COMPREHENSIVE Annual Financial Report

For the Fiscal Years Ended June 30, 2010 and 2009

KCERA

PRUDENT INVESTMENT • QUALITY SERVICE

Kern County Employees' Retirement Association
11125 River Run Boulevard Bakersfield, CA 93311

Comprehensive Annual Financial Report

for the fiscal years ended June 30, 2010 and 2009

Issued By

Anne M. Holdren
Executive Director

Sheryl Lawrence
Financial Officer

Prudent Investment • Quality Service

Kern County Employees' Retirement Association
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Introductory

SECTION 1

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KCERA
PRUDENT INVESTMENT • QUALITY SERVICE

Anne M. Holdren
Executive Director

Lee Blair
Assistant Executive Director

November 2, 2010

Kern County Employees' Retirement Association
Board of Retirement
11125 River Run Boulevard
Bakersfield, CA 93311

Dear Board Members:

As Executive Director of the Kern County Employees' Retirement Association (KCERA), I am pleased to present this Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2010 and 2009. 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.

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 the fiscal year ended June 30, 2010, KCERA paid retirements to 6,171 members and continued supplemental benefits to 893 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA System added 367 service retirees, 7 nonservice-connected disability retirees, 2 service-connected disability retirees and 4 nonservice-connected death survivorship benefits in the fiscal year.

KCERA AND ITS SERVICES

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, 2010, 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 KCERA's assets. The Board oversees the Executive Director and the KCERA staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937 and the bylaws, procedures, and policies adopted by the KCERA Board.

MAJOR INITIATIVES

Board Election Results
In November 2009, trustee Jeff Frapwell ran unopposed for the Second Member seat on the Board of Retirement, representing general members. KCERA's safety members re-elected Mark Ratekin as the Seventh Member and elected Larry Studer as the Seventh Member Alternate. These trustees will serve a three-year term, ending on December 31, 2012.

Building Project
In November 2008, KCERA's property management corporation, KPI, Inc., purchased a 1.25-acre lot at the Riverwalk Corporate Center in Southwest Bakersfield, where a 14,300-square-foot facility is being built to accommodate KCERA operations and Board meetings. Architectural firm Taylor Teter Partnership and general contractor Wallace & Smith were hired to develop building plans and oversee construction, respectively. KCERA's new building is scheduled for completion in October 2010.

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 has defined business rules, revised processes and overhauled communications in anticipation of the new system. KCERA will enter a rigorous testing phase before system implementation, scheduled for early 2012.

Asset/Liability Study
In 2009, the Board approved an Asset/Liability Study for investment consultant Wilshire Associates, Inc., to assess the risk levels inherent in KCERA's asset allocation. Wilshire presented its recommendations to the Board in May 2010, resulting in the adoption of the following allocation: U.S. equities (22.5%), non-U.S. equities (22.5%), real assets (15.0%), investment-grade bonds (13.0%), private equities (10.0%), absolute return (10.0%), high-yield bonds (4.0%) and cash equivalents (3.0%). KCERA will transition to these allocation targets over the next 18 months.

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 KCERA, its Board and senior staff have adhered to the provisions of KCERA's various charters, which prescribe approximately 110 verifiable responsibilities.

Beneficiary Update Project
Anticipating the eventual conversion of its paper documents into electronic format, KCERA digitized the contact information of its 6,000 retirees' beneficiaries. The project was divided into two phases, beginning in mid-2009, and was completed successfully by the end of 2009.

FUNDING

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, 2009, the funded ratio of the System was approximately 66.1% using actuarial assets and actuarial liabilities of $2,780,215,000 and $4,205,200,000, respectively. The funded percentage decreased 6.2% from 2008. As the global economy and investment returns improve, the funded ratio will increase due to investment gains. The plan assets rebounded in fiscal year 2009-10 and will be reflected in future actuarial valuations.

Pursuant to provisions in the County Employees Retirement Law of 1937, 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 Board's monitoring and reporting policy stipulates that an independent review of the validity of the analyses and methodologies used in preparing its actuarial valuation must occur every three to five years. Accordingly, KCERA contracted with a third-party firm, EFI Actuaries, to perform a full review of KCERA's Actuarial Valuation as of June 30, 2009, and its Investigation of Experience covering January 1, 2006 to June 30, 2008, both of which Milliman produced. EFI Actuaries' audit found that previous reports failed to include in their total pensionable earnings calculation some supplemental, pensionable salary information. Although employer contributions were paid on the correct salary data, the total pensionable earnings amounts were understated in the valuations. The effect of this omission resulted in an unfunded actuarial accrued liability of $193.8 million and a 3.2% decrease in the funded ratio; the plan's employer contribution total will increase by 1.1% in fiscal year 2010-11. The supplemental salary amounts were reflected in Milliman's final 2009 valuation. EFI also found that KCERA's 2008 Experience Study overstated the assumed rate of disability. This led to a recommendation to lower the disability assumption rate to the pre-2008 level. In addition, EFI found that previous actuarial reports failed to disclose that KCERA could experience a potential loss of future investment income due to the non-valuation of future excess earnings being transferred to the COLA Contribution Reserve and the Supplemental Retiree Benefit Reserve (SRBR). Future reports will include this Actuarial Standard of Practice #4 disclosure.

To prevent the Actuarial Value of Assets (AVA) from deviating too much from the Market Value of Assets (MVA), it has been KCERA's practice to apply an asset corridor limit on the AVA, such that the AVA stays within a certain percentage of the MVA. At its April 22, 2009 meeting, the Board of Retirement increased the corridor from 20% to 50%.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2010 and 2009 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.

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 KCERA as of June 30, 2010 and 2009 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 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.

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 KCERA's 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 2010, the investments of the Plan realized a gain of 13.30% (net of fees). KCERA's annualized rate of return, net of fees, was -6.11% in the past three years, 1.82% in the past five years, and 3.07% 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 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 61 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 KCERA for its comprehensive annual financial report for the fiscal year ended June 30, 2009. 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 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, 2009

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

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

President

Executive Director

Members of the Board of Retirement

As of June 30, 2010

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

Jeff Frapwell, Vice Chairman
Elected by general members
Present term expires 12/31/2012

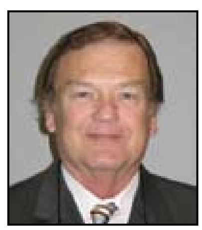
Brad Barnes
Appointed by Board of Supervisors
Present term expires 12/31/2010

Jackie Denney
County Treasurer-Tax Collector
Ex-Officio Member

Joseph Hughes
Appointed by Board of Supervisors
Present term expires 12/31/2012

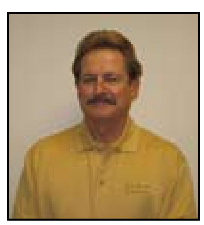
Robert Jefferson
Elected by general members
Present term expires 12/31/2010

Mike Maggard
Appointed by Board of Supervisors
Present term expires 12/31/2012



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

Mark Ratekin
Elected by safety members
Present term expires 12/31/2012



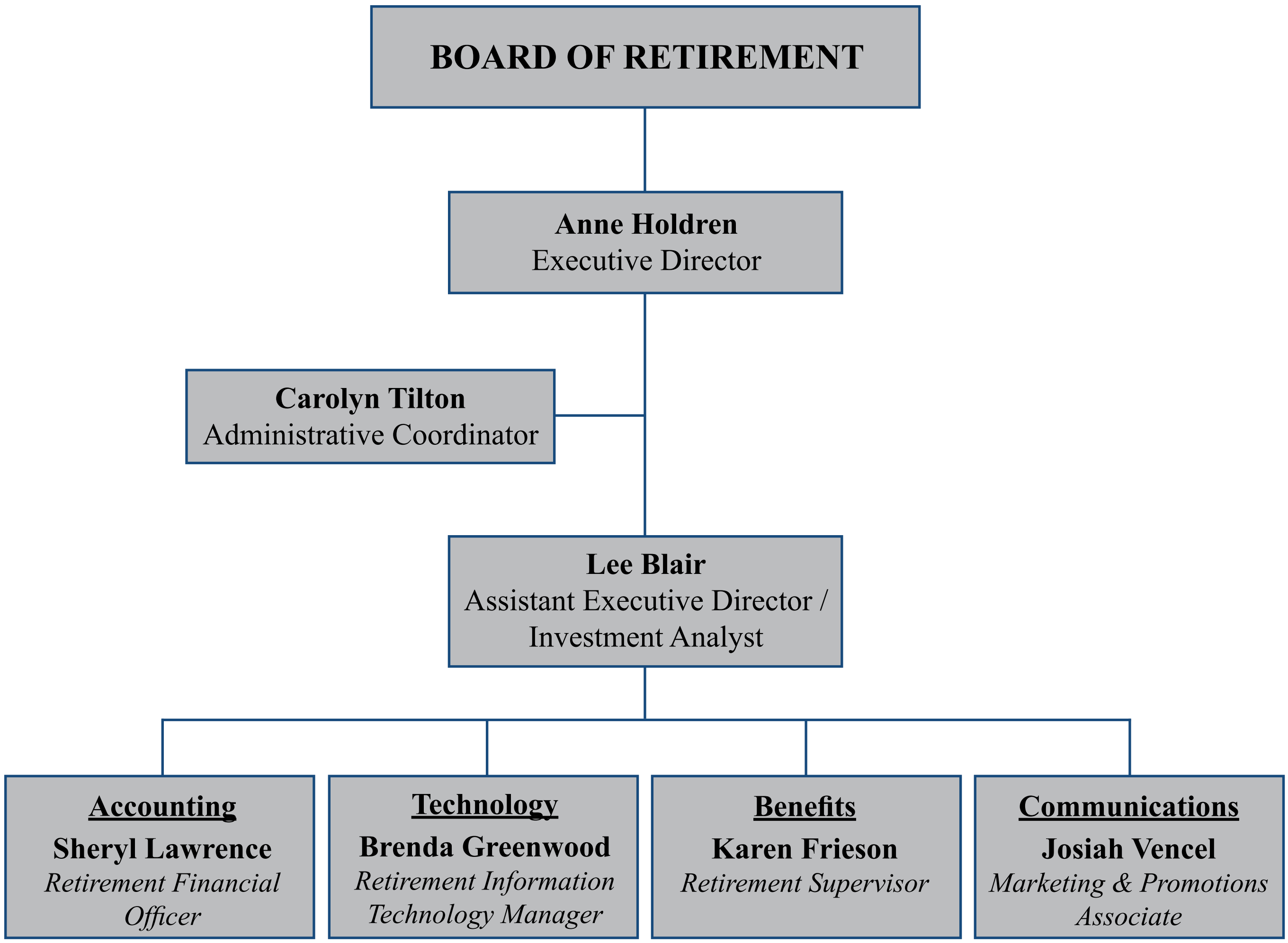
Phil Franey, Alternate
Elected by retired members
Present term expires 12/31/2010

No Photo Available

Larry Studer, Alternate
Elected by safety members
Present term expires 12/31/2012

Organizational Chart

As of June 30, 2010



Note: A list of Investment Professionals is located on page 61 of the Investment Section of this report.

List of Professional Consultants

As of June 30, 2010

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 CONSULTANT
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

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SECTION

Financial

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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

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Fresno, California 93720
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INDEPENDENT AUDITOR'S REPORT

To the Board of Retirement and the Audit/Actuarial Committee
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, 2010 and 2009, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KCERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, KCERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets,* and Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

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, 2010 and 2009, 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.

