Comprehensive
Annual Financial Report

FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

EXPLORING THE CORNERS OF KERN COUNTY, CALIFORNIA

PRUDENT INVESTMENT • QUALITY SERVICE

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

Comprehensive Annual Financial Report

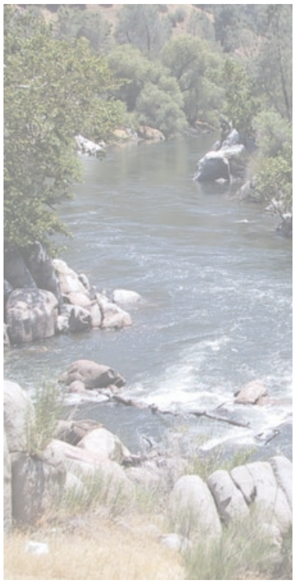
FOR THE FISCAL YEARS ENDED JUNE 30, 2013 AND 2012

Issued By:

Anne M. Holdren, *Executive Director*
Sheryl Lawrence, *Financial Officer*

You never know what treasures you'll find until you look in the right places ...




Kern County Employees' Retirement Association
11125 River Run Boulevard / Bakersfield, California 93311
(661) 381-7700 or (877) 733-6831 / www.kcera.org

Table of Contents

Table of Contents

Section 4 - Actuarial 69

Section 5 - Statistical 85

Designed by Josiah Vencel

SECTION I

Introductory

An oil derrick in a field of grain

What you'll find if you explore Kern County is a thriving oil industry.

You might spot an oil derrick in a field of grain, next to a highway, even in a parking lot. But in the northwest corner of the county you will see thousands of derricks pumping all day, every day.

Some might call them an eyesore to an otherwise majestic landscape. But what they produce is inextricably tied to the lives of Kern County residents—and of countless Americans who benefit from the petroleum products that result.

DID YOU KNOW ... ?

In 2009, Kern County pumped 75% of the state's oil (207 million barrels), boosting California to #3 among the top-producing states in the U.S. (behind Texas and Alaska).

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December 5, 2013

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 the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2013 and 2012. 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 the 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 provides retirement, disability, death, beneficiary, cost-of-living and supplemental retirement benefits. For the fiscal year ended June 30, 2013, KCERA had 9,599 active and deferred-vested members and paid retirement benefits to 7,153 retirees and their beneficiaries.

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, 2013, thirteen districts participated in the retirement plan: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito and 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 and Vector Control 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

KCERA Welcomes New Board Members

KCERA welcomed three new trustees to the Board of Retirement in January 2013. Rick Kratt, a firefighter representing safety members, was appointed in lieu of an election to fill the board's Seventh Member seat. Gayland Smith, an accounting veteran, was appointed as the board's Sixth Member. And Supervisor David Couch was appointed as the board's Fourth Member. A special election held in April 2013 brought two additional trustees to the KCERA board. The county's audit chief, Dominic Brown, was elected by general members to fill the Second Member seat. Russell Albro, a Sheriff's Department commander, was elected by safety members to fill the Alternate Seventh Member seat.

Pension Administration System Implemented

The end of fiscal year 2012-13 was accompanied by the completion of the reverse-parallel phase of its new pension administration system designed by CPAS Systems, Inc. The five-year project culminated with intensive testing phases in which KCERA staff transitioned from using its legacy program as the "system of record" to the online CPAS platform. Full system implementation will begin July 1, 2013, culminating nearly five years of immeasurable dedication and determination from staff.

Board Refines Governance Structure

With the assistance of Cortex Applied Research, the board completed a thorough review of its policy-focused governance structure, which resulted in revisions to seventeen governance charters and policies. To gain more efficiency and productivity in board operations, the board's standing committees were reduced from six to two. The role of the executive director was also expanded with more delegated authority and oversight of investment manager due diligence.

KCERA Goes Direct with Hedge Funds

The board approved investing a ten percent allocation (approximately $320 million) directly with hedge fund managers, thereby eliminating its previous hedge fund-of-funds strategy. The shift is expected to bring greater cost efficiencies and transparency to the portfolio. As of June 30, 2013, KCERA's Board approved funding for new hedge funds managers, two of which were hired during the period: Amici Global Partners L.P. and Och-Ziff Capital Management Group LLC, each with $22.5 million. In the future, KCERA will select and fund several additional managers until the allocation is completed.

In-House General Counsel Hired

In February 2013, KCERA hired its first in-house general counsel, Jennifer Zahry, to oversee the legal functions of the association and to manage its outside legal counsel services. Before joining KCERA, Ms. Zahry was a law clerk for the U.S. Magistrate Judge of the Eastern District of California. From 2002 to 2012, she served as deputy county counsel for the County of Kern.

Board Approves Monthly Meeting Schedule

Following a one-year pilot program, the KCERA board voted on April 16, 2013 to continue its once-a-month meeting schedule. With efficiencies gained from the board's revised disability application review procedures, the elimination of routine manager presentations and the addition of a chief investment officer position, board meetings require approximately two to three hours each month. The modified schedule has also reduced staff time for planning, compiling and distributing agendas. KCERA's Investment-Regular Board meetings are held on the second Wednesday of each month at 8:30 a.m.

FUNDING

KCERA's funding objective is to meet long-term benefit obligations through approximately level contributions to the Plan and the accrual and compounding of investment income. As of June 30, 2012, the funded ratio of the Plan was 60.5% using actuarial assets and actuarial liabilities of $2,960,507,000 and $4,894,990,000, respectively. The funded percentage decreased 0.3% from June 30, 2011 due primarily to lower-than-expected actuarial investment returns and actual contributions, and other experience losses.

Pursuant to provisions in the County Employees' Retirement Law of 1937, KCERA engages an independent actuarial consulting firm, The Segal Company, 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 Plan. The last triennial analysis was performed as of June 30, 2011.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2013 and 2012 was 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 maintains 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. Moreover, the concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived. The Board of Retirement has established a finance 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 finance committee to discuss their related findings as to the integrity of the financial reporting and adequacy of internal controls.

KCERA's external auditor, CliftonLarsonAllen, LLP, has 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 accounting principles generally accepted in the United States of America and are free of material misstatements. Their opinion is that KCERA's financial statements present fairly, in all material respects, the Net Position of KCERA as of June 30, 2013 and 2012 and its Changes in Net Position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INVESTMENTS

The Board of Retirement 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 association 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 Plan when prudent in the informed opinion of the Board. In addition, the rule requires the Board to diversify the investments of the Plan, unless it is clearly prudent not to do so under the circumstances. The Board therefore makes basic policy decisions with respect to the Plan, 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 Statement of Investment Policy, which states the investment philosophy, investment guidelines, performance objectives and asset allocation of the Plan. The Board employs the services of independent investment consultants Wurts & Associates and Albourne America to assist the Board in formulating policies, setting goals and manager guidelines, and selecting and monitoring the performance of the money managers.

For fiscal year 2013, the investments of the Plan returned 10.4% (net of fees). KCERA's annualized rate of return, net of fees, was 10.0% in the past three years, 3.3% in the past five years, and 6.6% in the past ten years. The investment expenses of the fund are linked to the performance of the investment portfolio and other factors and therefore vary year to year.

PROFESSIONAL SERVICES

The Board retains professional consultants and investment managers to provide professional services essential to the effective and efficient operation of 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 64 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, 2012. 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 the Certificate of Achievement, a government unit must publish an easily readable and well-organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

The 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 Plan throughout the fiscal year. I also wish to thank the consultants and staff for their continued commitment to KCERA and their diligent work to ensure the successful administration of the Plan.

