income		
Global	1,405,824	1,729,682
Real Return		
Treasury Inflation-Protected Securities	6,937	0
Securities (REITs)	323,583	654,108
Total Investment Manager Fees	3,836,942	8,063,912
Other Investment Expenses:		
Custodian	410,000	385,000
Actuarial Valuation	189,584	81,718
Investment Consultant	295,729	257,415
Legal Fees	319,306	21,435
Due Diligence	18,120	14,062
Policy Implementation Overlay Strategy	50,938	171,948
Real Estate	26,402	0
Total Other Investment Expenses	1,310,079	931,578
Total Fees and Other Investment Expenses	5,147,021	8,995,490
Security Lending Rebates and Bank Fees	1,757,531	10,757,676
Total Investment Expenses	**$ 6,904,552**	**$ 19,753,166**

See accompanying independent auditors' report.

Schedule of Payments to Consultants
For the Years Ended June 30, 2009 and 2008

		Commission / Fee	
Individual or Firm	**Nature of Service**	**2009**	**2008**
Brown Armstrong	External Auditors	$ 36,776	$ 62,378
Cortex Applied Research, Inc.	Policy Consultants	58,784	51,367
L. R. Wechsler Ltd.	Develop RFP for Pension Admin System	0	151,476
Linea Solutions	Oversight Project Manager for Pension Admin System	224,254	0
Milliman, Inc.	Actuarial Services	40,703	25,340
Hanson, Bridgett, Marcus	Legal Counsel	23,950	22,011
Kern County Counsel	Legal Counsel	272,864	265,628
Other Specialized Services	Other	752	40,432
Total Payments to Consultants		**$ 658,083**	**$ 618,632**

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

See accompanying independent auditors' report.

Section III

Investment

Guided by industry-leading consultants
and a time-tested investment plan,
the KCERA Board determines to meet
a target rate of return over the long term.

WILSHIRE

October 1, 2009

Anne Holdren
Executive Director
Kern County Employees' Retirement Association
1115 Truxtun Avenue, Suite 100
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, 2009. 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 Presentation Standards ("GIPPS") published by the CFA Institute. For the fiscal year ended June 30, 2009, the KCERA's retirement fund had an investment loss of -21.9% and ended the year with total assets of $2.056 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 2009.

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 Board adopted the current asset allocation policy in 2006. The most notable difference from target is for Domestic Equities, which is underweight relative to the target due to the dramatic negative performance of equities during three of the four quarters of the fiscal year ended June 30, 2009 and the inability to rebalance fixed income assets without incurring realized losses due to the pricing dislocation within the credit markets which began in fiscal year 2008 and which persisted throughout the current fiscal year. All managers were in compliance with their guidelines on June 30, 2009.

Asset Class	Target Allocation	Actual Allocation
Domestic Equities	25%	20%
International Equities	25%	24%
Private Equities	6%	7%
Fixed Income	22%	26%
High Yield	6%	8%
Real Assets	10%	8%
Absolute Return	6%	3%
Cash	0%	0%
Liquidation Assets	0%	4%

The total fund failed to meet the actuarial discount rate used to value the System's liabilities due to the negative impacts from the financial market meltdown and liquidity crisis. Some highlights follow below:

- The KCERA's total fund returned -21.9% for the fiscal year, versus the policy return of -17.1%. Underperformance versus policy was largely due to poor relative manager performance in all the public market asset classes. The KCERA's median peer in our database returned -17.0%.
- The KCERA's Domestic Equity composite returned -28.3% versus a return of -26.4% for the benchmark Wilshire 5000 Index. Performance lagged modestly due to the relative results of the three quantitative managers as quantitative strategies were more heavily impacted by pricing dislocations in the markets. 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. Additionally, the WG/Westridge investment was written down by 40% during the fiscal year and moved to a segregated Liquidation category. The median Equity return for KCERA's peers was -26.0%.
- The KCERA's Core Fixed Income composite returned -1.0% versus 6.1% for the Barclays 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 the hardest hit by the pricing dislocations. The median Fixed Income return for KCERA's peers was 4.3%, which shows that plan sponsors, as a group, struggled in their respective fixed income portfolios.
- The KCERA's High Yield Bond composite returned -4.4% versus -2.4% for the Custom Policy Index. Both managers underperformed their respective benchmarks for various reasons as it was a difficult market environment given the pricing dislocations for credit securities.
- The KCERA's International Equity composite returned -30.7% very close in line with the benchmark MSCI All-Country World excluding-USA (ACWI x-US) Index, which returned -30.5%. The median plan sponsor's International Equities portfolio in our database returned -29.0% during the fiscal year period.
- The alternatives asset classes also produced negative results as all asset classes except Cash produced negative returns due to the universal impact of the credit market crisis. The Private Equities since inception composite IRR was -2.4% and the Absolute Return composite returned -12.7%, both of which have historically provided positive returns and good diversification benefits for the Fund. The KCERA Real Assets composite returned -42.2% due to the poor relative performance of the two REIT portfolios as REITS were the worst performing asset class of the fiscal year period.

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 are privileged to work closely with the Board and KCERA Staff in updating and reviewing investment policies and risk control for the investment fund.

Sincerely,

Eileen L. Neill

Eileen L. Neill, CFA
Managing Director

OUTLINE OF INVESTMENT POLICIES
Adopted by the Board of Retirement May 20, 2009

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

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

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

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

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

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

ASSET ALLOCATION

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

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

The target asset allocation and the actual asset allocation at June 30, 2009 are as follows:

			Target Ranges	
	Actual	**Target**	**Minimum**	**Maximum**
Domestic Equities	19.9%	25.0%	21.0%	29.0%
International Equities	23.5%	25.0%	21.0%	29.0%
Fixed Income	33.9%	28.0%	24.0%	32.0%
Real Return Assets	8.1%	10.0%	7.0%	13.0%
Global Private Equities	6.8%	6.0%	3.0%	9.0%
Absolute Return	3.4%	6.0%	4.0%	8.0%
Cash / Other	0.2%	0.0%	0.0%	3.0%
Liquidation Assets	4.2%	0.0%		
Totals	**100.0%**	**100.0%**		