Accounting principles generally accepted in the United States of America require that management's discussion and analysis and the schedules of funding progress and employer contributions be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the GASB, who considers it to be an essential part of the financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The Required Supplementary Information as listed in the table of contents is presented for purposes of additional analysis 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 2010 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the Fiscal Year 2010 basic financial statements taken as a whole. The Other Supplementary Information, as listed in the table of contents, and the Investment, Actuarial and Statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements of KCERA. The Other Supplementary Information as listed in the table of contents has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. We did not audit the information contained in the Investment, Actuarial and Statistical sections and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2010, 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
November 2, 2010

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, 2010 and 2009. 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

- During the fiscal year ended June 30, 2010, KCERA's total fund returned 13.30% (net of fees), an increase from the prior fiscal year return of -21.87%. Performance of the fund was primarily due to strong performance in the U.S. equity and fixed income markets. KCERA's net assets increased $276.2 million during the year ended June 30, 2010.

- Member contributions decreased by $314 thousand, or -1.7%, due primarily to a decrease in active membership. Employer contributions increased by $12.3 million, or 8.9%, due primarily to an overall 2.5% increase in the employer contribution rate.

- Vested pension benefits increased by $17.5 million, or 11.7%, over the prior year. The increase is attributable to a 4.3% increase in retired members and beneficiaries receiving pension benefits and a 7.1% increase in the average monthly benefit, which rose to $2,253 in the fiscal year.

- As of June 30, 2009, the date of the most recent actuarial valuation, the funded ratio for KCERA was 66.1%, compared to the funded ratio of 72.3% as of June 30, 2008. Prior year investment losses, salary changes and demographic changes have been factored into the June 30, 2009 funded ratio.

Overview of the Basic 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 Basic 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) Statement Numbers 2, 28, 34, 37, 40, 44, 50, 51 and 53.

Financial Analysis

Net Assets Held in Trust for Pension Benefits
KCERA provides pension benefits to the employees and their beneficiaries of the County of Kern and other public agencies. KCERA's benefits are funded by member and employer contributions and by investment income. KCERA's net assets held in trust for pension benefits at June 30, 2010 were $2.3 billion, an increase of approximately $276.2 million (13.6%) from June 30, 2009. 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. Key elements of the decrease in net assets are described below and in Tables 1 and 2 on page 20.

Contributions and Investment Income
Additions to plan net assets include member and employer contributions, and investment income. Member contributions were approximately $17.9 million, $18.2 million and $15.0 million for the years ended June 30, 2010, 2009, and 2008, respectively. Employer contributions were $151.1 million, $138.8 million and $137.3 million for the years ended June 30, 2010, 2009 and 2008, respectively.

Member contributions decreased by $314 thousand (-1.7%) in 2010 and increased by approximately $3.2 million (21.0%) in 2009. The decrease in member contributions in 2010 was due to a 5.0% decrease in active membership. 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.

Employer contributions increased by approximately $12.3 million (8.9%) in 2010 and increased by approximately $1.6 million (1.1%) in 2009. The increase in employer contributions in 2010 was due to an overall 2.5% increase in the employer contribution rate, mostly attributable to the reduction of the actuarial assumption rate from 8.00% to 7.75%. The increase in employer contributions in 2009 was due to an increase in covered payroll.

Net investment income was $291.3 million, ($677.3) million and ($201.6) million for the years ended June 30, 2010, 2009 and 2008, respectively. The increase in 2010 can be attributed to strong performance in the U.S. equity and fixed income markets. The decrease in 2009 can be attributed to broad market dislocations affecting all public asset classes.

Financial Analysis (continued)

Contributions and Investment Income (continued)
KCERA's total fund return (net of fees) in fiscal year 2010 was 13.30%. In fiscal year 2010, its U.S. equity composite returned 16.49%, the non-U.S. equity composite returned 11.03%, the fixed income composite returned 20.79%, and the real assets composite returned 20.72%. KCERA's total fund return (net of fees) in fiscal year 2009 was -21.87%. In fiscal year 2009, its 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 assets composite returned -42.23%. More information on KCERA's investment portfolio is contained in the investment section of this report, beginning on page 51.

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 $166.8 million, $149.4 million, and $136.2 million for the years ended June 30, 2010, 2009 and 2008, respectively. Pension benefits increased by approximately $17.5 million (11.7%) in 2010 and $13.2 million (9.7%) in 2009. 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 4.2% in 2010 and by 5.1% in 2009. The average monthly benefit for retirees and beneficiaries increased by 7.1% in 2010 and 4.4% in 2009.

	June 2010	June 2009	June 2008
Average Monthly Defined Benefit Payments, excluding Supplemental Retire Benefit Reserve (SRBR) Benefits	$13.9 million	$12.4 million	$11.3 million
Retirees and Beneficiaries	6,171	5,919	5,634

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. In addition to pension benefits, the supplemental retirement benefits paid were $11.2 million, $10.5 million and $10.0 million for the years ended June 30, 2010, 2009 and 2008, respectively. Refunds of member contributions were $2.3 million, $2.6 million, and $2.4 million for the years ended June 30, 2010, 2009 and 2008, respectively.

KCERA's administrative expenses were $3.2 million, $3.1 million, and $3.3 million for the years ended June 30, 2010, 2009 and 2008, respectively. Administrative expenses have remained consistent over the last three years.

NET ASSETS
(In thousands)

Table 1

	2010	Increase/ (Decrease) Amount	2009	Increase/ (Decrease) Amount	2008
Assets					
Current Assets	$ 194,337	$ 35,321	$ 159,016	$ (38,413)	$ 197,429
Investments	2,243,466	243,581	1,999,885	(704,427)	2,704,312
Securities Lending Collateral	237,933	87,729	150,204	(110,446)	260,650
Capital Assets	2,759	1,273	1,486	1,403	83
Total Assets	**$ 2,678,495**	**$ 367,904**	**$ 2,310,591**	**$ (851,883)**	**$ 3,162,474**
Liabilities					
Current Liabilities	$ 139,128	$ 3,958	$ 135,170	$ (55,545)	$ 190,715
Liabilities for Security Lending	237,933	87,729	150,204	(110,446)	260,650
Total Liabilities	**$ 377,061**	**$ 91,687**	**$ 285,374**	**$ (165,991)**	**$ 451,365**
Net Assets Held in Trust for Pension Benefits	**$ 2,301,434**	**$ 276,217**	**$ 2,025,217**	**$ (685,892)**	**$ 2,711,109**

CHANGES IN NET ASSETS
(In thousands)

Table 2

	2010	Increase/ (Decrease) Amount	2009	Increase/ (Decrease) Amount	2008
Additions					
Member Contributions	$ 17,877	$ (314)	$ 18,191	$ 3,160	$ 15,031
Employer Contributions	151,127	12,312	138,815	1,551	137,264
Net Investment Income	291,333	968,669	(677,336)	(475,774)	(201,562)
Total Additions	**$ 460,337**	**$ 980,667**	**$ (520,330)**	**$ (471,063)**	**$ (49,267)**
Deductions					
Pension Benefits	$ 166,836	$ 17,471	$ 149,365	$ 13,175	$ 136,190
Supplemental Retirement Benefits	11,213	718	10,495	498	9,997
Refunds of Member Contributions	2,317	(312)	2,629	255	2,374
Administrative Expenses	3,207	134	3,073	(268)	3,341
Miscellaneous Expenses	547	547	0	0	0
Total Deductions	**$ 184,120**	**$ 18,558**	**$ 165,562**	**$ 13,660**	**$ 151,902**
Increase (Decrease), Net Assets	**$ 276,217**	**$ 962,109**	**$ (685,892)**	**$ (484,723)**	**$ (201,169)**
Net Assets Held in Trust for Pension Benefits					
Beginning of Year	**$ 2,025,217**	**$ (685,892)**	**$ 2,711,109**	**$ (201,169)**	**$ 2,912,278**
End of Year	**$ 2,301,434**	**$ 276,217**	**$ 2,025,217**	**$ (685,892)**	**$ 2,711,109**

Reserves

KCERA's reserves are established for the purpose of managing benefit operations in accordance with the County Employees Retirement Law of 1937 (CERL). The total amount of reserves equals KCERA's Net Assets Held in Trust for Pension Benefits at the end of the year.

Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. Unrealized gains and losses are held in the Market Stabilization Reserve with a portion allocated to all other reserves. 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 7.75% from the total fund's actual return on net assets. The Market Stabilization Reserve was ($599) million, ($880) million and ($197) million for the years ended June 30, 2010, 2009 and 2008, respectively.

Interest at the actuarial rate of 7.75%, 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. KCERA credited the reserves 0.00% in fiscal year 2010 and 3.47% in fiscal year 2009. In addition, in fiscal year 2010, $6.4 million was credited to reduce the negative contingency reserve, in accordance with the Board of Retirement's Interest Crediting Policy. As investment returns improve, resulting in positive changes in net assets, the Contingency and Market Stabilization Reserves will turn positive.

KCERA Reserves

(In thousands)	2010	2009	2008
Member Reserve	$ 229,783	$ 232,426	$ 222,418
Employer Reserve	676,522	710,574	724,647
Cost of Living Reserve	700,538	683,060	645,664
Retired Member Reserve	1,110,646	1,072,575	979,134
Supplemental Retiree Benefit Reserve	198,861	210,073	212,782
Contribution Credit Reserve	-	19,030	42,600
Contingency Reserve	(16,355)	(22,739)	81,333
Market Stabilization Reserve	(598,561)	(879,782)	(197,469)
Total	**$ 2,301,434**	**$ 2,025,217**	**$ 2,711,109**

Fiduciary Responsibilities

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 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 KCERA members and their survivors, as mandated.

Potentially Changing Standards

The GASB, which sets generally accepted accounting principles (GAAP) for governments, including KCERA, is discussing potentially major changes to the pension accounting and reporting framework. A "preliminary views" document has been released, reflecting the views and positions of the GASB in advance of releasing an exposure draft of standards. The GASB's preliminary view is that entities like KCERA would solely be responsible for investing plan assets. The unfunded actuarially accrued liability would then be apportioned to the membership, where the actuarially accrued liability would be presented in their statement of net assets. Though the Board has taken no formal position on the preliminary vews of GASB, our professional organizations and management are monitoring these developments very closely and are active in commenting on the proposals.

Requests for Information

This financial report is designed to provide a general overview of KCERA's finances and accountability for the plan sponsors and members. Questions concerning any of the information provided in this report or requests for additional information should be directed to Sheryl Lawrence, KCERA's financial officer, at (661) 381-7700 or lawrences@co.kern.ca.us.