Respectfully submitted,

Anne M. Holdren
Executive Director

Government Finance Officers Association

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, 2012

Executive Director/CEO

Members of the Board of Retirement

As of June 30, 2013

Jackie Denney (Chairman)
County Treasurer-Tax Collector
Ex-Officio Member

Michael Turnipseed (Vice-Chairman)
Appointed by Board of Supervisors
Present term expires 12/31/2013

Norman Briggs
Elected by Retired Members
Present term expires 12/31/2013

Dominic Brown
Elected by General Members
Present term expires 12/31/2015

David Couch
Appointed by Board of Supervisors
Present term expires 12/31/2015

Lance Horton
Appointed by Board of Supervisors
Present term expires 12/31/2013

Rick Kratt
Elected by Safety Members
Present term expires 12/31/2015

Konrad Moore
Elected by General Members
Present term expires 12/31/2013

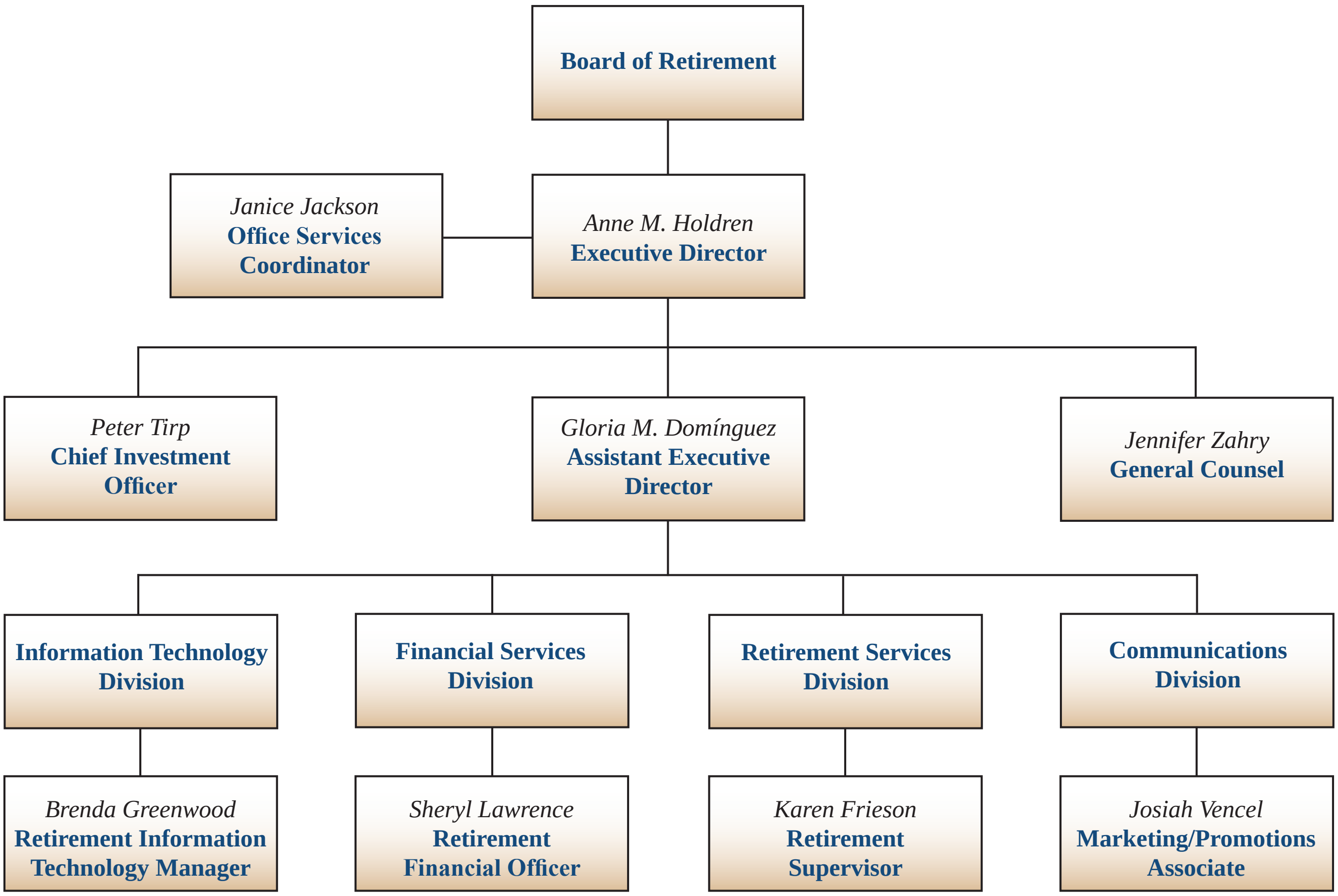
Gayland Smith
Appointed by Board of Supervisors
Present term expires 12/31/2015

Russell Albro (Alternate)
Elected by Safety Members
Present term expires 12/31/2015

Phil Franey (Alternate)
Elected by Retired Members
Present term expires 12/31/2013