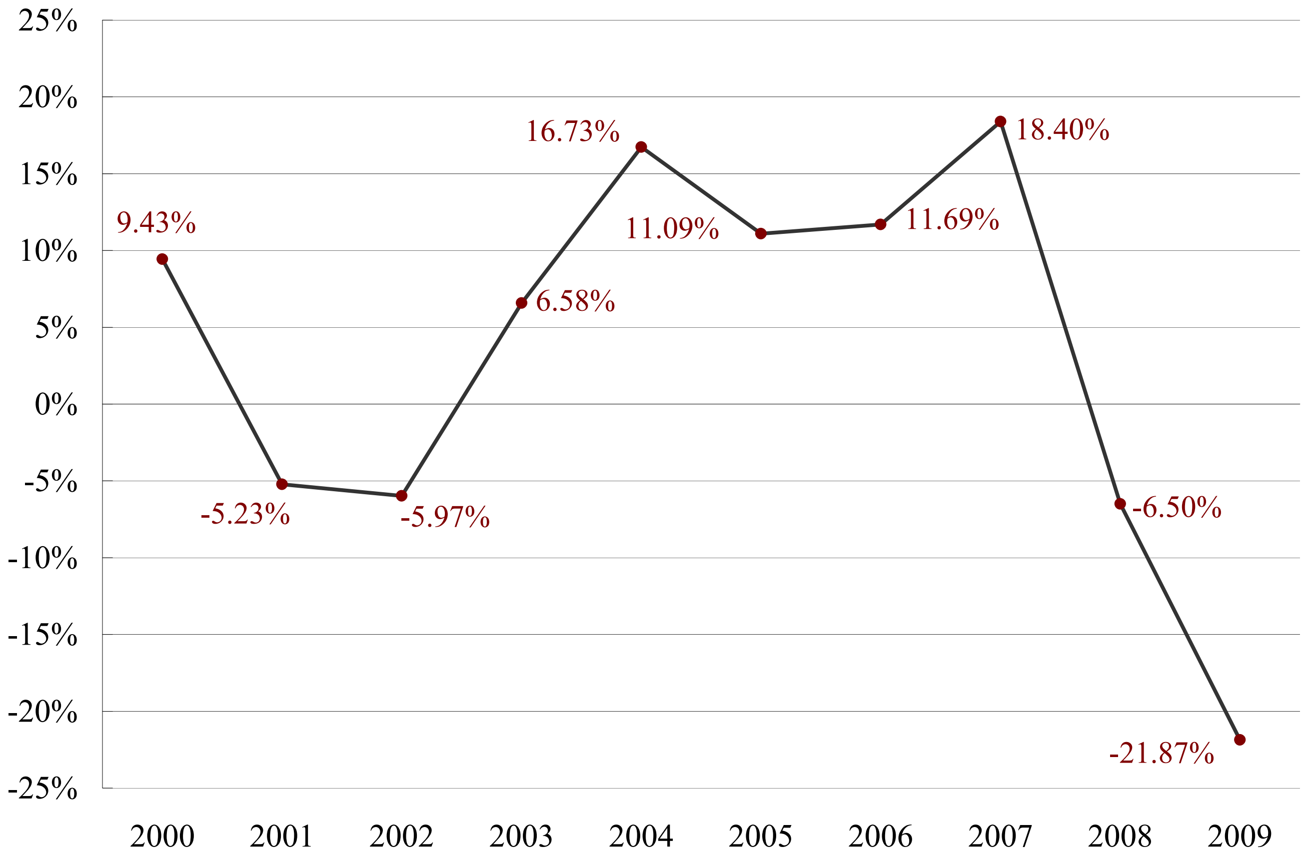
The June 30, 2009 asset allocation is based upon Wilshire Associates's June 30, 2009 Kern County Employees' Retirement Association Investment Performance Analysis.