Kern County Employees' Retirement Association

STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2010 AND 2009

(In thousands)	2010	2009
Assets		
Cash and Short-Term Investment Funds:		
Cash in County Pool	$ 13,659	$ 9,132
Short-Term Investment Funds	66,711	70,859
Total Cash and Short-Term Investment Funds	80,370	79,991
Receivables:		
Investments Sold	104,789	68,920
Interest and Dividends	7,393	8,421
Contributions and Other Receivables	1,785	1,684
Total Receivables	113,967	79,025
Investments at Fair Value:		
U.S. Government Debt Securities and Corporate Bonds	647,328	675,793
International Bonds	86,252	82,334
Domestic Stocks	646,326	515,880
International Stocks	538,418	485,443
Real Estate Investments	26,657	26,678
Alternative Investments	298,485	213,757
Collateral Held for Securities Lending	237,933	150,204
Total Investments at Fair Value	2,481,399	2,150,089
Capital Assets:		
Computer Software	2,568	1,232
Equipment/Computers	445	435
Accumulated Depreciation/Amortization	(254)	(181)
Total Capital Assets	2,759	1,486
Total Assets	2,678,495	2,310,591
Liabilities		
Securities Purchased	136,551	129,977
Collateral Held for Securities Lent	237,933	150,204
Other Liabilities	2,577	5,193
Total Liabilities	377,061	285,374
Net Assets Held in Trust for Pension Benefits	**$ 2,301,434**	**$ 2,025,217**

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, 2010 AND 2009

(In thousands)	2010	2009
Additions		
Contributions		
Employer	$ 151,127	$ 138,815
Member	17,877	18,191
Total Contributions	169,004	157,006
Investment Income		
Net Appreciation in Fair Value of Investments	247,042	(738,919)
Interest	37,626	50,633
Dividends	13,033	14,810
Real Estate Investments	(1,582)	(558)
Other Investment Income	10	38
Total Investment Income	296,129	(673,996)
Less: Investment Expenses	5,422	5,147
Net Investment Income	290,707	(679,143)
Securities Lending Income		
Earnings:	726	3,565
Less: Rebates & Bank Fees	100	1,758
Net Securities Lending Income	626	1,807
Total Additions	460,337	(520,330)
Deductions		
Retirement and Survivor Benefits	166,836	149,365
Supplemental Retirement Benefits	11,213	10,495
Refunds of Member Contributions	2,317	2,629
Administrative Expenses	3,207	3,073
Miscellaneous Expenses	547	0
Total Deductions	184,120	165,562
Net Increase (Decrease)	**276,217**	**(685,892)**
Net Assets Held in Trust for Pension Benefits		
Beginning of Year	**2,025,217**	**2,711,109**
End of Year	**$ 2,301,434**	**$ 2,025,217**

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 (CERL). 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 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, 2010, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	6,802	1,765	8,567
Terminated employees – vested	952	144	1,096
Retirees and beneficiaries currently receiving benefits	4,633	1,538	6,171
	12,387	3,447	15,834

Benefit Provisions

The KCERA Plan provides for retirement, disability, death, beneficiary, cost-of-living, and supplemental retirement benefits. On July 1, 1968, the Kern County 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 age 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 or a special district 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-connected or nonservice-connected disability and the member chose the unmodified allowance option, their surviving spouse, registered domestic partner or minor children will receive a monthly continuance 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 service length 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
KCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of Kern. KCERA's annual financial statements are referenced by footnote in the County of Kern's Annual Financial Report.

Basis of Accounting
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 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
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, 2010 & 2009.
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 years 2008-09 and 2009-10, costs associated with the application development stage of a new pension administration system were capitalized, as the software project will be recorded as an intangible capital asset.

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.

Reclassification
Certain amounts in the 2009 financial statements have been reclassified to be in conformity with the presentation of these amounts in the 2010 financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 early implemented Statement No. 51, beginning with the fiscal year ending June 30, 2009.

During fiscal year 2010, KCERA implemented the provisions of GASB Statement No. 53, *Accounting for Derivative Instruments*. This Statement establishes accounting and finanical reporting requirements for derivative instruments entered into by state and local governments like KCERA. The Statement requires derivative instruments to be measured at fair value and reported within the Statement of Plan Net Assets. Certain portions of Statement No. 53 do not apply to KCERA, as KCERA does not invest plan net assets for the purpose of hedging. GASB Statement No.53 also establishes disclosure requirements that include summaries of information of derivative instruments and KCERA's exposure to financial risks. Many of these disclosures are augmented versions of what has been presented by KCERA previously. As KCERA presents derivative investments at fair value, plan net assets are not affected by the implementation of Statement No. 53.

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 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 CERL. KCERA is governed by the California Government Code Sections 31594 and 31595, which provide 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 securities, portfolios may not invest more than 5% per investment grade issuer. KCERA's investment portfolio contained no investments in any one single issuer greater than 5% of plan net assets as of June 30, 2010 (other than U.S. government securities).

NOTE 3 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk

Custodial credit risk is when in the event a financial institution or counterparty fails, KCERA would not be able to recover the value of deposits, investments or collateral securities that are in the possession of an outside party. KCERA does not have a formal policy for custodial credit risk. At June 30, 2010, KCERA had $981,122 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. At June 30, 2010, KCERA's assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations as follows:

(In thousands)

Type of Investment	S&P Credit Quality	Fair Value
Asset-Backed Securities	AAA	$ 5,869
	AA	673
	A	532
	BBB	264
	BB	1,964
	B	3,688
	CCC	1,637
	CC	863
	D	680
	NR	1,115
Commercial Mortgage-Backed Securities	AAA	10,934
	A	198
	NR	3,376
Government Mortgage-Backed Securities	BBB	1,192
	AGY	113,273
Non-Government-Backed C.M.O.s	AAA	11,925
	AA	1,055
	A	2,060
	BBB	4,284
	BB	429
	B	2,195
	CC	1,048
	CCC	19,490
	D	1,140
	NR	3,244
Corporate Bonds	AAA	5,440
	AA	11,793
	A	46,777
	BBB	59,129
	BB	60,966
	B	62,793

(continued on next page)

NOTE 3 – CASH AND INVESTMENTS (continued)

Credit Risk (continued)

Type of Investment	S&P Credit Quality	Fair Value
Corporate Bonds	CCC	15,029
	C	647
	D	727
	NR	9,081
Government Agencies	AAA	23,180
	A	6,246
	BBB	664
	NR	1,107
	AGY	2,362
Government Bonds	AAA	65,499
	AA	700
	A	2,708
	BBB	2,988
	NR	293
	AGY	42,932
Index-Linked Government Bonds	AAA	6,257
Municipal/Provincial Bonds	AAA	847
	AA	1,875
	A	315
	NR	1,680
Guaranteed Fixed Income	AAA	1,634
Goldman Sachs Trust High Yield Fund	B	5,849
Western Asset Opportunistic International Investment-Grade Securities Fund	AA	5,363
Western Asset Opportunistic Local Market Debt Fund	BBB	4,873
Western Asset Opportunistic High Yield Fund	B	8,854
State Street Global Advisors TIPS Index NL Fund	AAA	82,114
Derivatives - Swaps	NR	(1,282)
Derivatives - Options	NR	111
Other Fixed Income	NR	901
Total		**$ 733,580**

NOTE 3 – CASH AND INVESTMENTS (continued)

Interest Rate Risk

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

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, 2010, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

		Investment Maturities (in years) as of June 30, 2010				
Investment Type	**Fair Value (In thousands)**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Maturity Not Determined**
Asset-Backed Securities	$ 17,287	$ -	$ 1,425	$ 1,411	$ 14,451	$ -
Commercial Mortgage-Backed	14,507	-	-	-	14,507	-
Corporate Bonds	297,322	6,715	121,897	99,511	44,260	24,939
Government Agencies	115,673	-	28,175	3,922	1,462	82,114
Government Bonds	115,120	-	63,327	21,417	30,376	-
Government Mortgage-Backed	114,464	-	353	9,328	97,792	6,991
Guaranteed Fixed Income	1,634	-	1,634	-	-	-
Index-Linked Government Bonds	6,257	-	-	-	6,257	-
Municipal/Provincial Bonds	4,717	-	1,420	454	2,843	-
Non-Government-Backed C.M.O.s	46,869	-	-	-	46,869	-
Derivatives - Swaps	(1,282)	-	(1,282)	-	-	-
Derivatives - Options	111	111	-	-	-	-
Other Fixed Income	901	-	-	-	-	901
Total	**$ 733,580**	**$ 6,826**	**$ 216,949**	**$ 136,043**	**$ 258,817**	**$ 114,945**

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.

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, 2010:

(In thousands)	Foreign Currency	Fair Value in USD
Cash	Australian Dollar	$ 10
	Canadian Dollar	2
	Swiss Franc	13
	Euro	357
	British Pound Sterling	50
	Hong Kong Dollar	67
	Japanese Yen	313
	South Korean Won	12
	Swedish Krona	21
Equities	Australian Dollar	9,378
	Canadian Dollar	6,796
	Swiss Franc	21,051
	Euro	67,943
	British Pound Sterling	47,113
	Hong Kong Dollar	10,407
	Japanese Yen	39,217
	South Korean Won	2,005
	Norwegian Krone	865
	Swedish Krona	1,629
	Singapore Dollar	957
Fixed Income Securities	Euro	7,124
	Mexican Peso	2,708
	Indonesian Rupiah	2,321
Derivatives - Swaps	South Korean Won	67
Total Foreign Cash and Investments		**$ 220,426**

Highly Sensitive Investments
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).

NOTE 3 – CASH AND INVESTMENTS (continued)

Highly Sensitive Investments (continued)

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.

Fair Value
(In thousands)

	June 30, 2010	June 30, 2009
Mortgage-Backed Securities	$ 128,972	$ 216,821
Asset-Backed Securities	17,287	14,592
Collateralized Mortgage Obligation Securities	46,869	57,899
Total	**$ 193,128**	**$ 284,693**

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. 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, 2010, 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, 2010 and 2009, the securities lending transactions collateralized by cash had a fair value of $230,958,696 and $145,419,791, respectively, and a collateral value of $237,933,424 and $150,203,682, respectively. At June 30, 2010 and 2009, the securities lending transactions collateralized by securities or letters of credit had a fair value of $106,386 and $86,400, respectively, and a collateral value of $112,159 and $88,767, respectively, which was not reported as assets and liabilities in the accompanying Statement of Plan Net Assets.

NOTE 4 – SECURITIES LENDING (continued)

KCERA's loaned securities and collateral as of June 30, 2010 are as follows (in thousands):

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 Government	$ 977	$ 1,033	$ -	$ -
Global Equities	30,225	31,910	102	108
U.S. Agencies	4,314	4,430	-	-
Corporates	31,458	32,325	-	-
Equities	70,074	72,216	4	4
U.S. Government	93,911	96,019	-	-
Total	**$ 230,959**	**$ 237,933**	**$ 106**	**$ 112**

NOTE 5 – DERIVATIVES

Description of and Authority for Derivative Investments

KCERA invests in derivative financial investments (derivative instruments) as authorized by the Board of Retirement. Investment managers may use derivatives where guidelines permit. A derivative instrument is defined as a contract 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, forward contracts and interest rate or commodity swap transactions. All derivatives are considered investments by KCERA, as KCERA does not need to hedge risk.

Substitution and risk control are the two derivative strategies permitted. Substitution strategy is when the characteristics of the derivative sufficiently parallel that of the cash market instruments, the derivatives may be substituted on a short-term basis for the cash market instrument. Risk control strategy is when the characteristics of the derivative sufficiently parallel that of the cash instrument, that an opposite position from the cash instrument can be taken in the derivative instrument to alter the exposure to or the risk of the cash instrument.

Portfolios may not sell securities short nor create leverage through the use of financial futures and options. Uncovered futures or options positions are prohibited. Financial futures and options may only be used to hedge currency risk or to manage portfolio duration. Investment in structured notes is prohibited. KCERA may invest in the following:

Futures

Futures contracts are used to hedge against a possible increase in the price of currency. Futures contracts are classified by category of underlying instrument such as equity, fixed income, commodity, or cash equivalent. Derivative positions are tied to the performance of underlying securities. Futures contracts are priced "mark to markets," and daily settlements are recorded as investment gains or losses. Accounting for the daily mark-to-markets in this manner, the market value of the futures contract at the reporting period end is the pending mark-to-market. For investment performance, risk and exposure purposes, KCERA's custodian reports the notional market values of futures contracts with corresponding offsets. When a futures contract is closed, futures are removed from record with the final gain/loss equal to the fluctuation in value from the last mark-to-market to the closing value.