Organizational Chart

As of June 30, 2013



Professional Consultants

As of June 30, 2013

ACTUARY
The Segal Company, Inc.
San Francisco, CA

AUDITOR
CliftonLarsonAllen, LLP
Broomfield, CO

CUSTODIAN
The Northern Trust Company
Chicago, IL

INVESTMENT CONSULTANTS
Wurts & Associates, Inc.
Seattle, WA

Albourne America LLC
San Francisco, CA

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

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

Linea Solutions, Inc.
Los Angeles, CA

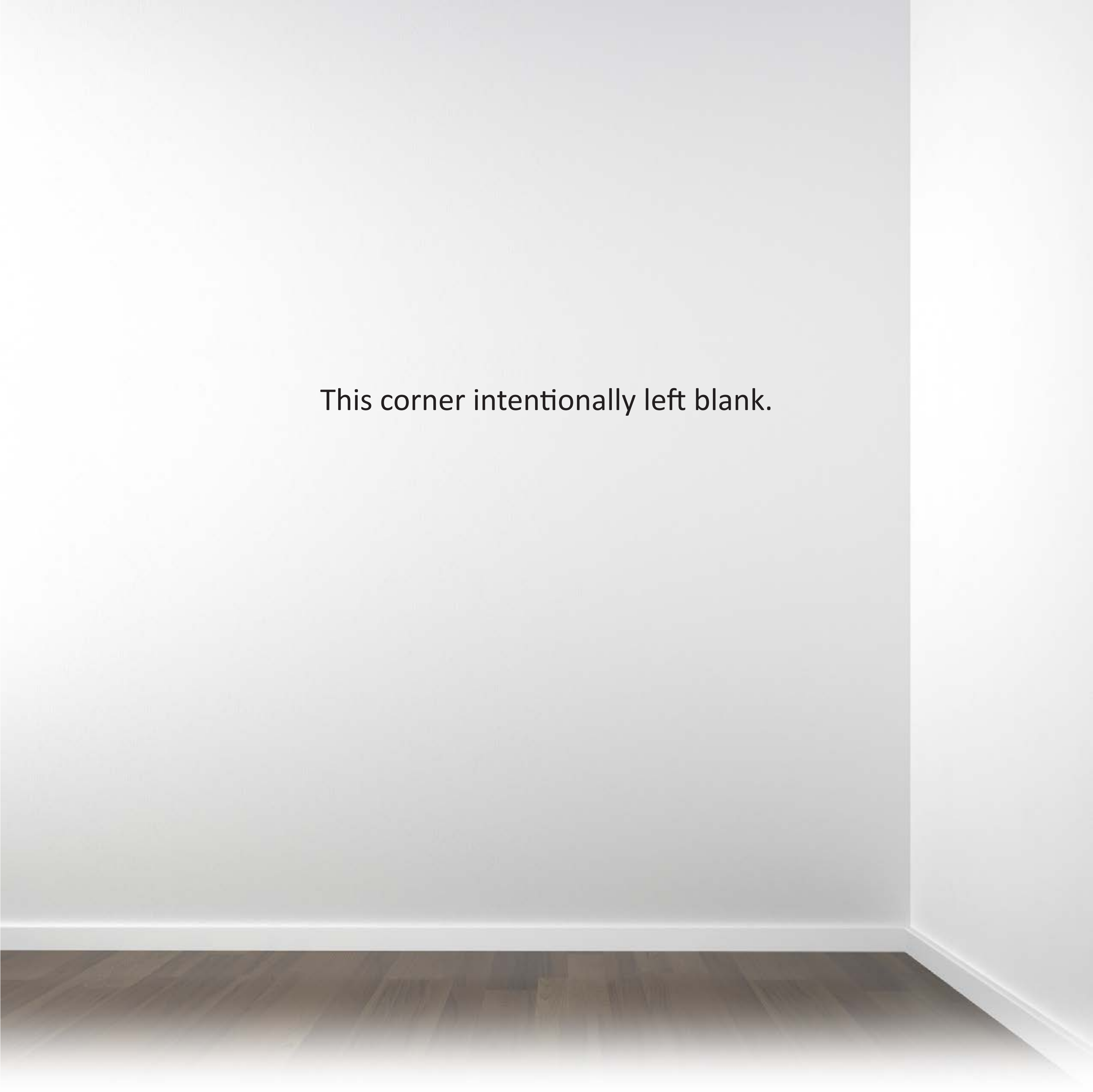
LEGAL
Foley & Lardner, LLP
Boston, MA

Hanson Bridgett, LLP
San Francisco, CA

Ice Miller, LLP
Indianapolis, IN

Nossaman, LLP
Los Angeles, CA

Public Pension Consultants
Colorado Springs, CO



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Section II
Financial

The Crystal Palace, Buck Owens' music museum

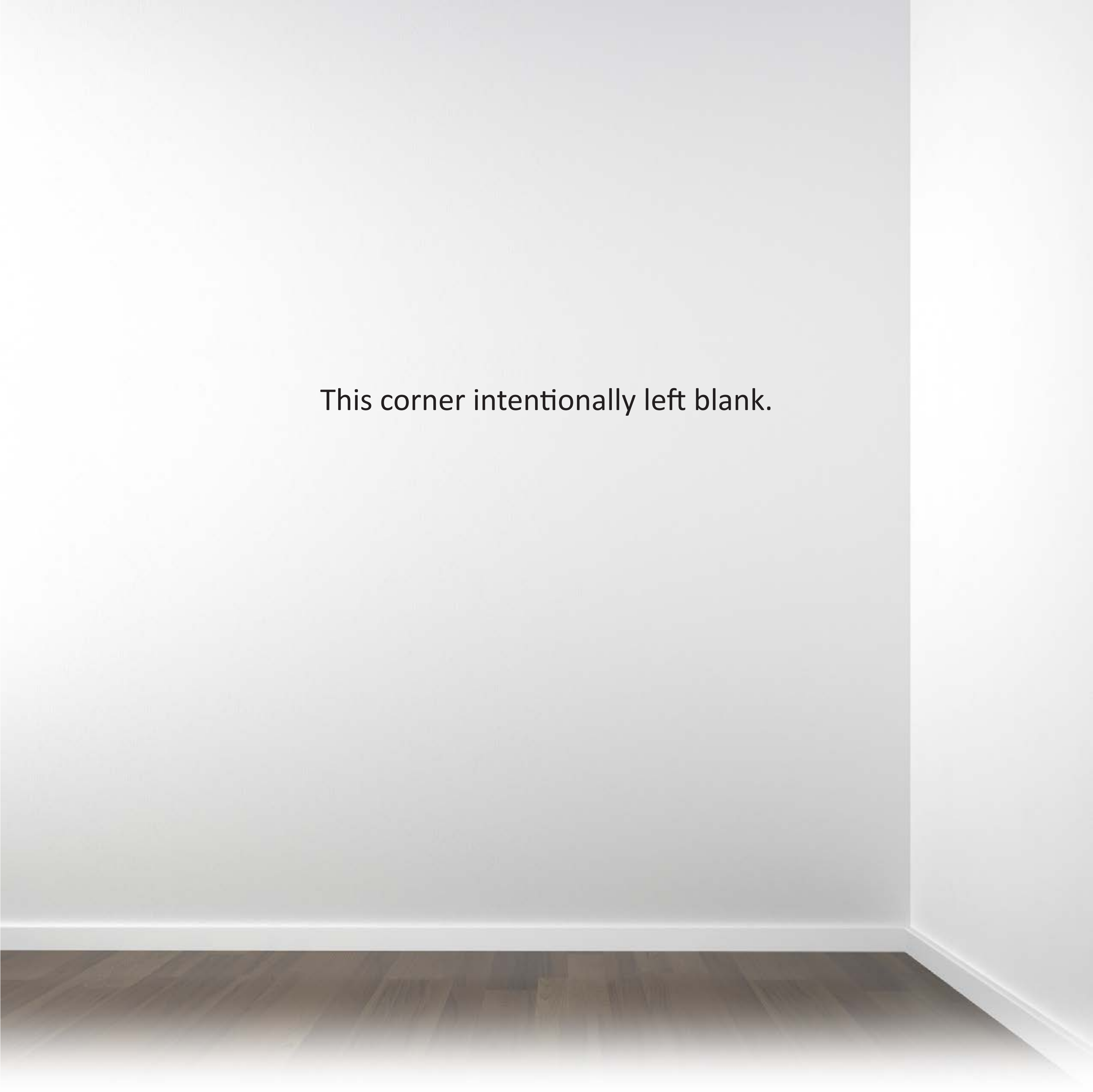
What you'll find if you explore Kern County is the birthplace of a new genre of country music.

The "Bakersfield Sound" originated from, as the name indicates, the city of Bakersfield, the county seat of Kern. Developed by the talent of Buck Owens, who co-hosted the TV show *Hee Haw* from 1969 to 1986, the Bakersfield Sound is known for its crisp blend of acoustic and steel guitars, drums and fiddle.

The Bakersfield Sound was later adopted by music legend Merle Haggard, Brad Paisley and Dwight Yoakam. Together, these artists helped put Bakersfield on the country music map.

DID YOU KNOW … ?

Merle Haggard had 40 #1 hits and was inducted into the Country Music Hall of Fame in 1994. Buck Owens had 20 #1 hits and joined the Hall of Fame in 1996.



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CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

To the Board of Retirement and the Finance Committee
Kern County Employees' Retirement Association
Bakersfield, California

Report on the Financial Statements
We have audited the accompanying financial statements of the Kern County Employees' Retirement Association, which comprise the Statements of Net Position as of June 30, 2013 and 2012, and the related Statements of Changes in Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the Kern County Employees' Retirement Association as of June 30, 2013 and 2012, and the respective changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

NEXIA INTERNATIONAL

An independent member of Nexia International

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress and employer contributions on pages 17 through 22 and 44 through 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kern County Employees' Retirement Association's basic financial statements. The other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section, investment section, actuarial section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the Plan'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 result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kern County Employees' Retirement Association's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Denver, Colorado
December 5, 2013

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, 2013 and 2012. 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 the Comprehensive Annual Financial Report.

Financial Highlights

- During the fiscal year ended June 30, 2013, KCERA's total fund returned 10.4% (net of fees), an increase from the prior fiscal year return of 1.0%. Performance of the fund was mostly due to outperformance in the equity markets. KCERA's net position increased $304.7 million during the year ended June 30, 2013.

- Member contributions increased by $1.6 million, or 8.3%, mainly as a result of scheduled member contribution rate changes. Employer contributions increased by $21.8 million, or 11.5%, due primarily to a higher-than-expected increase in total payroll. The recommended average employer contribution rate decreased from 42.76% of payroll as of June 30, 2011 to 42.67% in the June 30, 2012 valuation.

- Vested pension benefits increased by $19.4 million, or 9.3%, over the prior year. The increase is attributable to a 3.7% increase in retired members and beneficiaries receiving pension benefits and a 5.4% increase in the average monthly benefit, which rose to $2,640 in the fiscal year.

- As of June 30, 2012, the date of the most recent actuarial valuation, the funded ratio for KCERA was 60.5%, compared to the funded ratio of 60.8% as of June 30, 2011. The increase in the UAAL is mainly due to lower-than-expected investment returns, offset to some degree by lower-than-expected salary increases.

Overview of Basic Financial Statements and Accompanying Information

1) **The Statement of Plan Net Position** is the basic statement of position for a defined benefit pension plan. This statement presents asset and liability account balances at fiscal year end. The difference between assets and liabilities represents the net position 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 Position** is the basic operating statement for a defined benefit pension plan. Changes in plan net position 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.

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.

Overview of Basic Financial Statements and Accompanying Information *(cont.)*

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 accounting principles generally accepted in the United States of America and are in compliance with Governmental Accounting Standards Board (GASB) Statements.

Financial Analysis

Net Position Restricted 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 position–restricted for pension benefits at June 30, 2013 was $3.1 billion, an increase of $304.7 million, 10.9%, from June 30, 2012. KCERA's net position-restricted for pension benefits at June 30, 2012 was $2.8 billion, an increase of $4.0 million, 0.1%, from June 30, 2011. Key elements of the increase in net position are described below and in Tables 1 and 2 on page 20.

Contributions and Investment Income
Additions to net position include member and employer contributions and investment income. Member contributions were approximately $20.3 million, $18.7 million and $18.3 million for the years ended June 30, 2013, 2012 and 2011, respectively. Employer contributions were $211.7 million, $189.8 million and $177.4 million for the years ended June 30, 2013, 2012 and 2011, respectively.

Member contributions increased by $1.6 million (8.3%) in 2013 and increased by $449 thousand (2.5%) in 2012. The increase in member contributions in 2013 and 2012 was due to phasing out the "five-year stop" benefit and changes in the demographic profile of the employee group, including the addition of more Tier II general members.

Employer contributions increased by approximately $21.8 million (11.5%) in 2013 and increased by approximately $12.4 million (7.0%) in 2012. The increase in employer contributions in 2013 was primarily due to a higher-than-expected increase in total payroll. The increase in employer contributions in 2012 was due to lower-than-expected investment returns, an increase in the UAAL rate due to a lower-than-expected increase in payroll, less-than-expected actual contributions and other experience losses.

Net investment and securities lending income was $319.3 million, $21.2 million and $503.6 million for the years ended June 30, 2013, 2012 and 2011, respectively. The increase in 2013 can be attributed to strong returns in the equities and hedge fund markets. The increase in 2012 can be attributed to positive performance in fixed income, real estate and private equity

For the fiscal years ended June 30, 2013 and 2012, the KCERA portfolio gained 10.4% (net of fees) and 1.0% (net of fees), respectively. More information on KCERA's investment portfolio is contained in the investment section of this report, beginning on page 53.