Investment Summary
For the Year Ended June 30, 2009

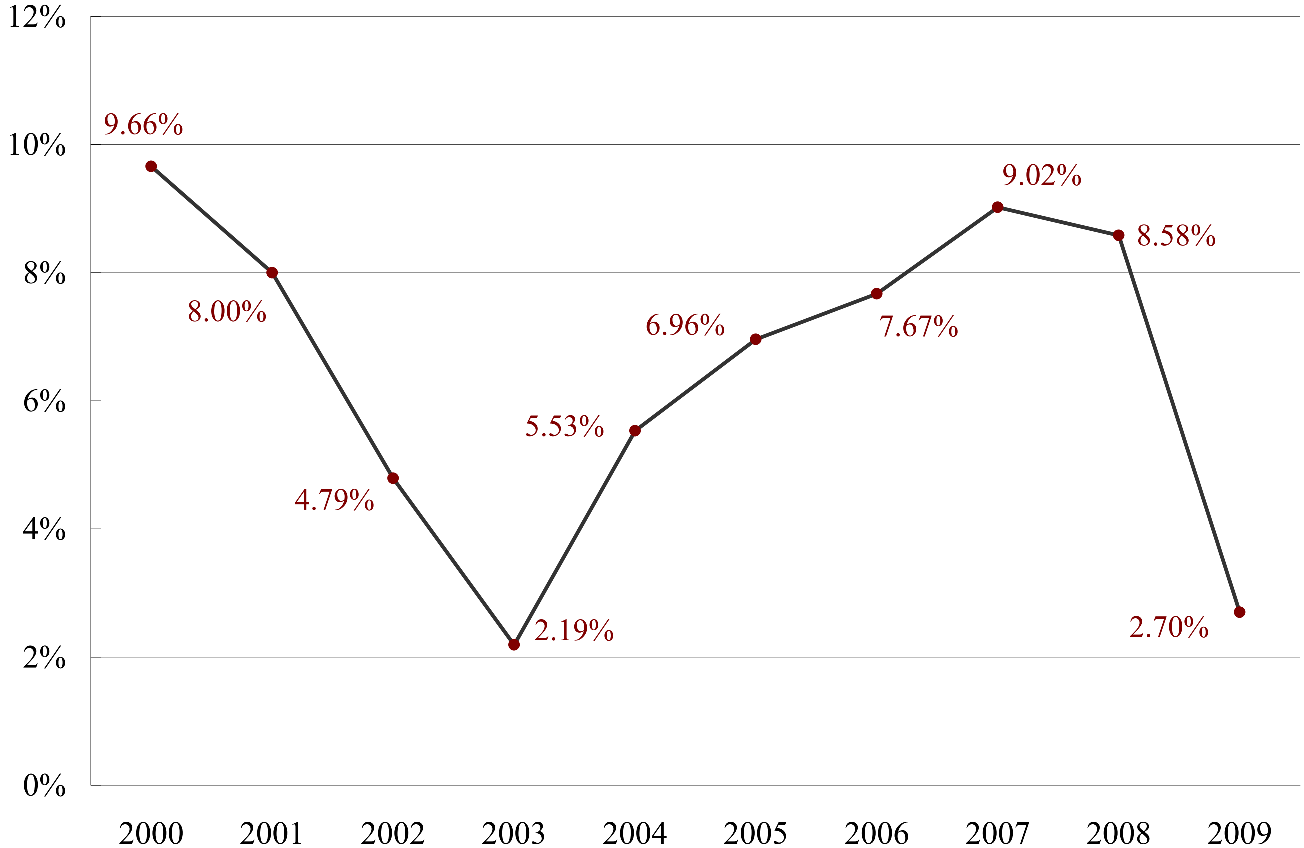
Type of Investment	Fair Value (in thousands)	% of Total Fair Value
Domestic Equities		
Large Cap Index Fund	$ 109,026	5.30%
Large Cap Enhanced Strategies	191,341	9.31%
Small/Mid Cap Core Securities	108,449	5.27%
Total Domestic Equities	408,816	19.88%
International Equities		
Active EAFE Securities	281,453	13.69%
International Small Cap Core	108,800	5.29%
Emerging Markets Growth Fund	92,700	4.51%
Total International Equities	482,953	23.49%
Fixed Income		
Core Plus Global Fixed Income	528,571	25.71%
High Yield Bonds	167,592	8.15%
Total Fixed Income	696,163	33.86%
Real Return Assets		
TIPS Index Fund	75,002	3.65%
Public / Private Real Estate Investments	25,675	1.25%
Securities (REITs) - Domestic	50,128	2.44%
Securities (REITs) - Global	12,487	0.61%
Property	2,890	0.14%
Total Real Return Assets	166,182	8.08%
Alternative Investments		
Private Equities	140,856	6.85%
Hedge Funds	70,602	3.43%
Total Alternative Investments	211,458	10.28%
Cash & Cash Equivalents	4,750	0.23%
Assets in Liquidation	85,907	4.18%
Total Investments	**$ 2,056,229**	**100.0%**

The June 30, 2009 investment summary is based upon Wilshire Associates' June 30, 2009 Kern County Employees' Retirement Association Investment Performance Analysis.

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



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



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

Investment Results
Returns for Periods Ended June 30

	Current Year	Annualized 3-year	Annualized 5-year	Annualized 10-year
Total Portfolio:	-21.87	-4.72	1.42	2.72
Benchmark: Composite Policy*	-17.05	-2.05	2.84	2.93
TUCS Master Trust Median	-17.04	-2.63	1.98	2.86
U.S. Equity:	-28.27	-9.39	-2.42	-1.34
Benchmark: DJ Wilshire 5000 Index	-26.40	-8.13	-1.60	-1.32
TUCS Equity Median	-26.04	-8.02	-0.91	0.89
Non-U.S. Equity:	-30.74	-6.57	3.92	2.44
Benchmark: MSCI ACWI ex-US	-30.50	-5.33	4.96	2.94
TUCS International Equity Median	-28.95	-5.90	4.03	4.85
Fixed Income:	-1.01	1.63	2.62	5.06
Benchmark: 80% Barclays Aggregate / 20% High Yield Custom Index**	6.06	6.43	5.02	5.98
TUCS Fixed Income Median	4.32	5.49	4.87	6.05
Real Return:	-42.23	-17.47	-1.42	5.51
Benchmark: 50% Wilshire Real Estate Securities Index / 50% NCREIF + 1.5% Barclays US TIPS Index	-23.98	-5.40	5.21	8.55
Absolute Return:	3.03	-12.67	0.09	N/A
Benchmark: 91-Day T-Bill + 5%	1.30	5.95	8.25	N/A
Global Private Equities:	-22.21	1.32	4.74	N/A
Benchmark: Wilshire 5000 + 3%	-22.66	-3.32	4.13	N/A
Cash & Cash Equivalents:	1.14	3.92	3.98	4.08
Benchmark: 91-Day T-Bill	0.96	3.24	3.17	3.24

* Kern County Composite Policy:
- 25% Wilshire 5000 Index
- 25% MSCI ACWI x-U.S. IMI Index
- 6% Wilshire 5000 + 3%
- 22% Barclays Aggregate Bond Index
- 6% 50% ML HY Master II / 25% MY HY B 2% / 25% ML HY BB 2%
- 5% NCREIF Index
- 5% 80% W RESI / 20% W Global RESI
- 6% 91-Day Treasury Bills + 5%

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

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

Investment Professionals
As of June 30, 2009

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

NON-U.S. EQUITY
Barclays Global Investors, N.A.
San Francisco, CA

Capital Guardian 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 RETURN ASSETS
Pyramis Global Advisors Trust Co.
Boston, MA

LaSalle Securities Limited
Baltimore, MD

State Street Global Advisors
Boston, MA

ALTERNATIVE INVESTMENTS
Abbott Capital Management, LLC
New York, NY

K2 Advisors
Stamford, CT

Pantheon Ventures, Inc.
San Francisco, CA

CONSULTANTS

Wilshire Associates, Inc.
Santa Monica, CA

ACTUARY

Milliman, Inc.
Seattle, WA

CUSTODIAN

The Northern Trust Company
Chicago, IL

Largest Stock Direct Holdings (By Market Value)
As of June 30, 2009

Shares	Stocks	Market Value
94,040	Total	$ 5,075,713
508,297	HSBC Holdings	4,305,740
90,592	Nestle	3,408,602
1,720,397	Vodafone Group	3,320,553
154,108	Standard Chartered	2,893,238
75,739	E.ON AG	2,679,255
95,410	BHP Billiton Ltd	2,678,100
116,810	Telefonica	2,641,158
416,489	Tesco	2,425,325
95,446	Royal Dutch Shell	2,383,017