NOTE 5 – DERIVATIVES (continued)

Description of and Authority for Derivative Investments (continued)

Options
Options are 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. Purchased put/call options are reported as assets with cost equal to the premium amount paid at inception, and written put/call options are reported as liabilities with cost equal to the premium received at inception. During the term of the option contracts, options are revalued at the end of each reporting period. Unrealized gains and losses are reported as the difference between the premium (cost) and the current market value. At expiration, sale, or exercise, options are removed from record and realized gains and losses are generally recognized. Because of the nature of options transactions, notional values are not included in the Investment Derivatives Summary table on page 37.

Swaps
Swap transactions are 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. Because the market values of swaps can fluctuate, swaps are represented as assets (if market value is greater than zero) and liabilities (if market value is less than zero). If a premium is paid or received at inception of the swap, the premium amount is generally recorded as the cost of the swap. During the term of the swap agreement, the periodic cash flows as either income or expense associated with the swap agreement. At each reporting period, swaps are revalued and unrealized gains or losses are reported. KCERA's custodian generally obtains swap valuations from a pricing vendor, the investment manager or the counterparty. At closing, KCERA's custodian removes the swap assets and liabilities from record. The difference between any closing premium exchanged and cost basis is recognized as realized gain or loss.

Forward Currency Contracts
Forward currency contracts are used for the purpose of hedging against adverse movement in currency exchange rates and to facilitate settlement of transactions in foreign securities. KCERA's reporting methodology for foreign exchange (FX) contracts reflects payables and receivables for the currencies to be exchanged while the forward FX contracts are pending, with the two pending cash flows valued separately. The overall cost basis for a pending FX deal is zero (the net of the cost basis for the payable and receivable). Pending forward FX contracts are valued using the closing forward FX rate as of the report date. The difference between the forward rate (base market value) at the reporting date and the contracted rate on trade date (base cost) of the forward FX contract is unrealized gain/loss. The difference between the spot rate applied at settlement date and the contracted rate on trade date is realized gain/loss at settlement of forward FX contract. KCERA does not discount the valuation of the anticipated cash flows associated with pending forward FX contracts.

Summary of Investment Derivatives
Investment derivative instruments are reported as investments (if fair value is greater than zero) or liabilities (if fair value is less than zero) as of fiscal year end on the Statement of Plan Net Assets. Listed market prices are used to report the market values for derivative instruments, if available. If listed market prices are not available for derivative instruments, the price used may be from a vendor, an investment manager or a counterparty. All changes in fair value are reported in the Statement of Changes in Plan Net Assets as a component of investment revenue.

As of June 30, 2010, KCERA has the following instruments outstanding (see Summary table on page 37), whose objective is to earn a rate of return consistent with KCERA's investment policies. Notional values listed on the Summary table that are positive (assets) or negative (liabilities) are aggregated for similar derivative types.

NOTE 5 – DERIVATIVES (continued)

INVESTMENT DERIVATIVES SUMMARY
(In thousands)

Investment Derivative Type	Changes in Fair Value Gain/(Loss)	Fair Value	Notional Value
Futures Interest Rate Contracts	$ 5,743	$ -	$ (1,141)
Options on Futures Interest Rate Contracts	285	111	-
Swaps	8,451	(1,282)	(various)
Foreign Exchange Contracts	1,472	(43)	-
Rights/Warrants Equity Contracts	(14)	28	-

Investment Derivative Credit Risk
The credit risk of using derivative instruments may include the risk that counterparties to contracts will not perform and/or the public exchange will not meet its obligation to assume this counterparty risk. KCERA is exposed to credit risk on investment derivatives traded over the counter and are reported in asset positions.

KCERA's derivative investment policy states that counterparty credit status shall be of the highest caliber with care taken to avoid credit guarantees extended through to parties less credit-worthy than the primary counterparty to the transaction. KCERA's investment managers shall develop and have available for review credit guidelines for evaluation of prospective counterparties and a list of approved counterparties. Counterparty exposure for options not listed on an exchange (OTC options) is limited to 20% of the cost value of the investment manager's portfolio, with a single counterparty with a short-term rating of A1/P1 or with a long-term credit rating of AA or better, and 10% with counterparties rated A2/Ps or better. KCERA has reviewed the list of OTC counterparty credit ratings. The counterparties are in compliance with KCERA's derivative investment credit risk guideline.

Investment Derivative Interest Rate Risk
Interest rate risk is the risk that changes in interest will adversely affect the fair value of an investment. KCERA measures derivative interest rate risk using duration. Futures have a notional value of $(1,141) with varying maturities of less than three months to five years, which could have positive or negative investment revenue. At June 30, 2010, KCERA had the following investment derivative interest rate risks:

(In thousands)

Derivative Investment Type	Notional Value	Fair Value	< 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	5 to 10 Years	10+ Years
Futures Interest Rate Contracts	(1,141)	-		-	-	-	-	-
Options on Futures Interest Rate Contracts	-	111	170	-	(59)	-	-	-
Swaps	(various)	(1,282)	-	-	-	-	(404)	(789)
Forward Exchange Contracts	-	(43)	(43)	-	-	(89)	-	-
Rights/Warrants Equity Contracts	-	28	-	-	-	28	-	-
Total	**(1,141)**	**(1,186)**	**127**	**-**	**(59)**	**(61)**	**(404)**	**(789)**

NOTE 5 – DERIVATIVES (continued)

Investment Derivative Foreign Currency Risk

Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. At June 30, 2010, KCERA had the derivative foreign currency exposures listed in the table below.

(In thousands)

	Foreign Currency	Fair Value in USD
Foreign Currency Contracts	Brazilian Real	$ (154)
	Euro	(7,256)
	British Pound Sterling	287
	Hong Kong Dollar	(47)
	Indonesian Rupiah	(2,288)
	Japanese Yen	277
	Mexican Peso	(2,857)
Rights/Warrants Equity Contracts	Euro	6
Swaps	South Korean Won	67
Total Foreign Derivatives		**$ (11,965)**

NOTE 6 – CONTRIBUTIONS

Eligible County of Kern employees and their beneficiaries are entitled to pension, disability, and survivors' benefits under the provisions of the CERL with the establishment of 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, membership type and benefit tier.

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 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 2010, 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. 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 2010, the UAAL is amortized over 27.5 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
Member contributions are made through payroll deductions on a pre-tax basis, per IRS Code Section 414(h)(2). Member contribution rates are applied to the member's base pay plus compensable special pay; they are calculated based on the member's KCERA entry age and actuarially calculated benefits. For certain safety bargaining units, a flat member contribution rate is applied.

As a result of prior negotiations, some members receive an employer "pick up" of their contributions. General members hired prior to Memoranda of Understanding (MOU)-specified dates in 2004 or 2005 are eligible to receive the "five-year stop" upon attaining five years of service. Safety members hired before MOU-specified dates in 2007 are eligible to receive the five-year stop upon attaining five years of service, except for the following bargaining units. Effective January 1, 2010, probation managers hired prior to April 7, 2004 who have not attained five years of service will pay 100% of employee contributions until attaining ten years of service. Effective January 1, 2010, probation officers hired prior to September 18, 2007 who have not attained five years of service will pay 100% of employee contributions until attaining seven years of service. Effective June 5, 2010, all firefighters eligible for the five-year stop will contribute a flat 1% of pensionable earnings.

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

Contribution Rates

Member Classification	Integrated Employee Rates	Employer Rates
General Members Tier I	6.34% - 11.25%	28.72%
General Members Tier II	4.51% - 8.60%	28.72%
General Members – Courts	6.34% - 11.25%	26.00%
Safety Members	11.14% - 17.42%	35.60%
Safety Members – Firefighters, Probation and Detention Officer Lieutenants (flat rate)	12.30%	35.60%
Special Districts (electing MOU)	6.34% - 11.25%	34.74%
Special Districts (not electing MOU)	6.34% - 11.25%	32.65%
Special Districts (full pickup)	6.34% - 11.25%	35.40%
Special Districts ("3% at 60" prospectively only)	6.34% - 11.25%	26.34%

Employer rates in the table above are adjusted by the cost-of-living contribution reserve credits as a percentage of pay. Employees of the Kern County Superior Court are required to pay an additional 2.5% contribution of base salary. Finally, employees in special districts not electing the 1997 MOU pay 50% of the full rates for the first 30 years of service, regardless of hire date.

NOTE 6 – CONTRIBUTIONS (continued)

Contribution Rates (continued)

The table on page 37 summarizes the required contribution rates in effect on June 30, 2010. 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.

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 2010 and 2009, respectively, amounted to $169,003,842 and $157,006,191, of which $151,126,825 and $138,814,789 were contributed by employers, and $17,877,017 and $18,191,402 were contributed by members.

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 2009, the Plan had excess earnings; $19,030,483 was reserved to fund the employer COLA contributions in fiscal year 2010.

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, 2010 is $77,154,463.

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. KCERA maintains the following reserve and designation accounts:

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

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

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

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

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

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

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

Contingency Reserve – excess income to supplement deficient earnings. The contingency reserve satisfies the Government Code Section 31616 requirement for KCERA to reserve at least 1% of assets, up to a maximum of 3% of assets. At fiscal year ended June 30, 2010, -0.7% of the Plan's net assets were 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, 2010 and 2009 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

(In thousands)	2010	2009
Members' deposit reserve, general	$ 155,657	$ 156,042
Members' deposit reserve, safety	59,599	61,703
Members' deposit reserve, special district	14,527	14,681
Employer's advance reserve, general	381,694	393,088
Employer's advance reserve, safety	272,209	296,024
Employer's advance reserve, special district	22,619	21,462
Cost of living reserve, general	390,320	378,316
Cost of living reserve, safety	288,441	284,668
Cost of living reserve, special district	21,777	20,076
Retired members' reserve, general	684,399	657,565
Retired members' reserve, safety	426,247	415,010
Supplemental retiree benefit reserve (SRBR)	121,706	128,493
SRBR allocated for 0.5% COLA	77,155	81,580
COLA Contribution Reserve (CCR)	-	19,030
Contingency reserve	(16,355)	(22,739)
Total reserves at five-year smoothed market actuarial valuation	2,899,995	2,904,999
Market stabilization reserve	(598,561)	(879,782)
Total net assets held in trust for pension benefits	**$ 2,301,434**	**$ 2,025,217**

The Market Stabilization Reserve represents the difference between the five-year smoothed market value of the fund and the market value as of the fiscal year end.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Capital Commitments

KCERA allocates 6% of assets to private equity markets. As of June 30, 2010, 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, 2010, KCERA's contributions to the private equity funds were $183.8 million, with a market value of $173.2 million.

KCERA allocates 5% of total assets to private equity real estate investments. As of June 30, 2010, 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, 2010, KCERA's contributions to the two FREG funds were $60.5 million, with a market value of $24.0 million.

Litigation

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

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 60% of the claims from all investors. 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 approximately 40% to $51,324,473. At June 30, 2010, KCERA wrote down this investment another 20% to $24,043,765.

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. (This litigation matter involves claims asserted by KCERA for recovery of the share of the Funds gathered by the Receiver and does not involve claims against KCERA or any alleged liability of KCERA.)

NOTE 8 – COMMITMENTS AND CONTINGENCIES (continued)

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

NOTE 9 – FUNDED STATUS AND FUNDING PROGRESS

KCERA's funded status as of June 30, 2009, 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)
06/30/09	$2,780,215	$4,205,200	$1,424,985	66.1%	$559,872	254.5%

(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, 2009 is as follows:

Valuation date:	June 30, 2009
Actuarial cost method:	Entry age actuarial cost method
Amortization method:	Level percent of salary
Remaining amortization period:	26.5 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:	Contingent upon CPI with a 2.50% maximum

* *Based on the difference between expected market value and actual market value of assets.*

Kern County Employees' Retirement Association

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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)
06/30/09	$ 2,780,215	$ 4,205,200	$ 1,424,985	66.1%	$ 559,872	254.5%
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	765,938	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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30,	Annual Required Contribution (In thousands)	Percentage Contributed
2010	$ 151,127	100%
2009	138,815	100%
2008	137,264	100%
2007	128,135	100%
2006	100,734	100%
2005	60,268	100%

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

See accompanying notes to required supplementary information and independent auditor's report.