Benefits, Refunds and Expenses
Deductions to plan net position 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 $226.6 million, $207.3 million, and $186.5 million for the years ended June 30, 2013, 2012 and 2011, respectively. Pension benefits increased by approximately $19.4 million (9.3%) in 2013 and $20.8 million (11.1%) in 2012.

Financial Analysis *(cont.)*

Benefits, Refunds and Expenses *(cont.)*
These increases were mainly due to a consistently growing population of 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 3.7% in 2013 and by 5.1% in 2012. The average monthly benefit for retirees and beneficiaries increased by 5.4% in 2013 and 5.8% in 2012.

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 $12.5 million, $11.8 million and $11.4 million for the years ended June 30, 2013, 2012 and 2011, respectively. Refunds of member contributions were $3.5 million, $3.1 million and $3.1 million for the years ended June 30, 2013, 2012 and 2011, respectively.

KCERA's administrative expenses were $3.8 million, $3.5 million and $3.8 million for the years ended June 30, 2013, 2012 and 2011, respectively.

Average aggregate monthly defined benefit payments, excluding SRBR benefits AND total number of retirees and beneficiaries:

June 2013	June 2012	June 2011
$18.9 million	$17.3 million	$15.5 million
7,153	6,897	6,564

NET POSITION
(In thousands)

Table 1

	2013	Increase (Decrease) Amount	2012	Increase (Decrease) Amount	2011
Assets					
Current Assets	$ 186,838	$ 49,833	$ 137,005	$ 47,375	$ 89,630
Investments	3,026,041	254,076	2,771,965	(19,028)	2,790,993
Securities Lending Collateral	321,372	76,942	244,430	(23,941)	268,371
Capital Assets	5,743	1,557	4,186	514	3,672
Total Assets	**$ 3,539,994**	**$ 382,408**	**$ 3,157,586**	**$ 4,920**	**$ 3,152,666**
Liabilities					
Current Liabilities	$ 113,852	$ 720	$ 113,132	$ 24,763	$ 88,369
Liabilities for Security Lending	321,372	76,942	244,430	(23,941)	268,371
Total Liabilities	**$ 435,224**	**$ 77,662**	**$ 357,562**	**$ 822**	**$ 356,740**
Net Position – Restricted for Pension Benefits	**$ 3,104,770**	**$ 304,746**	**$ 2,800,024**	**$ 4,098**	**$ 2,795,92**

CHANGES IN NET POSITION
(In thousands)

Table 2

	2013	Increase (Decrease) Amount	2012	Increase (Decrease) Amount	2011
Additions					
Member Contributions	$ 20,283	$ 1,563	$ 18,720	$ 449	$ 18,271
Employer Contributions	211,677	21,840	189,837	12,393	177,444
Net Investment Income (Loss)	319,264	298,114	21,150	(482,403)	503,553
Total Additions	**$ 551,224**	**$ 321,517**	**$ 229,707**	**$ (469,561)**	**$ 699,268**
Deductions					
Pension Benefits	$ 226,610	$ 19,360	$ 207,250	$ 20,790	$ 186,460
Supplemental Retirement Benefits	12,526	718	11,808	372	11,436
Refunds of Member Contributions	3,494	412	3,082	(35)	3,117
Administrative Expenses	3,848	379	3,469	(294)	3,763
Total Deductions	**$ 246,478**	**$ 20,869**	**$ 225,609**	**$ 20,833**	**$ 204,776**
Increase (Decrease) in Net Position	**$ 304,746**	**$ 300,648**	**$ 4,098**	**$ (490,394)**	**$ 494,492**
Net Position – Restricted for Pension Benefits					
At Beginning of Year	**$ 2,800,024**	**$ 4,098**	**$ 2,795,926**	**$ 494,492**	**$ 2,301,434**
At End of Year	**$ 3,104,770**	**$ 304,746**	**$ 2,800,024**	**$ 4,098**	**$ 2,795,926**

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 Position – Restricted 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 position. The Market Stabilization Reserve was ($133.0) million, ($277.3) million and ($161.6) million for the years ended June 30, 2013, 2012 and 2011, 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 5.4% in fiscal year 2013 and 4.4% in fiscal year 2012. In addition, in fiscal year 2013, no funds were 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 position, the Contingency and Market Stabilization Reserves will turn positive.

KCERA Reserves

(In thousands)	2013	2012	2011
Member Reserve	$ 244,832	$ 231,626	$ 225,649
Employer Reserve	592,004	558,963	588,584
Cost of Living Reserve	853,891	789,974	739,198
Retired Member Reserve	1,377,683	1,324,976	1,228,918
Supplemental Retiree Benefit Reserve	185,728	188,137	191,551
Contingency Reserve	(16,355)	(16,355)	(16,355)
Market Stabilization Reserve	(133,013)	(277,297)	(161,619)
Total	**$ 3,104,770**	**$ 2,800,024**	**$ 2,795,926**

Fiduciary Responsibilities

The 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 Plan. The assets are held for the exclusive purpose of providing benefits to KCERA members and their survivors, as mandated.

PEPRA

On September 12, 2012, Governor Jerry Brown signed into law the California Public Employees' Pension Reform Act (PEPRA) of 2013, formerly known as AB 340. The law took effect on January 1, 2013.

For new members of the Plan hired on or after January 1, 2013, an employer must adopt a new defined benefit formula for general and safety members, unless that employer has a benefit formula in place that is lower than the formula described in PEPRA. The Safety Tier II benefit formula previously adopted by the County is lower than the PEPRA benefit. The General Tier II benefit formula previously adopted by the County, Superior Court and eleven districts is lower than the PEPRA benefit. However, West Side Recreation and Park District did not adopt General Tier II and is using the PEPRA formula instead. In addition, final average salary is measured over a three-year period. The Board of Retirement adopted a resolution specifying which pensionable compensation items are includable in final average salary. Also, PEPRA members contribute at 50% of the normal cost.

Other provisions of the Act allow the Plan to audit a county or district and to assess reasonable costs to cover the cost of audit, adjustment and/or correction if the Plan determines that the employer knowingly failed to report compensation in accordance with the new provisions. Finally, the Act places certain restrictions on retirees returning to work in the same retirement system.

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 lawrences@co.kern.ca.us or (661) 381-7700.

STATEMENT OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

(In thousands)

	2013	2012
Assets		
Cash and Cash Equivalents	$ 105,131	$ 25,722
Receivables:		
Investments Sold	$ 71,336	$ 102,123
Interest and Dividends	8,202	6,478
Contributions and Other Receivables	2,169	2,682
Total Receivables	81,707	111,283
Investments at Fair Value:		
U.S. Debt Securities and Bonds	$ 809,346	$ 830,782
International Bonds	191,396	47,505
Domestic Equities	906,045	851,912
International Equities	694,397	596,786
Real Estate Investments	79,049	79,486
Alternative Investments	344,816	364,793
Swaps/Options	992	701
Collateral Held for Securities Lending	321,372	244,430
Total Investments at Fair Value	3,347,413	3,016,395
Capital Assets:		
Computer Software	$ 5,677	$ 4,110
Equipment/Computers	450	408
Accumulated Depreciation	(384)	(332)
Total Capital Assets	5,743	4,186
Total Assets	$ 3,539,994	$ 3,157,586
Liabilities		
Securities Purchased	$ 110,972	$ 110,879
Collateral Held for Securities Lent	321,372	244,430
Contributions and Other Liabilities	2,880	2,253
Total Liabilities	435,224	357,562
Net Position – Restricted for Pension Benefits	**$ 3,104,770**	**$ 2,800,024**

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN NET POSITION
AS OF JUNE 30, 2013 AND 2012

(In thousands)

	2013	2012
Additions		
Contributions:		
Employer	$ 211,677	$ 189,837
Member	20,283	18,720
Total Contributions	231,960	208,557
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	$ 266,891	$ (13,933)
Interest	25,264	22,176
Dividends	24,203	19,493
Real Estate Investments	2,978	1,759
Other Investment Income (Loss)	7,651	(1)
Total Investment Income	326,987	29,494
Less: Investment Expenses	8,615	9,045
Net Investment Income	318,372	20,449
Securities Lending Income:		
Earnings:	$ 918	$ 716
Less: Rebates & Bank Fees	26	15
Net Securities Lending Income	892	701
Total Additions	$ 551,224	$ 229,707
Deductions		
Retirement and Survivor Benefits	$ 226,610	$ 207,250
Supplemental Retirement Benefits	12,526	11,808
Refunds of Member Contributions	3,494	3,082
Administrative Expenses	3,848	3,469
Total Deductions	246,478	225,609
Net Increase	**$ 304,746**	**$ 4,098**
Net Position – Restricted for Pension Benefits At Beginning of Year	**$ 2,800,024**	**$ 2,795,926**
Net Position – Restricted for Pension Benefits At End of Year	**$ 3,104,770**	**$ 2,800,024**

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 and 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 and Vector Control 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, 2013, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active Members:			
Vested	4,398	1,359	5,757
Non-Vested	2,246	514	2,760
Total Active Members	**6,644**	**1,873**	**8,517**
Terminated – Deferred Vested	935	147	1,082
Retirees and Beneficiaries	5,402	1,751	7,153
Total	**12,981**	**3,771**	**16,752**

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 KCERA.