Largest Bond Direct Holdings (By Market Value)
As of June 30, 2009

Par	Bonds	Market Value
35,500,000	FNMA Single Family Mtg 5% 30 Yrs July	$ 36,143,438
10,743,770	Federal Home Loan Mtg Corp Pool 5.5% 04/01/2038	11,106,265
9,000,000	FNMA 15 Yr Pass-Throughs 5.5% 15 Yrs August	9,388,170
8,584,417	FNMA Pool 5.5% 07/01/2038	8,873,540
8,000,000	FNMA Single Family Mtg 4.5% 30 Yrs July	7,982,496
3,780,000	U.S. Treasury Bonds Inflation Indexed 3.875% due 04/15/2029	6,220,394
5,600,000	GNMA TBA Pool 6% 30 Yrs July	5,832,747
4,600,000	FNMA Single Family Mtg 6% 30 Yrs July	4,807,000
5,198,000	U.S. Treasury Bonds 3.5% 02/15/2039	4,494,659
3,460,000	U.S. Treasury Bonds Inflation Indexed 2.375% due 01/15/2025	4,022,700

A complete list of portfolio holdings is available upon request.

Assets Under Management and Schedule of Investment Fees
For the Years Ended June 30, 2009 and 2008

Assets Under Management	**2009**	**2008**
U.S. Equity Managers	$ 407,512,004	$ 864,318,110
Non-U.S. Equity Managers	478,749,292	687,198,369
Global Fixed Income Managers	685,059,888	863,926,720
Real Return Managers	163,483,131	53,474,171
Alternative Investments	213,757,148	235,395,053
Liquidation Assets	51,324,473	0
Total Assets Under Management	**$ 1,999,885,936**	**$ 2,704,312,423**

Schedule of Investment Fees	**2009**	**2008**
*Investment Managers' Fees**		
U.S. Equity Managers:		
AXA Rosenberg Investment Management	$ 164,767	$ 875,628
Barclays Global Investors, N.A.	186,139	206,259
State Street Global Advisors	134,795	288,612
Westridge Capital Management, Inc.	214,626	341,055
Total U.S. Equity Managers	700,327	1,711,554
Non-U.S. Equity Managers:		
Pyramis Global Advisors	565,381	0
Barclays Global Investors, N.A.	294,333	2,849,005
JP Morgan Investment Management	540,558	1,119,563
Total Non-U.S. Equity Managers	1,400,272	3,968,568
High Yield Managers:		
Goldman Sachs Asset Management	419,076	496,346
Western Asset Management	120,696	176,560
Total High Yield Managers	539,772	672,906
Global Fixed Income Managers:		
Goldman Sachs Asset Management	276,064	423,292
Western Asset Managment	589,987	633,484
Total Global Fixed Income Managers	866,051	1,056,776
Real Return Assets Managers:		
State Street Global Advisors TIPS	6,937	0
LaSalle Securities - Domestic	232,858	490,183
LaSalle Securities - Global	90,725	163,925
Total Real Return Assets Managers	330,520	654,108
Total Investment Managers' Fees	**$ 3,836,942**	**$ 8,063,912**

Schedule of Investment Fees (continued)

	2009	2008
Custodial Fees		
The Northern Trust Company	$ 410,000	$ 385,000
Policy Implementation Overlay Strategy		
The Clifton Group	50,938	171,948
Actuarial Fees		
Milliman, Inc.	189,584	81,718
Investment Consultant Fees		
American Realty Advisors	52,964	21,940
Glass, Lewis & Co.	41,960	35,475
Wilshire Associates, Inc.	200,000	200,000
Brown Armstrong	805	0
Legal Fees		
Kern County Counsel	40,206	17,254
Lebeau Thelen LLP	45,770	0
Hanson Bridgett	2,766	0
Manatt Phelps Phillips	206,784	0
K & L Gates LLP	23,252	0
Steefel, Levitt & Weiss	0	3,481
Other	528	700
Due Diligence		
Trustees / KCERA Management	18,120	14,062
Security Lending Fees		
The Northern Trust Company	1,757,530	10,757,676
Real Estate Expenses		
KCERA Property Inc.	26,402	0
Total Investment Fees	**$ 6,904,551**	**$ 19,753,166**

** Includes fees paid directly to investment managers (see page 58).*

Section IV

Actuarial

Reading the tea leaves of Plan changes
is not an option for the KCERA Board,
whose decisions rely on precise calculations
of the Fund's assets and liabilities.

KCERA
prudent investment + quality service

Milliman

1301 Fifth Avenue
Suite 3800
Seattle, WA 98101-2605
USA

Tel +1 206 624 7940
Fax +1 206 623 3485

milliman.com

August 24, 2009

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

Members of the Board:

Milliman has performed the June 30, 2008 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.

Contribution Rates

The financing objective of KCERA is to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a closed 27.5-year period as of June 30, 2008, while maintaining contribution rates that will tend to remain level as percentages of payroll. As of June 30, 2008 there is a UAAL of $1,017.1 million.

Due primarily to changes in assumptions, as well as the plan's demographic experience, the Total Plan calculated contribution rate increased from 31.22% of pay based on the December 31, 2007 valuation to 33.73% of pay based on the June 30, 2008 valuation. The application of the COLA Contribution Reserve (CCR) credit reduces the Total Plan contribution rate to 29.79%. Note that the CCR credit was adjusted in May 2009 to reflect the CCR balance as of December 31, 2008.

Funded Status

Based on the June 30, 2008 actuarial valuation, the Funded Ratio decreased during the period from December 31, 2007 to June 30, 2008 from 77.2% to 72.3% due primarily to assumption changes related to the experience study (2.80% decrease) and salary and demographic losses (1.45% decrease). The Funded Ratio is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability.