Kern County Employees' Retirement Association

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

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, 2009, is as follows:

Economic Assumptions:

Actuarial Assumed Interest Rate: 7.75% per year

Assumed Salary Increases - Individual: Rates vary by service

Assumed Salary Increases - Total Payroll: 4.00% per year

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 26.5-year period as of the June 30, 2009 valuation. Beginning July 1, 2009, any liability attributable to golden handshakes is paid by the employer in one of two methods, as elected by the employer: 1) payment in full in the first month of the fiscal year following the fiscal year in which the golden handshake(s) was granted; or 2) according to a five-year amortization to be invoiced to the employer in the first month of the fiscal year following the fiscal year in which the golden handshake(s) was granted.

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

Kern County Employees' Retirement Association

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

NOTE 2 – SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Demographics:

The number of active members included in the valuation decreased by 0.4% from 9,057 in 2008 to 9,020 in 2009. Retired member counts and average retirement benefit amounts continue to increase steadily. For 2009, there were 5,927 retired members and beneficiaries with an average benefit of $2,314 per month. This represents a 4.9% increase in count and a 7.6% increase in the average monthly benefit.

The average actuarial present value of all future benefits per person for general actives and retirees (including beneficiaries) were $299,384 and $258,796, respectively, while the average present value of future benefits per person for safety actives and retirees were $564,915 and $598,984, respectively.

Actuarial Assumptions:

To comply with its actuarial-audit policy, the KCERA Board contracted with a third-party firm, EFI Actuaries, to perform a full review of KCERA's Actuarial Valuation as of June 30, 2009 and its Investigation of Experience covering January 1, 2006 to June 30, 2008, both of which Milliman, Inc. produced. The independent actuarial audit found that the 2008 Experience Study overstated the assumed rate of disability. This led to a recommendation to lower the disability assumption rate to KCERA's pre-2008 level.

Asset Corridor:

To prevent the Actuarial Value of Assets (AVA) from deviating too much from the Market Value of Assets (MVA), it has been KCERA's practice to apply an asset corridor limit on the AVA, such that the AVA stays within a certain percentage of the MVA. At its April 22, 2009 meeting, the Board of Retirement increased the corridor from 20% to 50%.

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Personnel Services:		
Salaries & Wages	$ 1,242,850	$ 1,136,837
Employee Benefits	755,983	630,632
Total Personnel Services	1,998,833	1,767,469
Professional Services:		
Legal Counsel	284,539	297,566
Audit	74,740	36,776
Medical/Hearing Officers	98,686	138,389
Other Professional Services	113,390	122,463
Total Professional Services	571,355	595,194
Communication:		
Postage	35,670	28,001
Printing	12,084	4,028
Telephone	10,864	10,359
Education & Professional Development	48,056	69,473
Marketing & Promotions	21,850	24,928
Total Communication	128,524	136,789
Operating Expenses:		
Information Technology	45,299	137,813
Equipment Leases	20,238	22,402
Building Lease	75,600	75,600
Office Expense	17,625	25,284
Insurance	110,396	97,842
Equipment Maintenance	15,072	13,664
Memberships	5,929	14,245
Special Departmental Expense	19,035	1,320
Other Services	13,675	8,189
Pension Disbursement Fees	100,000	100,000
Depreciation and Amortization	73,054	62,720
Utilities & Maintenance	12,715	14,087
Total Operating Expenses	508,638	573,166
Total Administrative Expenses	**$ 3,207,350**	**$ 3,072,618**

See accompanying independent auditor's report.

SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
Investment Manager Fees:		
Equity	$ 2,438,228	$ 2,100,599
Fixed Income	1,468,509	1,405,823
Real Return	368,392	330,520
Total Investment Manager Fees	4,275,129	3,836,942
Other Investment Expenses:		
Custodian	406,875	410,000
Actuarial Consultant	212,336	189,584
Investment Consultant	239,210	295,729
Legal Fees	231,142	319,306
Due Diligence	25,930	18,120
Policy Implementation Overlay Strategy	0	50,938
Real Estate	31,248	26,402
Total Other Investment Expenses	1,146,741	1,310,079
Total Fees and Other Investment Expenses	5,421,870	5,147,021
Security Lending Rebates and Bank Fees	99,717	1,757,531
Total Investment Expenses	**$ 5,521,587**	**$ 6,904,552**

See accompanying independent auditor's report.

SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

		Commission / Fee	
Individual or Firm	**Nature of Service**	**2010**	**2009**
Brown Armstrong	External Auditors	$ 76,457	$ 36,776
Cortex Applied Research, Inc.	Policy Consultants	46,727	58,784
Linea Solutions	Oversight Project Manager for Pension Admin System	357,212	224,254
Milliman, Inc.	Actuarial Services	38,592	40,703
Hanson Bridgett	Legal Counsel	10,248	23,950
Manatt Phelps Phillips	Legal Counsel	16,606	0
Kern County Counsel	Legal Counsel	254,873	272,864
Other Specialized Services	Other	2,813	752
Total Payments to Consultants		**$ 803,528**	**$ 658,083**

(These payments were made to outside consultants other than investment professionals. A Schedule of Investment Fees is presented on pages 64 and 65 in the Investment Section.)

See accompanying independent auditor's report.

SECTION 3

Investment

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October 1, 2010

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, 2010. 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, 2010, the KCERA's retirement fund had an investment gain of 13.3% and ended the year with total assets of $2.32 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 and International Equities, which are underweight relative to the target due to the dramatic negative performance of equities in 2008. Domestic Equities actual allocation has moved closer to target in the past year (from 20% to 23%) due to some recovery in domestic equity values. All managers were in compliance with their guidelines on June 30, 2010.

Asset Class	Target Allocation	Actual Allocation
Domestic Equities	25%	23%
International Equities	25%	23%
Private Equities	6%	7%
Fixed Income	22%	24%
High Yield	6%	6%
Real Assets	10%	9%
Absolute Return	6%	5%
Cash	0%	1%
Liquidation Assets	0%	2%

The total fund met the actuarial discount rate used to value the System's liabilities as the financial markets partially recovered from the 2008 meltdown. Some highlights follow below:

- The KCERA's total fund returned 13.3% for the fiscal year, versus the policy return of 13.5%. Underperformance versus policy was due primarily to poor relative manager performance in alternative investments and international equity. The KCERA's median peer in our database returned 13.1%.

WILSHIRE

- KCERA's Domestic Equity composite returned 16.5% versus a return of 15.7% for the benchmark Wilshire 5000 Index. Domestic equities outperformed largely due to PIMCO StocksPlus' strong returns during the year, driven by focus on high grade financial securities, as high grade corporate bonds significantly outperformed duration-matched Treasuries during the period. An emphasis on mortgages was also a positive for performance as spreads came in dramatically due to support from government programs. BlackRock SAE continues to drag down performance. The median equity return for KCERA's peers was 16.3%.
- KCERA's Core Fixed Income composite returned 20.0% versus 9.5% for the Barclays Aggregate Bond Index. Both core plus portfolios outperformed chiefly due to higher-than-market credit exposures, as higher risk credits posted solid returns. The median Fixed Income return for KCERA's peers was 11.9%.
- KCERA's High Yield Bond composite returned 23.2% versus 24.1% for the Custom Policy Index. Goldman materially underperformed, while Western marginally outperformed their respective policy indices.
- KCERA's International Equity composite returned 11.0%, underperforming the Policy Index, which returned 11.5%. The median plan sponsor's International Equities portfolio in our database returned 11.6% during the fiscal year period.
- The alternatives asset classes experienced mixed performance. Private Equity generated 11.1% and the Absolute Return composite returned -1.1%, both of which have historically provided positive returns and good diversification benefits for the Fund. The KCERA Real Assets composite returned 20.7% due to good relative performance of the two REIT portfolios.

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 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 retains a number of professional investment advisers and an investment consultant. The Board 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 KCERA.

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 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 an 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 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, 2010 are as follows:

			Target Ranges	
	Actual	**Target***	**Minimum**	**Maximum**
Domestic Equities	23.0%	25.0%	21.0%	29.0%
International Equities	23.0%	25.0%	21.0%	29.0%
Core Fixed Income	23.6%	22.0%	21.0%	23.5%
High Yield	6.1%	6.0%	4.5%	7.0%
Real Assets	8.8%	10.0%	7.0%	13.0%
Global Private Equities	7.3%	6.0%	3.0%	9.0%
Absolute Return	5.4%	6.0%	4.0%	8.0%
Cash / Other	0.6%	0.0%	0.0%	3.0%
Liquidation Assets	2.2%	0.0%		
Totals	**100.0%**	**100.0%**		

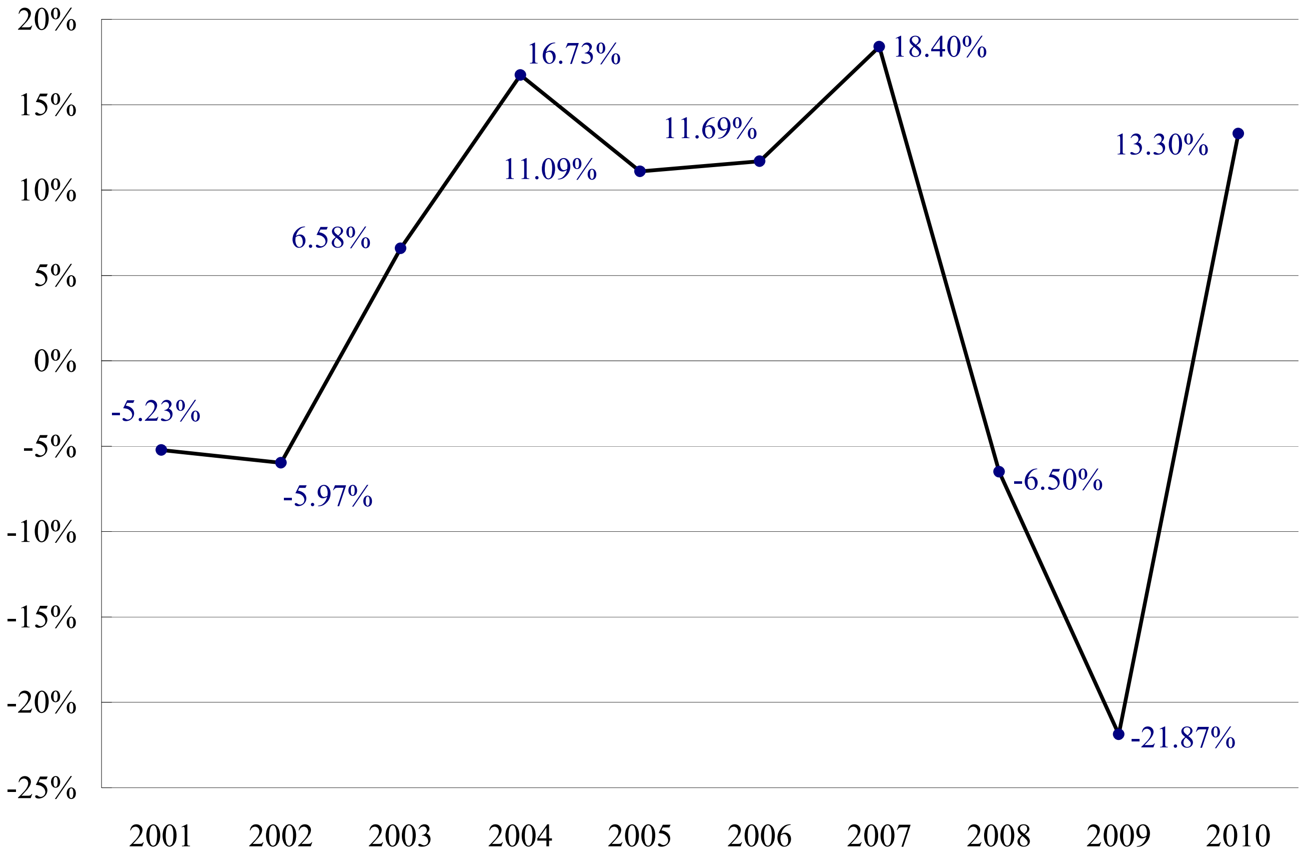
** The Board of Retirement adopted a revised asset allocation policy in May 2010. KCERA is expecting to transition to the new allocation targets over the next 18 months.*

The June 30, 2010 asset allocation is based upon Wilshire Associates's June 30, 2010 Kern County Employees' Retirement Association Investment Performance Analysis.