- Members hired prior to January 1, 2013 may retire after reaching age 50 with 10 years of service. General members may retire with 30 years of service; safety members may retire with 20 years of service, regardless of age. 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 highest 12 months of compensation.

- General PEPRA members hired on or after January 1, 2013 may retire on or after age 52 with 5 or more years of service. Safety PEPRA members hired on or after January 1, 2013 may retire on or after age 50 with 5 or more years of service. The amount of their monthly benefit is determined as a percentage of their final monthly compensation and is based on age at retirement and the number of years of service. The final monthly compensation is the monthly average of the highest 36 months of compensation.

- Retiring members may choose from four optional beneficiary retirement allowances. Most retirees elect to receive the unmodified allowance, which provides 60% of the benefit continued to the retiree's surviving spouse or registered domestic partner.

NOTE 1 – DESCRIPTION OF PLAN *(cont.)*

- Pension provisions include deferred allowances whereby a member may terminate employment with the County of Kern or a special district after five or more years of service. If the member does not withdraw his or her accumulated contributions, he or she is entitled to all pension benefits after being vested five years.

- 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:

<u>Death Before Retirement</u>

- 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 (continuing to age 22 if enrolled full time in an accredited 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 (continuing to age 22 if enrolled full time in an accredited school).

<u>Death After Retirement</u>

- 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 the member's retirement allowance.

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.

NOTE 1 – DESCRIPTION OF PLAN *(cont.)*

Cost-of-Living Adjustment:

- An annual cost-of-living adjustment (COLA) of up to 2.0% was adopted for all retirees and continuance beneficiaries as of April 1, 1973. An additional 0.5% COLA was granted by the Ventura Settlement as of April 1, 2002, resulting in a maximum COLA of 2.5%, depending on the rate of inflation.

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 twenty-one hundredths of one percent (0.21%) of the accrued actuarial liability of the Plan. Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products are not considered a cost of administration of the Plan.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

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, 2013 & 2012.
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

Assets shall be recorded at historical cost or, if that amount is not practicably determined, at estimated historic cost. Accumulated depreciation shall be summarized and reflected on KCERA's annual financial statements. Capital assets shall be depreciated over their estimated useful lives using the straight-line depreciation method. Intangible assets with limited useful lives (e.g., by legal or contractual provisions) should be amortized over their estimated useful lives. Amortization of computer software should begin when the program is placed into service.

Capitalization Thresholds and Useful Life

Capital Asset Category	Thresholds	Useful Life
Furniture	$2,500	5-15 years
Equipment/Computers	$5,000	3-10 years
Internally generated computer software	$1,000,000	5-12 years
Computer software	$100,000	3-10 years

Income Taxes

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

Management's Estimates

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(cont.)*

New Accounting Pronouncements

In June 2011, the Governmental Accounting Standards Board (GASB) issued Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position. The objective of the Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. KCERA implemented GASB 63 starting with the fiscal year ended June 30, 2013.

In June 2012, the GASB released two governmental standards to the pension accounting and reporting framework. The GASB Board issued Statement No. 68 for Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27, and Statement No. 67 for Financial Reporting of Pension Plans, an amendment of GASB Statement No. 25. The primary objective of these Statements is to improve accounting and financial reporting by state and local governments whose employees are provided with pensions. The effective date for plan reporting (GASB 67) is the fiscal year beginning after June 15, 2013. The effective date for employer reporting (GASB 68) is the fiscal year beginning after June 15, 2014.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Board of Retirement 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.

Deposits

Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value. All cash and cash equivalents are held by the County of Kern as part of Kern County's treasury pool and at KCERA's master global custodian, The Northern Trust Company. The County Treasury Oversight Committee is responsible for regulatory oversight of Kern County's treasury pool. Substantially all of the cash held at The Northern Trust Company is swept daily into collective short-term investment funds.

A summary of cash, deposits and short-term investments as of June 30, 2013 & 2012 consists of:

(In thousands)

Held by	2013	2012
County of Kern	$ 11,611	$ 5,629
Northern Trust	93,520	20,093
Total	**$ 105,131**	**$ 25,722**

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Plan will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. KCERA does not have a formal policy for custodial credit risk but limits custodial credit risk for deposits by maintaining cash in an external investment pool managed by the County of Kern and cash and short-term investments managed by The Northern Trust Company. At June 30, 2013, KCERA had $1.25 million in deposits held at The Northern Trust Company that were uninsured and uncollateralized.

Investments

Investments of the Plan are reported at fair value. The Board of Retirement maintains a formal Statement of Investment Policy, which addresses guidelines for the investment process. In fulfilling its responsibilities, the Board of Retirement has contracted with investment managers and a master global custodian. Manager contracts include specific guidelines regarding the KCERA investments under management. For the year ended June 30, 2013, The Northern Trust Company is the global custodian for the majority of the investments of the Plan.

NOTE 3 – DEPOSITS AND INVESTMENTS *(cont.)*

Investments *(cont.)*

Credit Risk
Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The KCERA investment policy's minimum average credit quality rating for fixed income, with the exception of high yield, shall be at least A- and the minimum issue quality shall be B-rated. The minimum overall average credit quality for high yield shall be at least B.

At June 30, 2013 and 2012, KCERA's assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations, as follows:

Standard & Poor's (S&P) Credit Quality by Investment Type
As of June 30, 2013
(In thousands)

	S&P Credit Quality							
Type of Investment	**AAA**	**AA**	**A**	**BBB-B**	**CCC-C**	**D-NR**	**Agency**	**Total**
Asset-Backed Securities	$ 2,816	$ 3,554	$ 1,579	$ 839	$ 1,368	$ 1,644	$ -	**$ 11,800**
Bank Loans	-	-	-	5,537	393	2,524	-	**$ 8,454**
Commercial Mortgage-Backed Securities	11,182	4,166	960	1,616	-	1,546	-	**$ 19,470**
Corporate Bonds	222	5,810	42,619	154,957	19,249	20,913	-	**$ 243,770**
Corporate Convertible Bonds	-	-	-	62	-	-	-	**$ 62**
Government Agencies	-	2,266	1,386	857	-	-	570	**$ 5,079**
Government Bonds	-	935	9,233	21,543	-	11,373	-	**$ 43,084**
Government Mortgage-Backed Securities	-	-	-	646	-	503	104,688	**$ 105,837**
Government-Issued Commercial Mortgage-Backed Securities	-	-	-	-	-	-	930	**$ 930**
Municipal / Provincial Bonds	1,367	4,622	4,347	-	-	1,288	-	**$ 11,624**
Non-Government-Backed C.M.O.s	448	1,168	4,005	1,774	3,055	1,958	-	**$ 12,408**
Collective / Commingled Funds	-	226,859	6,446	9,357	-	71,590	107,600	**$ 421,852**
Total	**$ 16,035**	**$ 249,380**	**$ 70,575**	**$ 197,188**	**$ 24,065**	**$ 113,339**	**$ 213,788**	**$ 884,370**
U.S. Treasuries & Notes								**$ 116,372**
Total Fixed Income								**$1,000,742**

NOTE 3 – DEPOSITS AND INVESTMENTS *(cont.)*

Standard & Poor's (S&P) Credit Quality by Investment Type
As of June 30, 2012
(In thousands)

	S&P Credit Quality							
Type of Investment	**AAA**	**AA**	**A**	**BBB-B**	**CCC-C**	**D-NR**	**Agency**	**Total**
Asset-Backed Securities	$ 4,708	$ 3,707	$ 392	$ 654	$ 2,278	$ 1,231	$ -	**$ 12,970**
Bank Loans	-	-	-	3,675	2,627	4,228	-	**$ 10,530**
Collateralized Bonds	228	-	-	-	-	-	-	**$ 228**
Commercial Mortgage-Backed Securities	8,291	6,929	2,517	343	-	4,096	-	**$ 22,176**
Corporate Bonds	132	5,976	44,876	144,671	11,770	3,858	-	**$ 211,283**
Corporate Convertible Bonds	-	-	-	-	317	-	-	**$ 317**
Government Agencies	-	1,819	1,338	614	-	-	702	**$ 4,473**
Government Bonds	-	948	1	643	-	-	-	**$ 1,592**
Government Mortgage-Backed Securities	-	-	-	851	-	852	122,877	**$ 124,580**
Government-Issued Commercial Mortgage-Backed Securities	-	-	-	-	-	-	1,179	**$ 1,179**
Index-Linked Government Bonds	-	-	-	-	-	-	6,262	**$ 6,262**
Municipal / Provincial Bonds	1,421	5,429	6,555	-	-	1,229	-	**$ 14,634**
Non-Government-Backed C.M.O.s	4,136	414	2,415	1,898	2,348	2,188	-	**$ 13,399**
Other Fixed Income	-	-	1,079	-	-	-	-	**$ 1,079**
Collective / Commingled Funds	177,851	163,882	7,968	9,301	-	-	-	**$ 359,002**
Total	**$ 196,767**	**$ 189,104**	**$ 67,141**	**$ 162,650**	**$ 19,340**	**$ 17,682**	**$ 131,020**	**$ 783,704**
U.S. Treasuries & Notes								$ 94,583
Total Fixed Income								**$ 878,287**

NOTE 3 – DEPOSITS AND INVESTMENTS *(cont.)*

Investments *(cont.)*

Custodial Credit Risk - Investments
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. KCERA does not have a formal policy for limiting custodial credit risk. As of June 30, 2013, there were no investment securities exposed to custodial credit risk.