However, it should be noted that the 2008 valuation results do not reflect the significant market loss on assets that occurred in the fiscal year ending June 30, 2009. Thus, the Funded Ratio is expected to be significantly lower once that market loss is reflected in the 2009 and later valuations.

Supplemental Retirement Benefit Reserve (SRBR) Funding Status

Based on the June 30, 2008 actuarial valuation, the Funded Ratio for all SRBR benefits increased during the past year from 110.7% to 151.9% due primarily to a lowering of the inflation assumption from 3.50% per year to 3.25% per year. 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 June 30, 2008 and all actuarial assumptions were reviewed and many were updated. Most significantly, the investment return assumption was decreased from 8.00% to 7.75%. Our June 30, 2008 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, 2011.

kce0195e.doc
25 003 KCE 10 /25.003.KCE.10.2008.1 / KIS/DRW/nlo

Certification Statement

In preparing our valuation report, we relied, without audit, on information (some oral and some in writing) supplied by the KCERA staff. This information includes, but is not limited to, statutory provisions, employee data, and financial information. We found this information to be reasonably consistent and comparable with information used for other purposes. The valuation results depend on the integrity of this information. If any of this information is inaccurate or incomplete our results may be different and 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. Due to the limited scope of our assignment, we did not perform an analysis of the potential range of future measurements

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

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

KIS/DRW/nlo

Enclosure

kce0195e.doc
25 003 KCE 10 /25.003.KCE.10.2008.1 / KIS/DRW/nlo

Summary of Actuarial Assumptions and Methods

Economic Assumptions

Interest Rate: 7.75%

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

Inflation Assumption: 3.25%

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 27.5 years, beginning June 30, 2008. Beginning January 1, 2006, any liability attributable to Golden Handshakes is paid by the employer at the time that the handshake is granted.

Demographic Assumptions

Post-Retirement Mortality:

A) General Members and Safety Members: RP-2000 Combined Healthy Annuitant Mortality Table changed. Rates are set back two years for females and one year for males.

Summary of Actuarial Assumptions and Methods (continued)

<u>*Demographic Assumptions (continued)*</u>

B) Beneficiaries:	Rates are the same as a service retiree of the opposite gender.
C) Disability Retirement:	RP-2000 Combined Healthy Annuitant Mortality Table. Rates set forward four years for females and two years for males. Rates are not less than 1.00% for both males and females. Safety disability rates are the same as General, except the rates are not less than 0.50% for both males and females.
Proportion of Members with Spouse or Partner at Retirement:	80% of male active members and 55% 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 50% for Safety members and General members.
Deferred Retirement Age for Vested Termination:	Age 50 for Safety members. Age 60 for General members.

Note: 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 June 30, 2008. The most recently updated Summary of Actuarial Assumptions and Methods was adopted by the Board of Retirement on November 19, 2008.

Assumed Rate of Salary Increase ***Table 1***
As of June 30, 2008

Annual Increase in Salary (before wage inflation)

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

Annual Increase in Salary (with wage inflation)

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

Probabilities of Separation from Active Service *Table 2*

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

General Members - Male

Age Nearest	Ordinary Death	Service Death	Ordinary Disability	Service Retirement *Tier I*	Service Retirement *Tier II*	Service Disability	Years of Service	Other Terminations
20	3	0	2	0	0	3	0	2,000
30	4	0	3	0	0	4	10	318
40	10	0	7	0	0	10	20	140
50	20	0	12	600	300	19	30 & above	100
60	44	0	20	2,000	1,500	31	30 & above	0
70	95	0	0	10,000	10,000	0	30 & above	0

General Members - Female

Age Nearest	Ordinary Death	Service Death	Ordinary Disability	Service Retirement *Tier I*	Service Retirement *Tier II*	Service Disability	Years of Service	Other Terminations
20	2	0	2	0	0	3	0	2,000
30	2	0	3	0	0	4	10	318
40	6	0	5	0	0	8	20	140
50	14	0	9	600	300	14	30 & above	100
60	33	0	16	2,200	1,200	23	30 & above	0
70	69	0	0	10,000	10,000	0	30 & above	0

Safety Members - All

Age Nearest	Ordinary Death	Service Death	Ordinary Disability	Service Retirement	Service Disability	Years of Service	Other Terminations
20	3	2	0	0	10	0	700
30	4	2	0	0	16	10	220
40	10	2	0	0	52	20 & above	0
50	20	2	0	1,200	144	20 & above	0
60	44	2	0	10,000	300	20 & above	0
70	0	0	0	0	0	20 & above	0

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/01	General	6,397	$ 250,670,766	$ 39,186	11.6%
	Safety	1,658	83,120,619	50,133	4.2%
	Total	**8,055**	**333,791,385**	**41,439**	**9.6%**
12/31/02	General	6,414	$ 261,061,804	$ 40,702	3.9%
	Safety	1,641	83,809,133	51,072	1.9%
	Total	**8,055**	**344,870,937**	**42,815**	**3.3%**
12/31/03	General	6,446	$ 270,440,100	$ 41,955	3.1%
	Safety	1,658	84,871,617	51,189	0.2%
	Total	**8,104**	**355,311,717**	**43,844**	**2.4%**
12/31/04	General	6,389	$ 287,264,645	$ 44,962	7.2%
	Safety	1,597	89,841,674	56,257	9.9%
	Total	**7,986**	**377,106,319**	**47,221**	**7.7%**
12/31/05	General	6,552	$ 300,821,384	$ 45,913	2.1%
	Safety	1,643	92,679,367	56,409	0.3%
	Total	**8,195**	**393,500,751**	**48,017**	**1.7%**
12/31/06	General	6,862	$ 320,078,067	$ 46,645	1.6%
	Safety	1,685	100,355,950	59,558	5.6%
	Total	**8,547**	**420,434,017**	**49,191**	**2.4%**
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%**
06/30/08	General	7,216	$ 369,093,653	$ 51,149	5.6%
	Safety	1,841	117,947,008	64,067	3.6%
	Total	**9,057**	**487,040,661**	**53,775**	**5.1%**

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*
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
2008	5,552	196	97	5,651	5,039,591	1,610,546	145,783,557	4.8%	25,798

* Excludes SRBR amounts
** Plan year ended December 31 for 2007 and earlier. Plan year ended June 30 for 2008 and later.