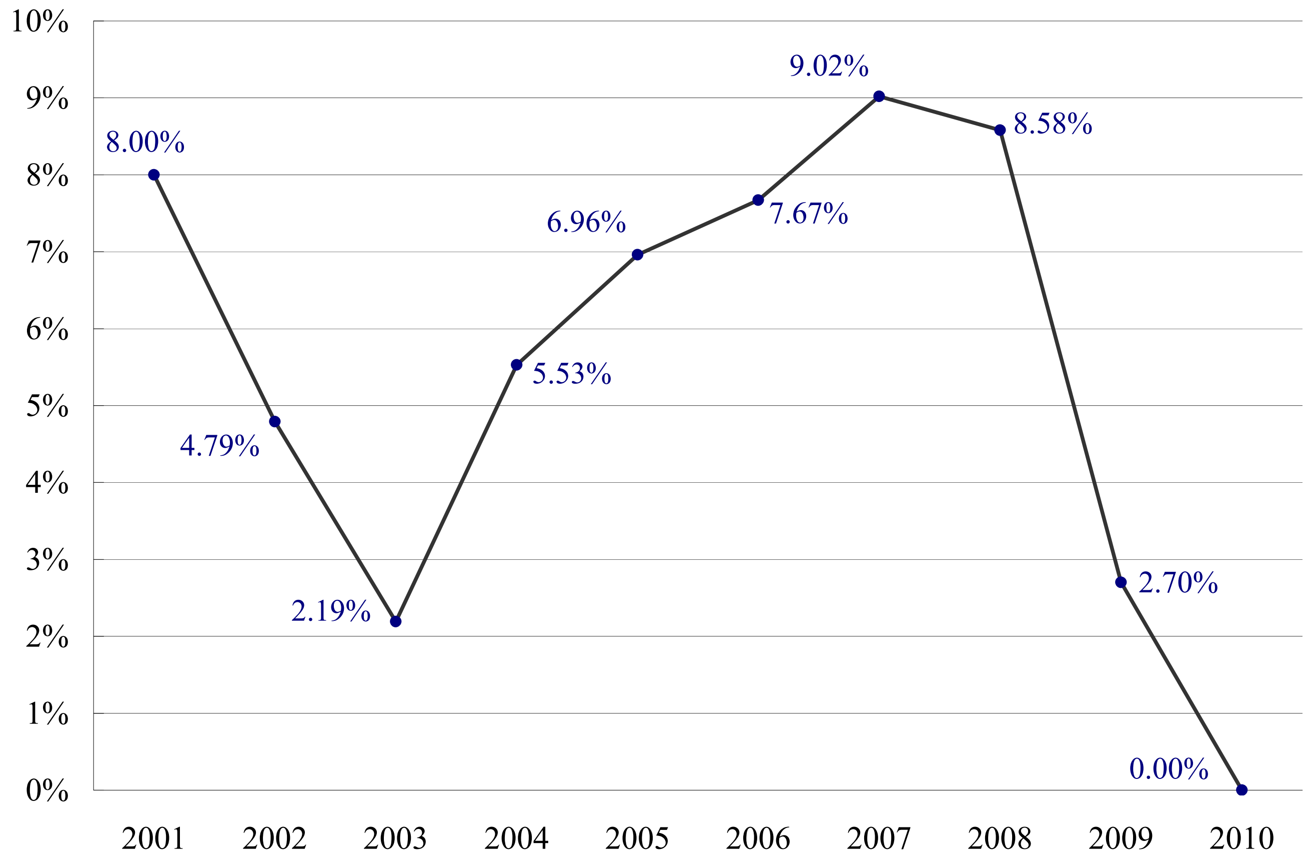
INVESTMENT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2010

Type of Investment	Fair Value (in thousands)	% of Total Fair Value
Domestic Equities		
Large Cap Index Fund	$ 207,581	8.93%
Large Cap Enhanced Strategies	220,679	9.50%
Small/Mid Cap Core Securities	106,152	4.57%
Total Domestic Equities	534,412	23.00%
Non-U.S. Equities		
Active EAFE Securities	350,641	15.09%
International Small Cap Core	70,060	3.02%
Emerging Markets Growth Fund	113,860	4.90%
Total Non-U.S. Equities	534,561	23.01%
Fixed Income		
Core Plus Global Fixed Income	547,162	23.55%
High Yield Bonds	141,590	6.09%
Total Fixed Income	688,752	29.64%
Real Return Assets		
TIPS Index Fund	82,114	3.54%
Public / Private Real Estate Investments	24,022	1.03%
Securities (REITs) - Domestic	78,557	3.38%
Securities (REITs) - Global	16,842	0.72%
Property	3,024	0.13%
Total Real Return Assets	204,559	8.80%
Alternative Investments		
Private Equities	170,183	7.32%
Hedge Funds	125,252	5.39%
Total Alternative Investments	295,435	12.72%
Cash & Cash Equivalents	14,314	0.62%
Assets in Liquidation	51,325	2.21%
Total Investments Wilshire Associates	**$ 2,323,358**	**100.0%**
Reconciliation		
Assets in Liquidation (in litigation)	(27,281)	
KCERA Receivables and Payables	(1,143)	
KCERA Capital Assets	2,759	
Difference in Fair Value between Wilshire Associates and Trust Fund	3,741	
KCERA Net Assets Held in Trust for Pension Benefits	**$ 2,301,434**	

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



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. In accordance with KCERA's Interest-Crediting Policy, when investment returns would result in a negative five-year smoothed rate, KCERA sets the smoothed rate at 0.00% and credits the Contingency Reserve with the negative balance.

INVESTMENT RESULTS
RETURNS FOR PERIODS ENDED JUNE 30

	Current Year	Annualized 3-year	5-year	10-year
Total Portfolio:	13.30	-6.11	1.82	3.07
Benchmark: Composite Policy*	13.53	-2.70	3.72	3.51
TUCS Master Trust Median	13.09	-3.96	3.17	3.38
U.S. Equity:	16.49	-10.07	-0.86	-0.60
Benchmark: Wilshire 5000 Index	15.68	-9.36	-0.28	-0.78
TUCS Equity Median	16.31	-8.32	0.59	2.04
Non-U.S. Equity:	11.03	-11.56	2.86	1.95
Benchmark: MSCI ACWI ex-US	11.49	-10.09	3.96	2.35
TUCS International Equity Median	11.57	-10.01	3.15	3.21
Core Fixed Income:	19.98	5.65	4.83	6.44
Benchmark: Barclays Aggregate	9.50	7.55	5.54	6.47
TUCS Fixed Income Median	11.91	7.35	5.80	6.84
High Yield:	23.24	5.17	6.14	N/A
Benchmark Policy**	24.06	6.33	6.81	N/A
Real Assets:	20.72	-15.06	-3.32	6.59
Benchmark: 20% Wilshire RESI / 50% NCREIF / 25% Barclays US TIPS Index / 5% Wilshire Global RESI	17.32	-5.06	3.66	9.48
Absolute Return:	4.74	-2.80	N/A	N/A
Benchmark: 91-Day T-Bill + 4%	4.43	6.47	N/A	N/A
Alternative Investments:	11.12	-0.99	4.53	N/A
Benchmark: Wilshire 5000 + 3%	19.16	-4.10	5.34	N/A
Cash & Cash Equivalents:***	16.48	7.51	6.41	5.13
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%
10% KCERA Real Assets custom benchmark
6% 91-Day Treasury Bills + 4%

** Kern County High Yield Composite: 50% ML HY Master II / 25% Barclays HY B 2% / 25% Barclays HY BB 2%
*** Includes NTGI securities lending collateral pool returns.

Note: Return calculations were prepared using a time-weighted rate of return based on market (fair) values and in compliance with the Global Investment Performance Presentation Standards.

INVESTMENT PROFESSIONALS
AS OF JUNE 30, 2010

INVESTMENT MANAGERS

U.S. EQUITY

AXA Rosenberg Investment Management
Orinda, CA

BlackRock, Inc.
San Francisco, CA

Pacific Investment Management Company
Newport Beach, CA

State Street Global Advisors
Boston, MA

NON-U.S. EQUITY

BlackRock, Inc.
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 ASSETS

LaSalle Securities Limited
Baltimore, MD

Pyramis Global Advisors Trust Co.
Boston, MA

State Street Global Advisors
Boston, MA

ALTERNATIVE INVESTMENTS

Abbott Capital Management, LLC
New York, NY

Blackstone Alternative Asset Management
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, 2010

Shares	Stocks	Market Value
86,422	Nestle	$ 4,183,455
84,943	Total	3,846,085
1,720,397	Vodafone Group	3,581,562
380,697	HSBC Holdings	3,551,702
95,410	BHP Billiton Ltd	3,034,140
113,693	Standard Chartered	2,791,277
85,600	Honda Motor Co.	2,512,184
27,231	Siemens	2,468,956
96,571	Royal Dutch Shell	2,454,514
17,480	Roche Holdings	2,416,904

LARGEST BOND DIRECT HOLDINGS (BY MARKET VALUE)
AS OF JUNE 30, 2010

Par	Bonds	Market Value
23,500,000	U.S. Treasury Notes 1% due 04-30-2012	$ 23,676,250
10,300,000	U.S. Treasury .75% due 05-31-2012	10,329,767
9,180,000	U.S. Treasury Notes 3.625% due 08-15-2019	9,707,134
8,641,000	U.S. Treasury 4.5% due 08-15-2039	9,517,249
9,172,000	U.S. Treasury Notes .625% due 06-30-2012	9,172,734
7,589,980	Federal Home Loan Mtg Corp Pool 5.5% 04-01-2038	8,154,530
6,600,000	U.S. Treasury Notes 2.375% due 03-31-2016	6,697,456
5,920,000	U.S. Treasury Bonds 4.375% due 05-15-2040	6,402,835
5,200,000	GNMA II Jumbos 5 30 Years Settles Jul	5,526,643
5,200,000	FNMA Single Family Mortgage 4.5% 30 Years Settles Aug	5,369,811

A complete list of portfolio holdings is available upon request.