Concentration of Credit Risk
The KCERA 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 12%. This limitation applies to any non-index investment vehicle. With the exception of any sovereign entity (both U.S. and non-U.S.) U.S. agency-backed and U.S. agency-issued mortgages, portfolios may not invest more than 5% per investment grade issuer. Securities of a single non-investment grade issuer should not represent more than 2% of the market value of the portfolio. KCERA's investment portfolio contained no investments in any one single investment grade issuer greater than 5% of plan net position as of June 30, 2013 and 2012 (other than the exceptions listed above).

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 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, 2013 and 2012, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

As of June 30, 2013

		Investment Maturities (in years) as of June 30, 2013				
Investment Type	**Fair Value (in thousands)**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Maturity Not Determined**
Asset-Backed Securities	$ 11,800	$ -	$ 613	$ 635	$ 10,552	$ -
Bank Loans	8,454	299	6,331	1,824	-	-
Commercial Mortgage-Backed	19,470	-	-	702	18,768	-
Corporate Bonds	243,770	6,326	98,617	111,876	26,951	-
Corporate Convertible Bonds	62	-	62	-	-	-
Government Agencies	5,079	-	317	1,956	1,763	-
Government Bonds	153,689	1,043	22,221	98,215	30,680	-
Government Mortgage-Backed	105,837	2,573	79	931	56,045	48,782
Government-Issued Commercial Mortgage-Backed	930	-	73	857	-	-
Index-Linked Government Bonds	5,767	-	-	1,285	3,372	-
Municipal / Provincial Bonds	11,624	1,110	1,421	185	10,018	-
Non-Government-Backed C.M.O.s	12,408	-	-	-	12,408	-
Collective / Commingled Funds	421,852	-	-	-	-	421,852
Total	**$ 1,000,742**	**$ 11,351**	**$ 129,734**	**$ 218,466**	**$ 170,557**	**$ 470,634**

NOTE 3 – DEPOSITS AND INVESTMENTS *(cont.)*

Investments *(cont.)*

As of June 30, 2012

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) as of June 30, 2012 Less Than 1	1-5	6-10	More Than 10	Maturity Not Determined
Asset-Backed Securities	$ 12,970	$ -	$ 1,226	$ 870	$ 10,874	$ -
Bank Loans	10,530	-	8,709	1,821	-	-
Collateralized Bonds	228	-	228	-	-	-
Commercial Mortgage-Backed	22,177	-	-	691	21,486	-
Corporate Bonds	211,282	2,024	79,426	102,085	27,747	-
Corporate Convertible Bonds	317	-	317	-	-	-
Government Agencies	4,472	119	812	1,920	1,621	-
Government Bonds	96,174	-	19,889	63,743	12,542	-
Government Mortgage-Backed	124,581	-	78	447	97,547	26,509
Government-Issued Commercial Mortgage-Backed	1,179	-	86	1,093	-	-
Index-Linked Government Bonds	6,262	-	-	5,162	1,100	-
Municipal / Provincial Bonds	14,634	-	1,445	1,023	12,166	-
Non-Government-Backed C.M.O.s	13,400	-	-	-	13,400	-
Other Fixed Income	1,079	1,079	-	-	-	-
Collective / Commingled Funds	359,002	-	-	-	-	359,002
Total	**$ 878,287**	**$ 3,222**	**$ 112,216**	**$ 178,855**	**$ 198,483**	**$ 385,511**

Foreign Currency Risk
Foreign currency risk is the risk that changes in exchange rates will adversely affect the value of an investment.

The Board of Retirement considers the currency risk exposure when setting the asset allocation targets of the Plan. KCERA's investment policy permits a 22% allocation to non-U.S. equities and a 4% allocation to emerging market debt. In addition, the core fixed income and high yield managers invest in a diversified portfolio, which can include up to 10% in foreign currency exposure and 30% in non-dollar securities.

The direct holdings shown on the following page represent KCERA's foreign currency risk exposure as of June 30, 2013 and 2012.

NOTE 3 – DEPOSITS AND INVESTMENTS *(cont.)*

As of June 30, 2013
(In thousands, USD)

	Foreign Currency	Fair Value ($)
Cash	Australian Dollar	$ 21
	Canadian Dollar	45
	Euro	379
	British Pound Sterling	110
	Hong Kong Dollar	47
	Japanese Yen	394
	South Korean Won	2
	Mexican Peso	256
	Malaysian Ringgit	45
	Swedish Krona	49
	Singapore Dollar	33
Equities	Australian Dollar	12,136
	Canadian Dollar	9,644
	Swiss Franc	32,046
	Danish Krone	346
	Euro	80,761
	British Pound Sterling	67,481
	Hong Kong Dollar	22,810
	Indonesian Rupiah	494
	New Israeli Shekel	389
	Japanese Yen	56,069
	South Korean Won	4,171
	Norwegian Krone	1,701
	Swedish Krona	4,080
	Singapore Dollar	1,465
Fixed Income	Brazilian Real	3,952
	Euro	2,513
	British Pound Sterling	451
	Hungarian Forint	1,739
	Mexican Peso	6,848
	Malaysian Ringgit	2,851
	Polish Zloty	1,230
	Russian Ruble	3,268
	Turkish Lira	1,383
	South African Rand	1,975
Swaps / Options	Brazilian Real	(477)
	Canadian Dollar	(4)
	Euro	65
	Japanese Yen	9
Total Foreign Cash and Investments		**$ 320,777**

As of June 30, 2012
(In thousands, USD)

	Foreign Currency	Fair Value ($)
Cash	Australian Dollar	$ 42
	Canadian Dollar	61
	Swiss Franc	51
	Euro	382
	British Pound Sterling	2
	Hong Kong Dollar	114
	Japanese Yen	317
	South Korean Won	9
	Swedish Krona	21
	Singapore Dollar	29
Equities	Australian Dollar	14,119
	Canadian Dollar	7,952
	Swiss Franc	21,123
	Danish Krone	248
	Euro	69,656
	British Pound Sterling	59,321
	Hong Kong Dollar	17,930
	Indonesian Rupiah	511
	New Israeli Shekel	296
	Japanese Yen	44,996
	South Korean Won	2,765
	Norwegian Krone	984
	Swedish Krona	3,398
	Singapore Dollar	1,138
Fixed Income	Mexican Peso	1
	Euro	1,033
Swaps / Options	Brazilian Real	467
	Canadian Dollar	94
	Euro	521
Total Foreign Cash and Investments		**$ 247,581**

NOTE 3 – DEPOSITS AND INVESTMENTS *(cont.)*

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).

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 the duration and maturity of the issues.

Fair Value (In thousands)

	June 30, 2013	June 30, 2012
Mortgage-Backed Securities	$ 126,236	$ 147,937
Asset-Backed Securities	11,800	12,970
Collateralized Mortgage Obligation Securities	12,409	13,400
Total	**$ 150,445**	**$ 174,307**

NOTE 4 – SECURITIES LENDING

Under provisions of state statutes, the 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, 2013, KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% or 105% plus accrued interest. At June 30, 2013 and 2012, the securities lending transactions collateralized by cash had a fair value of $313,130,075 and $241,377,920, respectively, and a collateral value of $321,372,030 and $244,429,873, respectively. At June 30, 2013 and 2012, the securities lending transactions collateralized by securities or letters of credit had a fair value of $0 and $705,289, respectively, and a collateral value of $0 and $718,046, respectively, which was not reported as assets and liabilities in the accompanying Statement of Net Position.