Solvency Test

	Aggregate Accrued Liabilities					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date*	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/03	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%
06/30/08	222,418,000	1,913,946,000	1,535,096,000	3,671,460,000	2,654,316,000	100%	100%	34%

* Valuations were performed December 31 for 2007 and earlier. Valuations will be as of June 30 for 2008 and later.

Actuarial Analysis of Financial Experience
(Rounded to nearest hundred-thousand)

	Gain (or Loss) for Year -- UAAL December 31, 2007 to June 30, 2008		
	2008	**2007**	**2006**
Investment Performance Greater (Less) than Expected	$ 11,000,000	$ 34,700,000	$ 3,900,000
New Entrants into System (Greater) Less than Expected	(900,000)	(5,700,000)	(7,400,000)
Individual Salary Increases (Greater) Less than Expected	(53,800,000)	(33,400,000)	(16,800,000)
Demographic Changes Greater (Less) than Expected	(17,500,000)	7,700,000	(12,200,000)
Change in Benefits	-	-	-
Change in Assumptions/Methodology	(126,600,000)	-	(13,600,000)
Composite Gain (or Loss) During Year	**$ (187,800,000)**	**$ 3,300,000**	**$ (46,100,000)**

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, mulitplied 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 June 30, 2008 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.

Section V

Statistical

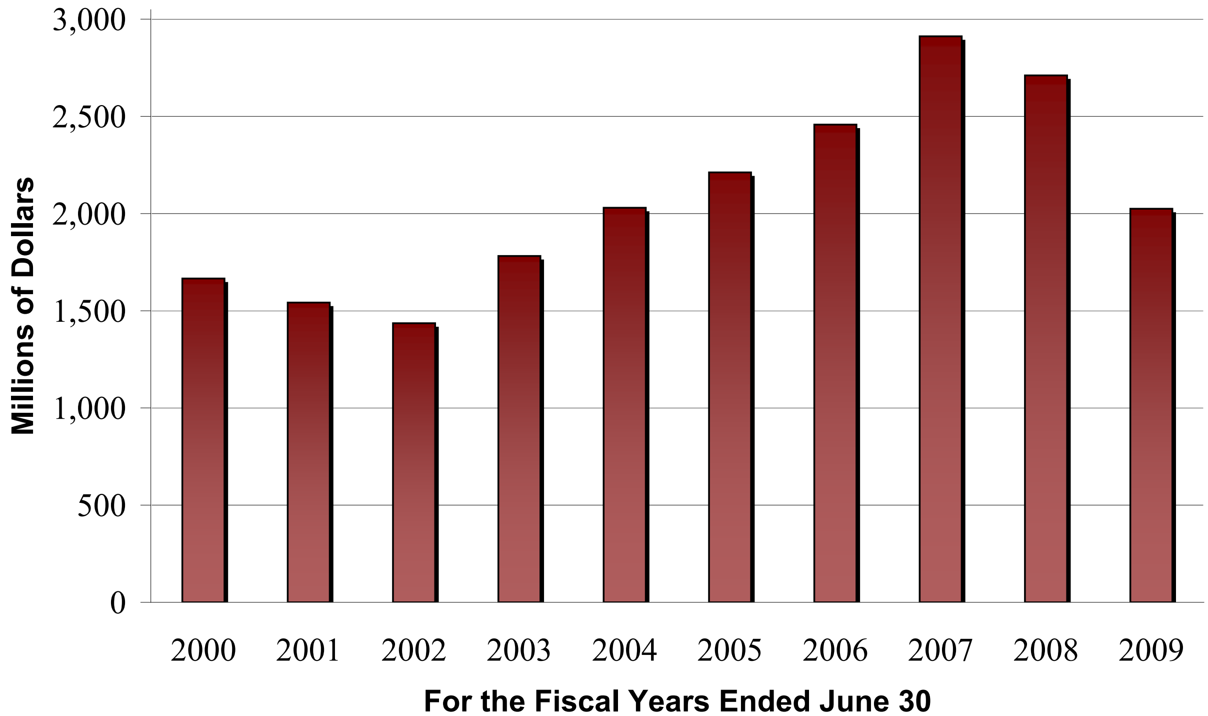
In a world where numbers and statistics are
the universal language of investments,
the KCERA Board navigates a steady course
using the best information available.

KCERA
prudent investment + quality service

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



Schedule of Changes in Plan Net Assets
Last 10 Fiscal Years

	2000	2001	2002	2003	2004
Additions					
Employer Contributions	$ 37,575,583	$ 41,067,487	$ 41,881,569	$ 343,338,853*	$ 48,759,946
Member Contributions	6,145,942	9,173,557	11,287,597	12,748,788	10,450,868
Net Investment Income	140,569,826	(99,791,394)	(76,247,977)	87,935,189	296,074,040
Total Additions	**$ 184,291,351**	**$ (49,550,350)**	**$ (23,078,811)**	**$ 444,022,830**	**$ 355,284,854**
Deductions					
Total Benefit Expenses	$ 67,624,699	$ 73,120,070	$ 80,613,013	$ 94,302,059	$ 104,960,374
(See Benefit Expenses by Type)					
Administrative Expenses	1,601,849	1,903,426	2,167,965	2,166,624	2,551,741
Miscellaneous	5,677	89,427	48,290	780,444	0
Total Deductions	**$ 69,232,225**	**$ 75,112,923**	**$ 82,829,268**	**$ 97,249,127**	**$ 107,512,115**
Change in Plan Net Assets	**$ 115,059,126**	**$ (124,663,273)**	**$ (105,908,079)**	**$ 346,773,703**	**$ 247,772,739**