ASSETS UNDER MANAGEMENT
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(In thousands)

	2010	2009
U.S. Equity Managers	$ 533,045	$ 407,511
Non-U.S. Equity Managers	530,213	478,748
High Yield Managers	133,893	161,957
Global Fixed Income Managers	521,114	523,103
Real Assets Managers	202,673	163,483
Alternative Investments	173,232	142,744
Absolute Return Managers	125,252	71,014
Liquidation Assets	24,044	51,325
Investments at Fair Value	**2,243,466**	**1,999,885**
Cash & Short-Term Investments	80,370	79,991
Investments Sold / Purchased	(24,369)	(52,636)
Investment Income & Other Liabilities	351	(2,740)
Total Assets Under Management	**2,299,818**	**2,024,500**
KCERA Capital Assets	2,759	1,486
KCERA Receivables / Payables	(1,143)	(769)
Net Assets Held in Trust for Pension Benefits	**$ 2,301,434**	**$2,025,217**

SCHEDULE OF INVESTMENT FEES
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Not in thousands)

Investment Managers' Fees*	2010	2009
U.S. Equity Managers:		
AXA Rosenberg Investment Management	$ 164,310	$ 164,767
BlackRock	201,845	186,139
State Street Global Advisors	126,223	134,795
Westridge Capital Management, Inc.	0	214,626
Total U.S. Equity Managers	492,378	700,327
Non-U.S. Equity Managers:		
Pyramis Global Advisors	607,700	565,381
BlackRock	332,061	294,333
JP Morgan Investment Management	1,006,089	540,558
Total Non-U.S. Equity Managers	1,945,850	1,400,272
High Yield Managers:		
Goldman Sachs Asset Management	459,744	419,076
Western Asset Management	163,808	120,696
Total High Yield Managers	623,552	539,772
Global Fixed Income Managers:		
Goldman Sachs Asset Management	279,574	276,064
Western Asset Managment	565,383	589,987
Total Global Fixed Income Managers	844,957	866,051
Real Return Assets Managers:		
State Street Global Advisors TIPS	23,406	6,937
LaSalle Securities - Domestic	278,443	232,858
LaSalle Securities - Global	66,543	90,725
Total Real Return Assets Managers	368,392	330,520
Total Investment Managers' Fees	**$ 4,275,129**	**$ 3,836,942**

** Includes fees paid directly to investment managers.*

(Schedule of Investment Fees continued on next page)

SCHEDULE OF INVESTMENT FEES (continued)

Investment Consultant Fees	2010	2009
Custodial Fees		
The Northern Trust Company	$ 406,875	$ 410,000
Policy Implementation Overlay Strategy		
The Clifton Group	0	50,938
Actuarial Fees		
Milliman, Inc.	145,821	189,584
EFI Actuaries	66,515	0
American Realty Advisors	0	52,964
Glass, Lewis & Co.	39,210	41,960
Wilshire Associates, Inc.	200,000	200,000
Brown Armstrong	0	805
Legal Fees		
Kern County Counsel	25,008	40,206
Lebeau Thelen LLP	0	45,770
Hanson Bridgett	4,937	2,766
Manatt Phelps Phillips	189,308	206,784
K & L Gates LLP	11,889	23,252
Other	0	528
Due Diligence		
Trustees / KCERA Management	25,930	18,120
Security Lending Fees		
The Northern Trust Company	99,717	1,757,531
Real Estate Expenses		
KCERA Property Inc.	31,248	26,402
Total Investment Fees	**$ 5,521,587**	**$ 6,904,552**

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SECTION 4

Actuarial

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Milliman

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

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

milliman.com

June 7, 2010

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, 2009 annual actuarial valuation for the Kern County Employees Retirement Association (KCERA). It is anticipated that future actuarial valuations will be performed annually.

Contribution Rates

The financing objective of KCERA is to amortize any Unfunded Actuarial Accrued Liabilities (UAAL) over a closed 26.5-year period as of June 30, 2009, while maintaining contribution rates that will tend to remain level as percentages of payroll. As of June 30, 2009 there is a UAAL of $1,425.0 million. The Total Plan calculated contribution rate increased from 33.73% of pay [29.79% of pay after application of the COLA Contribution Reserve (CCR) credit] based on the June 30, 2008 valuation to 36.42% of pay based on the June 30, 2009 valuation. This increase was due primarily to a large recognized asset loss and a correction in membership data to include Special Pensionable Pay items. These pay items were assumed to be included in prior valuations, but were not. Note: No CCR credit applies for the June 30, 2009 valuation contribution rates.

Funded Status – Regular Pension Benefits

Based on the June 30, 2009 actuarial valuation, the Funded Ratio decreased during the period from June 30, 2008 to June 30, 2009 from 72.3% to 66.1%. The Funded Ratio is the ratio of the actuarial value of the assets over the value of the actuarial accrued liability. It should be noted that, due to five-year asset smoothing, the 2009 valuation results do not reflect the entirety of the significant market loss on assets that occurred in the fiscal year ending June 30, 2009. The Funded Ratio using the market value of assets on June 30, 2009 was 48%. Thus, the Funded Ratio is expected to continue to decrease as deferred market losses are reflected in upcoming valuations.

Funded Status – Supplemental Retirement Benefit Reserve (SRBR)

Based on the June 30, 2009 actuarial valuation, the Funded Ratio for all SRBR benefits decreased during the past year from 151.9% to 144.1% due primarily to recognized losses on the SRBR assets. The Funded Ratio is the ratio of the actuarial value of the SRBR assets over the present value of all SRBR benefits.

Assumptions

Based on an actuarial audit review of the 2009 valuation, the assumptions for rates of termination due to disability were reverted to the rates in effect prior to the June 30, 2008 investigation of experience. The June 30, 2009 valuation results and assumptions make no provision or expectation for potential losses due to the non-valuation of future excess earnings transfers to the CCR and SRBR, which will reduce the valuation assets available to fund regular pension benefits. A complete investigation of experience was performed as of June 30, 2008. The next investigation of experience is scheduled to be performed as of June 30, 2011.

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 before the 2004 valuation

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were prepared by the prior actuarial firms retained by KCERA. Following are the sections with which we were involved:

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
7. Historical Changes in UAAL/(Surplus)

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 Investigation of Experience 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 the 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.

Milliman's work products have been prepared exclusively for KCERA for a specific and limited purpose. It is a complex, technical analysis that assumes a high level of knowledge concerning KCERA operations, and uses KCERA's data, which Milliman has not audited. Milliman does not intend to benefit and assumes no duty or liability to other parties who receive this work. Any third party recipient of Milliman's work product who desires professional guidance should not rely upon Milliman's work product, but should engage qualified professionals for advice appropriate to its own specific needs.

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

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SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Economic Assumptions

Interest Rate: 7.75% per year

Salary Increases - Individual: Rates vary by service, as shown in Table I on page 73.

Salary Increases - Total Payroll: 4.00% per year

Inflation Assumption: 3.25% per year

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 (until 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 26.5 years, as of June 30, 2009. Beginning July 1, 2009, any liability attributable to golden handshakes is paid by one of two methods, as elected by the employer:

1. Payment in full in the first month of the fiscal year following the fiscal year in which the golden handshake(s) was granted; or

2. According to a five-year amortization to be invoiced to the employer in the first month of the fiscal year following the fiscal year in which the golden handshake(s) was granted. The amortization schedule will be based upon the valuation interest rate used in the most recently completed valuation at the time that the amortization schedule is created. The employer may complete payment of the golden handshake(s) at any time during the five-year amortization period.

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (continued)

Demographic Assumptions

Post-Retirement Mortality:

A) General Members and Safety Members:	RP-2000 Combined Healthy Annuitant Mortality Table. Rates set back two years for females and one year for males.
B) Beneficiaries:	Rates are the same as a General service retiree of the same 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 on page 74.
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, 2009. The 2009 pre-release actuarial audit uncovered an understatement in the number of disabilities in the 2008 Experience Study. The disability assumptions were changed back to those used prior to 2008. All other assumptions and methods were adopted by the Board of Retirement on November 19, 2008.

ASSUMED RATE OF SALARY INCREASE AS OF JUNE 30, 2010

Table 1

Annual Increase in Salary (before wage inflation)

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

Annual Increase in Salary (with wage inflation)

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

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	19	600	300	29	30 & above	100
60	44	0	22	2,000	1,500	32	30 & above	100
70	95	0	0	10,000	10,000	0	30 & above	100

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	7	0	0	10	20	140
50	14	0	19	600	300	29	30 & above	100
60	33	0	22	2,200	1,200	32	30 & above	100
70	69	0	0	10,000	10,000	0	30 & above	100

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	3	0	700
30	4	2	0	0	28	10	220
40	10	2	0	0	78	20 & above	0
50	20	2	0	1,200	198	20 & above	0
60	44	2	0	10,000	0	20 & above	0

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date*	Plan Type	Number	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/02	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%**
06/30/09**	General	7,166	$ 423,075,334	$ 59,039	15.4%
	Safety	1,854	141,829,138	76,499	19.4%
	Total	**9,020**	**564,904,472**	**62,628**	**16.5%**

** Valuations were performed December 31 for 2007 and earlier. Valuations will be as of June 30 for 2008 and later.*
*** Annual payroll data as of June 30, 2009 reflects the inclusion of supplemental pay items with pensionable salary.*

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*
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	114,349,075	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	139,133,419	8.9%	25,060
2008	5,552	196	97	5,651	5,039,591	1,610,546	142,562,464	4.8%	25,798
2009	5,651	458	182	5,927	16,056,013	2,751,455	155,867,022	12.9%	27,770

** Excludes SRBR amounts.*
*** Plan year ended December 31 for 2007 and earlier. Plan year ends 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)
12/31/04	$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	2,654,305,000	100%	100%	34%
06/30/09	232,426,000	2,159,371,000	1,813,403,000	4,205,200,000	2,780,215,000	100%	100%	21%

** 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
(In thousands)

	Gain (or Loss) for Year -- UAAL		
	06/30/2009	12/31/2007 to 06/30/2008	12/31/2007
Investment Performance Greater (Less) than Expected	$ (113,000)*	$ 11,000	$ 34,700
New Entrants into System (Greater) Less than Expected	(3,100)	(900)	(5,700)
Individual Salary Increases (Greater) Less than Expected	(50,900)	(53,800)	(33,400)
Additional Salary Information Provided**	(193,800)	-	-
Demographic Changes Greater (Less) than Expected	(35,700)	(17,500)	7,700
Change in Benefits	-	-	-
Change in Assumptions/Methodology	(600)	(126,600)	-
Composite Gain (or Loss) During Year	**$ (397,100)**	**$ (187,800)**	**$ 3,300**

** Includes a transfer from the Contingency Reserve in the amount of $104,100,000. Asset loss without this transfer is $217,100,000.*
*** Special pays were included with pensionable earnings for the first time in the June 30, 2009 valuation.*

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.

Vesting

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. Tier II generally applies to most KCERA general members hired by the County on or after October 27, 2007, or hired by North of the River Sanitation District on or after October 29, 2007.