NOTE 4 – SECURITIES LENDING *(cont.)*

KCERA's loaned securities and collateral as of June 30, 2013 and 2012 are as follows:

As of June 30, 2013
(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 Corporate Fixed	$ 1,819	$ 1,926	$ -	$ -
Global Equities	21,918	23,303		
Global Government Fixed	4,011	4,196		
U.S. Agencies	318	324		
U.S. Corporate Fixed	45,501	46,598		
U.S. Equities	137,055	140,624		
U.S. Government Fixed	102,508	104,401		
Total	**$ 313,130**	**$ 321,372**	**$ -**	**$ -**

As of June 30, 2012
(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 Equities	$ 21,163	$ 21,689	$ 446	$ 457
U.S. Corporate Fixed	47,894	48,466	30	31
U.S. Equities	98,195	98,838	229	230
U.S. Government Fixed	74,126	75,437	-	-
Total	**$ 241,378**	**$ 244,430**	**$ 705**	**$ 718**

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.

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.

NOTE 5 – DERIVATIVES *(cont.)*

Description of and Authority for Derivative Investments *(cont.)*

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-market," 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 end of the reporting period 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.

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 38.

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 Exchange Contracts
Forward exchange 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.

NOTE 5 – DERIVATIVES *(cont.)*

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 Net Position. 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 Net Position as a component of investment revenue.

As of June 30, 2013 and 2012, KCERA has the following instruments outstanding (see Summary table below), with an objective 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.

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 for non-exchange-traded derivative instruments, 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. Counterparty exposure is limited to firms with a short-term rating of A1/P1 or with a long-term credit rating of AA or better. Single counterparty exposure should be limited to 10% of the value of the fund.

A summary of counterparty credit ratings relating to non-exchange-traded derivatives in asset positions as of June 30, 2013, in addition to a summary of KCERA's derivatives as of June 30, 2013 and 2012, are as follows:

Investment Derivatives Summary and Summary of Credit Ratings

As of June 30, 2013 (In thousands)

Investment Derivative Type	Changes in Fair Value Gain/(Loss)	Fair Value	Notional Value	S&P Credit Rating AA	A	Exchange Traded	Not Available
Futures	$ 10,502	$ -	$ (17,729)	$ -	$ -	$ -	$ -
Options	430	(154)	-	-	(148)	(7)	-
Swaps	(302)	783	-	-	136	-	764
Foreign Exchange Contracts	(41)	(239)	-	-	-	-	(238)
Rights/Warrants Equity Contracts	92	23	-	-	-	-	22
Total Value	**$ 10,681**	**$ 413**	**$ (17,729)**				
Total Subject to Credit Risk				**$ 0**	**$ (12)**	**$ (7)**	**$ 548**

As of June 30, 2012 (In thousands)

Investment Derivative Type	Changes in Fair Value Gain/(Loss)	Fair Value	Notional Value	S&P Credit Rating AA	A	Exchange Traded	Not Available
Futures	$ 358	$ -	$ (39,984)	$ -	$ -	$ -	$ -
Options	904	(207)	-	21	(259)	17	13
Swaps	(1,611)	1,694	-	47	1,441	-	205
Foreign Exchange Contracts	(28)	61	-	-	78	-	(17)
Rights/Warrants Equity Contracts	(20)	13	-	-	-	-	13
Total Value	**$ (397)**	**$ 1,561**	**$ (39,984)**				
Total Subject to Credit Risk				**$ 68**	**$ 1,260**	**$ 17**	**$ 214**

NOTE 5 – DERIVATIVES *(cont.)*

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. At June 30, 2013 and 2012, KCERA had the following investment derivative interest rate risks:

As of June 30, 2013
(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	$ (17,729)	$ -	$ (29,406)	$ (14,839)	$ 5,476	$ 21,040	$ -	$ -
Options	-	(154)	(90)	-	(6)	(58)	-	-
Swaps	-	783	1	-	-	(559)	605	736
Forward Exchange Contracts	-	(239)	(239)	-	-	-	-	-
Rights/Warrants Equity Contracts	-	23	-	1	-	22	-	-
Total	**$ (17,729)**	**$ 413**	**$ (29,734)**	**$ (14,838)**	**$ 5,470**	**$ 20,445**	**$ 605**	**$ 736**

As of June 30, 2012
(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	$ (39,984)	$ -	$ (38,007)	$ -	$ 11,688	$ (13,665)	$ -	$ -
Options	-	(207)	263	8	(478)	-	-	-
Swaps	-	1,694	(3)	3	-	847	(12)	859
Forward Exchange Contracts	-	61	(27)	10	-	-	-	78
Rights/Warrants, Equity Contracts	-	13	-	-	-	13	-	-
Total	**$ (39,984)**	**$ 1,561**	**$ (37,774)**	**$ 21**	**$ 11,210**	**$ (12,805)**	**$ (12)**	**$ 937**

NOTE 5 – DERIVATIVES *(cont.)*

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, 2013 and 2012, KCERA had the derivative foreign currency exposures listed in the table below.

As of June 30, 2013
(In thousands)

	Foreign Currency	Fair Value (USD)
Foreign Exchange Contracts	Australian Dollar	$ (82)
	Brazilian Real	1,501
	Canadian Dollar	356
	Euro	(2,108)
	British Pound Sterling	(108)
	Hong Kong Dollar	(18)
	Japanese Yen	208
Options	Euro	$ (6)
Swaps	Brazilian Real	$ (477)
	Canadian Dollar	(4)
	Euro	72
	Japanese Yen	10
Total Foreign Derivatives		**$ (656)**

As of June 30, 2012
(In thousands)

	Foreign Currency	Fair Value (USD)
Foreign Exchange Contracts	Australian Dollar	$ (1,526)
	Canadian Dollar	3,130
	Chinese Yuan Renminbi	7,372
	Euro	1,851
	British Pound Sterling	342
	Hong Kong Dollar	11
	Japanese Yen	(1,467)
	South Korean Won	(8)
	Swiss Franc	90
	Swedish Krona	300
Options	Euro	$ 161
Swaps	Brazilian Real	$ 467
	Canadian Dollar	94
	Euro	360
Total Foreign Derivatives		**$ 11,177**

NOTE 6 – CONTRIBUTIONS

Eligible 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 Plan, 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.

Total contributions made during fiscal years 2013 and 2012, respectively, amounted to approximately $231.9 million and $208.5 million, of which $211.7 million and $189.8 million were contributed by employers, and $20.3 million and $18.7 million were contributed by members.

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. The employer contribution rates are actuarially determined by using the Entry Age Normal Actuarial Cost method. The Plan's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. Contribution rates determined in each actuarial valuation (as of June 30) apply to the fiscal year beginning 12 months after the valuation date. Employer rates for fiscal year 2013 ranged from 32.31% to 57.22% of covered payroll.

Pension Obligation Bonds

In 1995 and 2003, the County of Kern issued pension obligation bonds and contributed $224.5 million and $285.1 million to the Plan. Special districts did not participate in the funding provided by pension obligation bonds. Therefore, different employer contribution rates are required to fund the unfunded liabilities for each class of participation.

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 2012, the Plan had no excess earnings; $0 was reserved to fund the employer COLA contributions in fiscal year 2013.

NOTE 6 – CONTRIBUTIONS *(cont.)*

Member Contributions

Member contributions are made through payroll deductions on a pre-tax basis, per IRS Code Section 414(h)(2). Member contribution rates for fiscal year 2013 ranged from 4.11% to 17.50% and were applied to the member's base pay plus compensable special pay; they were calculated based on the member's KCERA entry age and actuarially calculated benefits. Members are required to contribute depending on the member's tier, employer and bargaining unit. For certain safety bargaining units, a flat member contribution rate is applied. New members (PEPRA) hired on or after January 1, 2013 pay a flat member contribution rate: 50% of normal cost plus COLA.

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

As a result of the 1997 Memoranda of Understanding (MOU), some members received an employer "pick up" of their contributions. General members hired after MOU-specified dates in 2004 or 2005 and safety members hired after MOU-specified dates in 2007 are now required to pay 100% of the employees' retirement benefit contributions, without the employer paying any part of the employees' contributions. Effective in 2013, non-contributing County general and safety members are now required to pay one-sixth of their employee contributions. Employees of the Kern County Superior Court were required to pay an additional 2.5% contribution of base salary until March 12, 2011, when the rate increased to 3.0%. On September 24, 2011, the rate increased to 3.5%. On October 6, 2012, the rate increased to 4.0%. Finally, employees in special districts not electing the 1997 MOU pay 50% of their full rates.

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

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF NET POSITION

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.

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, 2013, -0.5% of the Plan's net position were in contingencies, according to the Board of Retirement's Interest Credit Policy.