	2005	2006	2007	2008	2009
Additions					
Employer Contributions	$ 60,268,141	$ 100,734,230	$ 128,134,672	$ 137,263,673	$ 138,814,789
Member Contributions	10,350,993	11,774,784	12,633,790	15,031,419	18,191,402
Net Investment Income	224,442,133	259,760,478	453,362,746	(201,562,477)	(677,335,695)
Total Additions	**$ 295,061,267**	**$ 372,269,492**	**$ 594,131,208**	**$ (49,267,385)**	**$ (520,329,504)**
Deductions					
Total Benefit Expenses	$ 111,006,082	$ 123,765,490	$ 137,078,303	$ 148,560,718	$ 162,489,110
(See Benefit Expenses by Type)					
Administrative Expenses	2,500,768	2,518,913	3,030,488	3,341,021	3,072,618
Miscellaneous	2,745	111	705	105	0
Total Deductions	**$ 113,509,595**	**$ 126,284,514**	**$ 140,109,496**	**$ 151,901,844**	**$ 165,561,728**
Change in Plan Net Assets	**$ 181,551,672**	**$ 245,984,978**	**$ 454,021,712**	**$ (201,169,229)**	**$ (685,891,232)**

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

Schedule of Benefit Expenses by Type
For Fiscal Years 2009-2005
(in thousands)

	2009	2008	2007	2006	2005
Service Retirement Benefits					
General	$ 79,546	$ 71,725	$ 65,324	$ 58,529	$ 50,436
Safety	43,311	39,650	37,075	33,334	29,594
Total	122,857	111,375	102,399	91,863	80,030
Disability Benefits					
General	7,720	7,547	7,209	6,846	6,295
Safety	13,545	12,515	11,609	10,771	10,051
Total	21,265	20,062	18,818	17,617	16,346
Beneficiary Benefits					
General	8,573	7,962	7,452	6,991	6,671
Safety	6,525	6,297	5,575	5,109	4,904
Total	15,098	14,259	13,027	12,100	11,575
Retroactive Payments					
General	0	0	0	2	347
Safety	0	0	0	0	517
Total	0	0	0	2	864
Lump Sum Death Benefits	640	490	320	244	259
Total Benefit Payments	**159,860**	**146,186**	**134,564**	**121,826**	**109,074**
Refunds					
General	2,270	2,084	2,206	1,770	1,794
Safety	359	290	308	169	138
Total	2,629	2,374	2,514	1,939	1,932
Total Benefit Expenses	**$ 162,489**	**$ 148,561**	**$ 137,078**	**$ 123,765**	**$ 111,006**

Schedule of Benefit Expenses by Type (continued)
For Fiscal Years 2004-2000
(in thousands)

	2004	2003	2002	2001	2000
Service Retirement Benefits					
General	$ 44,539	$ 41,497	$ 38,542	$ 36,675	$ 34,123
Safety	26,029	22,616	18,436	14,614	13,168
Total	70,568	64,113	56,978	51,289	47,291
Disability Benefits					
General	6,381	5,684	5,482	5,136	4,928
Safety	9,035	8,187	7,508	6,932	6,249
Total	15,416	13,871	12,990	12,068	11,177
Beneficiary Benefits					
General	6,109	5,724	5,394	5,151	4,832
Safety	4,386	3,901	3,630	3,224	3,027
Total	10,495	9,625	9,024	8,375	7,859
Retroactive Payments					
General	2,730	2,097	0	0	0
Safety	3,454	2,775	0	0	0
Total	6,184	4,872	0	0	0
Lump Sum Death Benefits	382	220	185	165	155
Total Benefit Payments	**103,045**	**92,701**	**79,177**	**71,897**	**66,482**
Refunds					
General	1,834	1,503	1,326	1,121	1,030
Safety	81	98	110	102	112
Total	1,915	1,601	1,436	1,223	1,142
Total Benefit Expenses	**$ 104,960**	**$ 94,302**	**$ 80,613**	**$ 73,120**	**$ 67,624**

Schedule of Retired Members by Type of Benefit
As of June 30, 2009

Amount of Monthly Benefit	Number of Retirants	Type of Retirement 1	2	3	4	5	6	7	8	9
$1-500	434	98	1	0	195	81	18	0	22	19
501-1,000	921	357	62	17	234	128	41	6	47	29
1,001-1,500	886	401	76	103	145	79	22	1	38	21
1,501-2,000	728	373	30	156	58	57	10	3	29	12
2,001-3,000	1,181	621	13	318	49	94	6	17	47	16
3,001-4,000	634	409	5	135	25	31	1	3	19	6
4,001-5,000	376	280	0	65	13	11	0	1	4	2
5,001-6,000	232	217	1	7	2	2	0	0	2	1
Over $6,000	527	515	2	2	4	4	0	0	0	0
Totals	**5,919**	**3,271**	**190**	**803**	**725**	**487**	**98**	**31**	**208**	**106**

Amount of Monthly Benefit	Number of Retirants	Option Selected: Option 1	Option 2	Option 3	Option 4	Unmodified A	Unmodified B	Unmodified C
$1-500	434	11	6	0	0	178	238	1
501-1,000	921	5	27	1	0	324	556	8
1,001-1,500	886	7	31	3	0	340	446	59
1,501-2,000	728	6	18	1	0	260	347	96
2,001-3,000	1,181	14	31	3	1	418	481	233
3,001-4,000	634	3	24	1	0	278	209	119
4,001-5,000	376	0	13	0	0	209	95	59
5,001-6,000	232	1	6	0	1	169	49	6
Over $6,000	527	2	19	2	0	434	68	2
Totals	**5,919**	**49**	**175**	**11**	**2**	**2,610**	**2,489**	**583**

Type of Retirement

1 – Normal retirement for age and service
2 – Nonservice-connected disability retirement
3 – Service-connected disability retirement
4 – Former member with deferred future benefit
5 – Beneficiary payment – normal retirement
6 – Beneficiary payment – active member who died and was eligible for retirement
7 – Beneficiary payment – death in service
8 – Beneficiary payment – disability retirement
9 – Supplemental and ex-spouses

Option Selected

Option 1 – Beneficiary receives lump sum of member's unused contributions
Option 2 – Beneficiary receives 100% of member's reduced monthly allowance
Option 3 – Beneficiary receives 50% of member's reduced monthly allowance
Option 4 – More than one beneficiary receives 100% of member's reduced monthly allowance
A – Unmodified 60% continuance
B – Unmodified no continuance
C – Unmodified 100% continuance