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, 2009 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 5

Statistical

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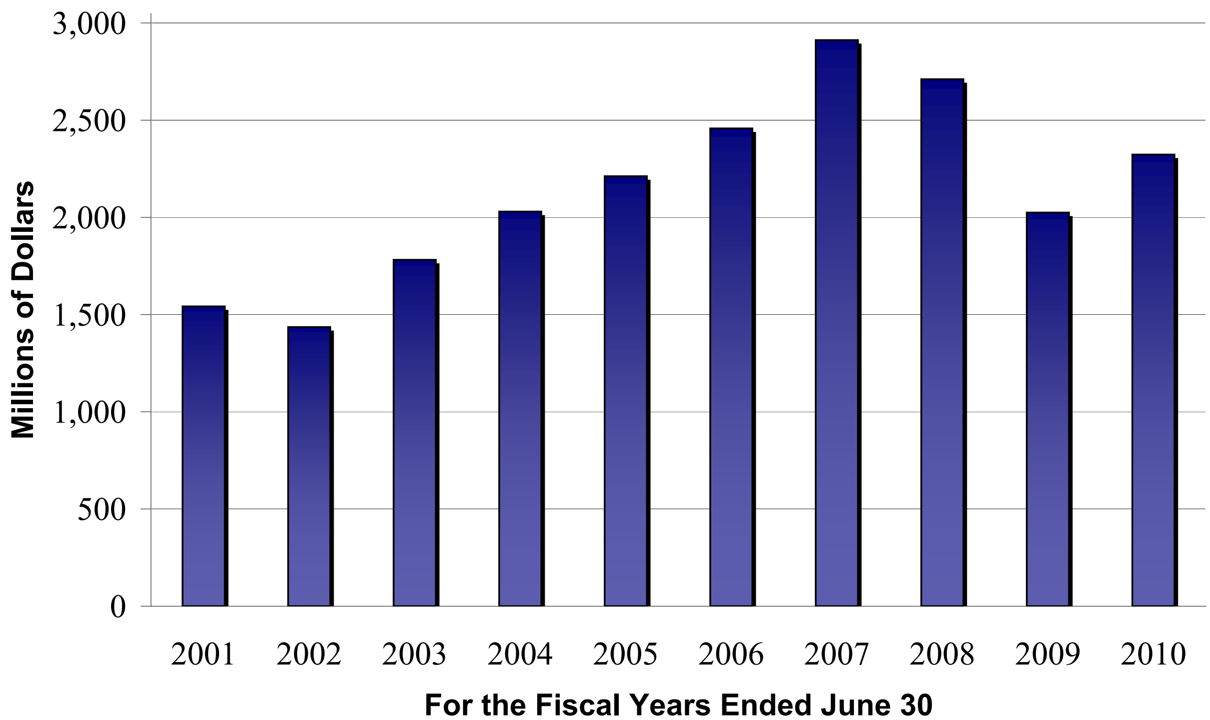
STATISTICAL SECTION OVERVIEW

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

	2001	2002	2003	2004	2005
Additions					
Employer Contributions	$ 41,067,487	$ 41,881,569	$ 343,338,853	$ 48,759,946	$ 60,268,141
Member Contributions	9,173,557	11,287,597	12,748,788	10,450,868	10,350,993
Net Investment Income	(99,791,394)	(76,247,977)	87,935,189	296,074,040	224,442,133
Total Additions	**$ (49,550,350)**	**$ (23,078,811)**	**$ 444,022,830**	**$ 355,284,854**	**$ 295,061,267**
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	$ 73,120,070	$ 80,613,013	$ 94,302,059	$ 104,960,374	$ 111,006,082
Administrative Expenses	1,903,426	2,167,965	2,166,624	2,551,741	2,500,768
Miscellaneous	89,427	48,290	780,444	-	2,745
Total Deductions	**$ 75,112,923**	**$ 82,829,268**	**$ 97,249,127**	**$ 107,512,115**	**$ 113,509,595**
Change in Plan Net Assets	**$ (124,663,273)**	**$ (105,908,079)**	**$ 346,773,703**	**$ 247,772,739**	**$ 181,551,672**

	2006	2007	2008	2009	2010
Additions					
Employer Contributions	$ 100,734,230	$ 128,134,672	$ 137,263,673	$ 138,814,789	$ 151,126,825
Member Contributions	11,774,784	12,633,790	15,031,419	18,191,402	17,877,017
Net Investment Income	259,760,478	453,362,746	(201,562,477)	(677,335,695)	291,332,972
Total Additions	**$ 372,269,492**	**$ 594,131,208**	**$ (49,267,385)**	**$ (520,329,504)**	**$ 460,336,814**
Deductions					
Total Benefit Expenses (See Benefit Expenses by Type)	$ 123,765,490	$ 137,078,303	$ 148,560,718	$ 162,489,110	$ 180,366,387
Administrative Expenses	2,518,913	3,030,488	3,341,021	3,072,618	3,207,350
Miscellaneous	111	705	105	-	546,676
Total Deductions	**$ 126,284,514**	**$ 140,109,496**	**$ 151,901,844**	**$ 165,561,728**	**$ 184,120,413**
Change in Plan Net Assets	**$ 245,984,978**	**$ 454,021,712**	**$ (201,169,229)**	**$ (685,891,232)**	**$ 276,216,401**

** 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 2010-2006
(In thousands)

	2010	2009	2008	2007	2006
Service Retirement Benefits					
General	$ 89,204	$ 79,546	$ 71,725	$ 65,324	$ 58,529
Safety	49,949	43,311	39,650	37,075	33,334
Total	139,153	122,857	111,375	102,399	91,863
Disability Benefits					
General	7,906	7,720	7,547	7,209	6,846
Safety	14,230	13,545	12,515	11,609	10,771
Total	22,136	21,265	20,062	18,818	17,617
Beneficiary Benefits					
General	9,072	8,573	7,962	7,452	6,991
Safety	7,222	6,525	6,297	5,575	5,109
Total	16,294	15,098	14,259	13,027	12,100
Retroactive Payments					
General	-	-	-	-	2
Safety	-	-	-	-	-
Total	-	-	-	-	2
Lump Sum Death Benefits	466	640	490	320	244
Total Benefit Payments	**178,049**	**159,860**	**146,186**	**134,564**	**121,826**
Refunds					
General	1,998	2,270	2,084	2,206	1,770
Safety	319	359	290	308	169
Total	2,317	2,629	2,374	2,514	1,939
Total Benefit Expenses	**$ 180,366**	**$ 162,489**	**$ 148,560**	**$ 137,078**	**$ 123,765**

SCHEDULE OF BENEFIT EXPENSES BY TYPE (continued)
FOR FISCAL YEARS 2005-2001
(In thousands)

	2005	2004	2003	2002	2001
Service Retirement Benefits					
General	$ 50,436	$ 44,539	$ 41,497	$ 38,542	$ 36,675
Safety	29,594	26,029	22,616	18,436	14,614
Total	80,030	70,568	64,113	56,978	51,289
Disability Benefits					
General	6,295	6,381	5,684	5,482	5,136
Safety	10,051	9,035	8,187	7,508	6,932
Total	16,346	15,416	13,871	12,990	12,068
Beneficiary Benefits					
General	6,671	6,109	5,724	5,394	5,151
Safety	4,904	4,386	3,901	3,630	3,224
Total	11,575	10,495	9,625	9,024	8,375
Retroactive Payments					
General	347	2,730	2,097	-	-
Safety	517	3,454	2,775	-	-
Total	864	6,184	4,872	-	-
Lump Sum Death Benefits	259	382	220	185	165
Total Benefit Payments	**109,074**	**103,045**	**92,701**	**79,177**	**71,897**
Refunds					
General	1,794	1,834	1,503	1,326	1,121
Safety	138	81	98	110	102
Total	1,932	1,915	1,601	1,436	1,223
Total Benefit Expenses	**$ 111,006**	**$ 104,960**	**$ 94,302**	**$ 80,613**	**$ 73,120**

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
AS OF JUNE 30, 2010

Amount of Monthly Benefit	Number of Retirants	Type of Retirement 1	2	3	4	5	6	7	8	9
$1-500	411	85	1	0	190	74	17	0	22	22
501-1,000	919	342	57	16	251	132	37	6	47	31
1,001-1,500	891	399	77	100	158	72	24	1	40	20
1,501-2,000	733	377	29	143	63	58	11	3	35	14
2,001-3,000	1,251	676	17	314	57	98	5	18	47	19
3,001-4,000	666	439	6	135	23	36	2	3	16	6
4,001-5,000	446	325	0	81	18	14	0	1	5	2
5,001-6,000	249	228	1	11	3	3	0	0	2	1
Over $6,000	605	592	4	1	3	5	0	0	0	0
Totals	**6,171**	**3,463**	**192**	**801**	**766**	**492**	**96**	**32**	**214**	**115**

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	411	10	8	0	0	161	232	0
501-1,000	919	3	28	1	0	326	553	8
1,001-1,500	891	7	32	3	0	320	475	54
1,501-2,000	733	6	19	1	0	255	359	93
2,001-3,000	1,251	14	30	4	1	443	540	219
3,001-4,000	666	2	25	0	0	283	237	119
4,001-5,000	446	0	17	1	0	238	116	74
5,001-6,000	249	1	10	0	1	179	49	9
Over $6,000	605	2	22	2	0	492	86	1
Totals	**6,171**	**45**	**191**	**12**	**2**	**2,697**	**2,647**	**577**

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**	**35+**
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
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

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	35+
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
Valuation date 06/30/09								
Average Monthly Benefit ($):								
General	2,651	1,888	1,693	1,647	1,175	809	580	422
Safety	4,866	4,763	3,316	3,283	2,725	2,084	1,436	1,075
Number of Active Retirants:								
General	1,367	803	756	534	408	327	184	77
Safety	402	361	203	135	135	89	87	59

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
LAST 10 FISCAL YEARS, AS OF JUNE 30

	2001	2002	2003	2004	2005
County of Kern:					
General Members	5,624	6,130	6,006	6,011	6,029
Safety Members	1,620	1,630	1,609	1,609	1,632
Total	7,244	7,760	7,615	7,620	7,661
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	12	12	12	14
Buttonwillow Recreation and Park District	2	3	3	3	3
East Kern Cemetery District	2	2	1	1	1
Inyokern Community Services District	2	3	2	2	2
Kern County Water Agency	59	67	66	70	68
Kern Mosquito & Vector Control District	20	20	20	18	19
North of the River Sanitation District	9	9	7	8	7
San Joaquin Valley Unified Air Pollution Control District	198	219	237	250	253
Shafter Recreation and Park District	0	0	0	1	0
West Side Cemetery District	5	6	6	6	6
West Side Mosquito Abatement District	7	8	8	8	8
West Side Recreation and Park District	12	12	12	11	10
Kern County Superior Court	-	-	-	-	-
Total	328	361	374	390	391
Total Active Membership:					
General Members	5,952	6,491	6,380	6,401	6,420
Safety Members	1,620	1,630	1,609	1,609	1,632
Total	**7,572**	**8,121**	**7,989**	**8,010**	**8,052**

Data retrieved from the Plan's database.

PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS (continued)
LAST 10 FISCAL YEARS, AS OF JUNE 30

	2006	2007	2008	2009	2010
County of Kern:					
General Members	6,222	6,537	6,348	6,254	5,920
Safety Members	1,646	1,738	1,842	1,854	1,765
Total	7,868	8,275	8,190	8,108	7,685
Participating Agencies (General Membership):					
Berrenda Mesa Water District	14	12	12	12	11
Buttonwillow Recreation and Park District	3	3	3	4	5
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	2	2
Kern County Water Agency	67	72	89	76	72
Kern Mosquito & Vector Control District	19	19	19	19	19
North of the River Sanitation District	8	9	10	9	10
San Joaquin Valley Unified Air Pollution Control District	267	272	280	291	292
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	9	8	8
West Side Recreation and Park District	11	11	11	12	12
Kern County Superior Court	-	-	473	472	444
Total	406	415	915	912	882
Total Active Membership:					
General Members	6,628	6,952	7,263	7,166	6,802
Safety Members	1,646	1,738	1,842	1,854	1,765
Total	**8,274**	**8,690**	**9,105**	**9,020**	**8,567**

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

PRUDENT INVESTMENT • QUALITY SERVICE

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