Schedule of Average Benefit Payment Amounts

	Number of Years Since Retirement							
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35
Valuation date 12/31/99								
Average Monthly Benefit:								
General	1,346	1,327	958	744	498	413	292	146
Safety	2,580	2,480	2,039	1,666	1,126	888	729	0
Number of Active Retirants:								
General	803	658	535	521	429	259	81	11
Safety	208	159	163	112	120	85	15	0
Valuation date 12/31/00								
Average Monthly Benefit:								
General	1,341	1,393	1,048	794	534	398	292	213
Safety	2,441	2,480	2,007	1,743	1,196	953	686	1,476
Number of Active Retirants:								
General	840	700	507	540	437	264	86	11
Safety	191	222	163	125	120	84	30	1
Valuation date 12/31/01								
Average Monthly Benefit:								
General	1,375	1,469	1,126	837	582	409	364	311
Safety	3,290	2,739	2,363	2,054	1,376	1,020	792	0
Number of Active Retirants:								
General	833	745	506	514	448	282	94	19
Safety	226	188	151	124	110	101	37	0
Valuation date 12/31/02								
Average Monthly Benefit:								
General	1,516	1,517	1,184	911	624	451	394	357
Safety	3,946	2,763	2,556	2,200	1,466	1,146	837	0
Number of Active Retirants:								
General	789	796	528	522	440	281	118	24
Safety	270	200	156	133	99	111	49	0
Valuation date 12/31/03								
Average Monthly Benefit:								
General	1,645	1,505	1,358	973	714	487	398	315
Safety	4,144	2,823	2,768	2,298	1,713	1,239	940	916
Number of Active Retirants:								
General	792	814	570	515	425	302	127	31
Safety	318	213	140	135	101	103	69	2

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

Schedule of Average Benefit Payment Amounts (continued)

	Number of Years Since Retirement							
	0-4	5-9	10-14	15-19	20-24	25-29	30-34	Over 35
Valuation date 12/31/04								
Average Monthly Benefit:								
General	1,708	1,476	1,514	1,055	795	563	444	334
Safety	4,220	2,962	2,935	2,464	1,951	1,651	1,333	711
Number of Active Retirants:								
General	766	804	616	488	436	301	141	39
Safety	344	213	149	141	104	118	72	9
Valuation date 12/31/05								
Average Monthly Benefit:								
General	2,146	1,524	1,607	1,202	867	584	422	318
Safety	4,440	2,981	3,287	2,622	2,072	1,429	1,119	814
Number of Active Retirants:								
General	1,000	817	651	467	454	315	149	45
Safety	423	180	192	138	110	105	64	22
Valuation date 12/31/06								
Average Monthly Benefit:								
General	2,331	1,569	1,685	1,301	917	660	451	368
Safety	4,393	3,824	3,200	2,792	2,416	1,551	1,169	921
Number of Active Retirants:								
General	1,103	819	699	454	425	333	152	57
Safety	434	231	184	144	114	98	78	30
Valuation date 12/31/07								
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
Valuation date 06/30/08								
Average Monthly Benefit:								
General	2,501	1,762	1,735	1,424	1,089	748	526	381
Safety	4,338	4,652	3,161	3,071	2,638	1,874	1,359	993
Number of Active Retirants:								
General	1,219	798	761	492	422	331	169	66
Safety	392	298	209	141	124	95	90	44

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

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

	2000	2001	2002	2003	2004
County of Kern:					
General Members	5,272	5,624	6,130	6,006	6,011
Safety Members	1,527	1,620	1,630	1,609	1,609
Total	6,799	7,244	7,760	7,615	7,620
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	12	12	12	12
Buttonwillow Recreation and Park District	1	2	3	3	3
East Kern Cemetery District	2	2	2	1	1
Inyokern Community Services District	2	2	3	2	2
Kern County Water Agency	61	59	67	66	70
Kern Mosquito & Vector Control District	21	20	20	20	18
North of the River Sanitation District	9	9	9	7	8
San Joaquin Valley Unified Air Pollution Control District	175	198	219	237	250
Shafter Recreation and Park District	2	0	0	0	1
West Side Cemetery District	6	5	6	6	6
West Side Mosquito Abatement District	7	7	8	8	8
West Side Recreation and Park District	12	12	12	12	11
Total	310	328	361	374	390
Total Active Membership:					
General Members	5,582	5,952	6,491	6,380	6,401
Safety Members	1,527	1,620	1,630	1,609	1,609
Total	**7,109**	**7,572**	**8,121**	**7,989**	**8,010**

Data retrieved from the Plan's database.

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

	2005	2006	2007	2008	2009
County of Kern:					
General Members	6,029	6,222	6,537	6,348	6,254
Safety Members	1,632	1,646	1,738	1,842	1,854
Total	7,661	7,868	8,275	8,190	8,108
Participating Agencies (General Membership):					
Berrenda Mesa Water District	14	14	12	12	12
Buttonwillow Recreation and Park District	3	3	3	3	4
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	2	2
Kern County Water Agency	68	67	72	89	76
Kern Mosquito & Vector Control District	19	19	19	19	19
North of the River Sanitation District	7	8	9	10	9
San Joaquin Valley Unified Air Pollution Control District	253	267	272	280	291
Shafter Recreation and Park District	0	0	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito Abatement District	8	8	8	9	8
West Side Recreation and Park District	10	11	11	11	12
Kern County Superior Court				473	472
Total	391	406	415	915	912
Total Active Membership:					
General Members	6,420	6,628	6,952	7,263	7,166
Safety Members	1,632	1,646	1,738	1,842	1,854
Total	**8,052**	**8,274**	**8,690**	**9,105**	**9,020**

Note: Beginning in fiscal year 2007-08, the Kern County Superior Court was reported separately from the general membership of the County of Kern.

Kern County Employees' Retirement Association
1115 Truxtun Avenue / Bakersfield, CA 93301-4639
(661) 868-3790 office / (661) 868-3779 fax
www.kcera.org