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF NET POSITION *(cont.)*

Balances in these reserve accounts and designations of net position available for pension and other benefits at June 30, 2013 and 2012 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

(In thousands)

Reserve Account	2013	2012
Members' Deposit Reserve – General	$ 165,463	$ 157,028
Members' Deposit Reserve – Safety	62,502	58,618
Members' Deposit Reserve – Special District	16,867	15,980
Employers' Advance Reserve – General	310,127	299,534
Employers' Advance Reserve – Safety	255,708	236,412
Employers' Advance Reserve – Special District	26,168	23,017
Cost-of-Living Reserve – General	481,368	444,810
Cost-of-Living Reserve – Safety	341,618	317,882
Cost-of-Living Reserve – Special District	30,905	27,282
Retired Members' Reserve – General	896,373	847,825
Retired Members' Reserve – Safety	481,310	477,151
Supplemental Retiree Benefit Reserve (SRBR)	117,152	116,814
SRBR allocated for 0.5% COLA	68,577	71,323
Contingency Reserve	(16,355)	(16,355)
Total reserves at five-year smoothed market actuarial valuation	**$ 3,237,783**	**$ 3,077,321**
Market Stabilization Reserve*	$ (133,013)	$ (277,297)
Total Net Position - Restricted for Pension Benefits	**$ 3,104,770**	**$ 2,800,024**

** 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

As of June 30, 2013, 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, LLC ($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, 2013, KCERA's unfunded commitments totaled $69.9 million.

As of June 30, 2013, KCERA's Board committed $140 million to two Fidelity Real Estate Growth (FREG) commingled funds managed by Long Wharf Real Estate Partners, LLC. 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, 2013, KCERA's unfunded commitments totaled $10.7 million.

As of June 30, 2013, KCERA's Board approved funding new direct hedge fund managers. On June 28, 2013, KCERA funded $45 million to two hedge funds managers, Amici Global Partners, L.P., and Och-Ziff Capital Management Group LLC. To reach a target allocation of 10% of the total portfolio over the coming years, KCERA will be hiring additional direct hedge fund managers.

NOTE 9 – RELATED PARTY TRANSACTIONS

Office Lease

KCERA, as the sole shareholder, formed a title holding corporation, KCERA Property, Inc. (KPI) for the purpose of accommodating the administrative offices of the Plan. In October 2010, KCERA entered into its Build to Suit Lease agreement with KPI to occupy 14,348 square feet. KCERA is required to pay a monthly rate of $1.75 per square foot as well as taxes, insurance and operating costs as defined in the agreement. The base rent shall be subject to an automatic 10.4% increase beginning on the fifth anniversary of the commencement date and on each fifth year anniversary date thereafter during the lease term. The sum of payments due for fiscal year ended June 30, 2013 is $301,308 for base rent and $13,933 for insurance and assessment fees. KCERA's base rent and other costs are abated from KPI's rental income.

NOTE 10 – FUNDED STATUS AND FUNDING PROGRESS

KCERA's funded status as of June 30, 2012, 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)
06/30/12	$2,960,507	$4,894,990	$1,934,483	60.5%	$543,558	355.9%

(Dollars in thousands)

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. A schedule of employer contributions that provides information about the annual required contributions of the employer's Annual Required Contribution (ARC) and the percentage of the ARC recognized by the Plan are presented, where available, on the following pages as RSI.

Additional information as of the latest actuarial valuation dated June 30, 2012 is as follows:

Valuation date:	June 30, 2012
Actuarial assumptions:	
Investment rate of return:	7.75% per year
Projected salary increases:	General: 4.50% to 10.00% per year Safety: 4.50% to 11.00% per year
Includes inflation at:	3.25% per annum
Annual increase in system benefits cap:	Contingent upon CPI with 2.50% maximum*
Actuarial cost method:	Entry age normal 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.

** Based on changes in the Los Angeles-Riverside-Orange County Area Consumer Price Index for the calendar year prior to the April 1 effective date.*

NOTE 10 – FUNDED STATUS AND FUNDING PROGRESS *(cont.)*

Amortization method:	Level percent of payroll, closed, for total unfunded actuarial accrued liability (UAAL) (4% payroll growth assumed)
Remaining amortization period:	23.5 years as of the June 30, 2012 valuation for all UAAL as of June 30, 2011. Effective June 30, 2012, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 18-year closed period effective with each valuation. Any change in unfunded actuarial accrued liability that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years).
Asset valuation method:	Market value of assets less unrecognized returns in each of the last five years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized semi-annually over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in nine equal amounts over a period of four and a half years from that date.

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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)
06/30/12	$ 2,960,507	$ 4,894,990	$ 1,934,483	60.5%	$ 543,558	355.9%
06/30/11	$ 2,839,747	$ 4,672,348	$ 1,832,601	60.8%	$ 539,836	339.5%
06/30/10	$ 2,794,644	$ 4,457,038	$ 1,662,394	62.7%	$ 559,380	297.2%
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%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30,	Annual Required Contributions (In thousands)	Percentage Contributed
2013	$ 211,677	100%
2012	$ 189,837	100%
2011	$ 177,444	100%
2010	$ 151,127	100%
2009	$ 138,815	100%
2008	$ 137,264	100%

** Valuations were performed as of December 31 for 2007 and earlier. They are as of June 30 for 2008 and later.*
See accompanying notes to required supplementary information and independent auditors' report.

SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Demographics
The number of active members included in the valuation increased by 0.8% from 8,187 in 2011 to 8,253 in 2012. Retired member counts and average retirement benefit amounts continue to increase steadily. For 2012, there were 6,890 retired members and beneficiaries with an average benefit of $2,721 per month. This represents a 4.9% increase in count and a 5.3% increase in the average monthly benefit.

Plan Changes
The County of Kern adopted Safety Tier II for new safety members hired on or after March 27, 2012. The new members will pay 100% of their employee contributions throughout their employment.

The San Joaquin Valley Unified Air Pollution Control District adopted General Tier II for new members hired on or after July 31, 2012. The new members will pay 100% of their employee contributions throughout their employment.

The “five-year stop,” a negotiated benefit that ended an employee’s retirement contribution after he or she attained five years of retirement service credit, was eliminated for County employees. All members began paying at least some of their employee contributions in 2013.

The California Public Employees’ Pension Reform Act of 2013 (AB340) was passed on September 12, 2012. It became effective on January 1, 2013 and, in general, affects new members who enter KCERA on or after that date. New plan provisions included a cap on pensionable income, a three-year final average salary, fewer pensionable “special pays,” and cost-sharing that impacts employee contributions. Other changes include modified rules affecting KCERA retirees who return to full-time County or District employment. The impact of AB 340 will be addressed in the next valuation.

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Personnel Services:		
Salaries & Wages	$ 1,505,458	$ 1,356,722
Employee Benefits	1,111,558	923,554
Total Personnel Services	2,617,016	2,280,276
Professional Services:		
Legal Counsel	$ 174,681	$ 234,615
Audit	34,261	27,987
Medical/Hearing Officers	108,644	116,224
Other Professional Services	109,897	123,417
Total Professional Services	427,483	502,243
Communication:		
Postage	$ 13,737	$ 16,967
Printing	6,012	5,215
Telephone/Internet	18,778	16,822
Education & Professional Development	49,917	29,513
Marketing & Promotions	7,152	11,074
Total Communication	95,596	79,591
Operating Expenses:		
Equipment Leases	$ 13,088	$ 17,250
Building Lease	-	-
Office Expense	31,760	24,385
Insurance	112,716	107,961
Equipment Maintenance	26,422	26,221
Memberships	8,265	7,170
Special Departmental Expense	4,167	4,265
Other Services	56,365	63,970
Pension Disbursement Fees	100,178	100,000
Utilities & Maintenance	42,626	41,122
Information Technology	179,048	130,240
Projects	81,082	28,908
Depreciation & Amortization	52,082	55,392
Total Operating Expenses	707,799	606,884
Total Administrative Expenses	**$ 3,847,894**	**$ 3,468,994**

See accompanying independent auditors' report.

SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
Investment Manager Fees:		
Equity	$ 4,326,966	$ 4,095,598
Fixed Income	1,883,284	1,560,070
Real Estate	609,587	530,518
Total Investment Manager Fees	6,189,837	6,186,186
Other Investment Expenses:		
Custodian	$ 375,722	$ 365,625
Actuarial Consultant	168,545	143,735
Investment Consultants	755,000	389,444
Legal Fees	326,754	1,935,620
Due Diligence	18,526	9,812
Policy Implementation Overlay Strategy	108,325	-
Real Estate	42,124	14,255
Total Other Investment Expenses	1,794,996	2,858,491
Total Fees and Other Investment Expenses	$ 8,614,833	$ 9,044,677
Security Lending Rebates and Bank Fees	$ 26,195	$ 14,749
Total Investment Expenses	**$ 8,641,028**	**$ 9,059,426**

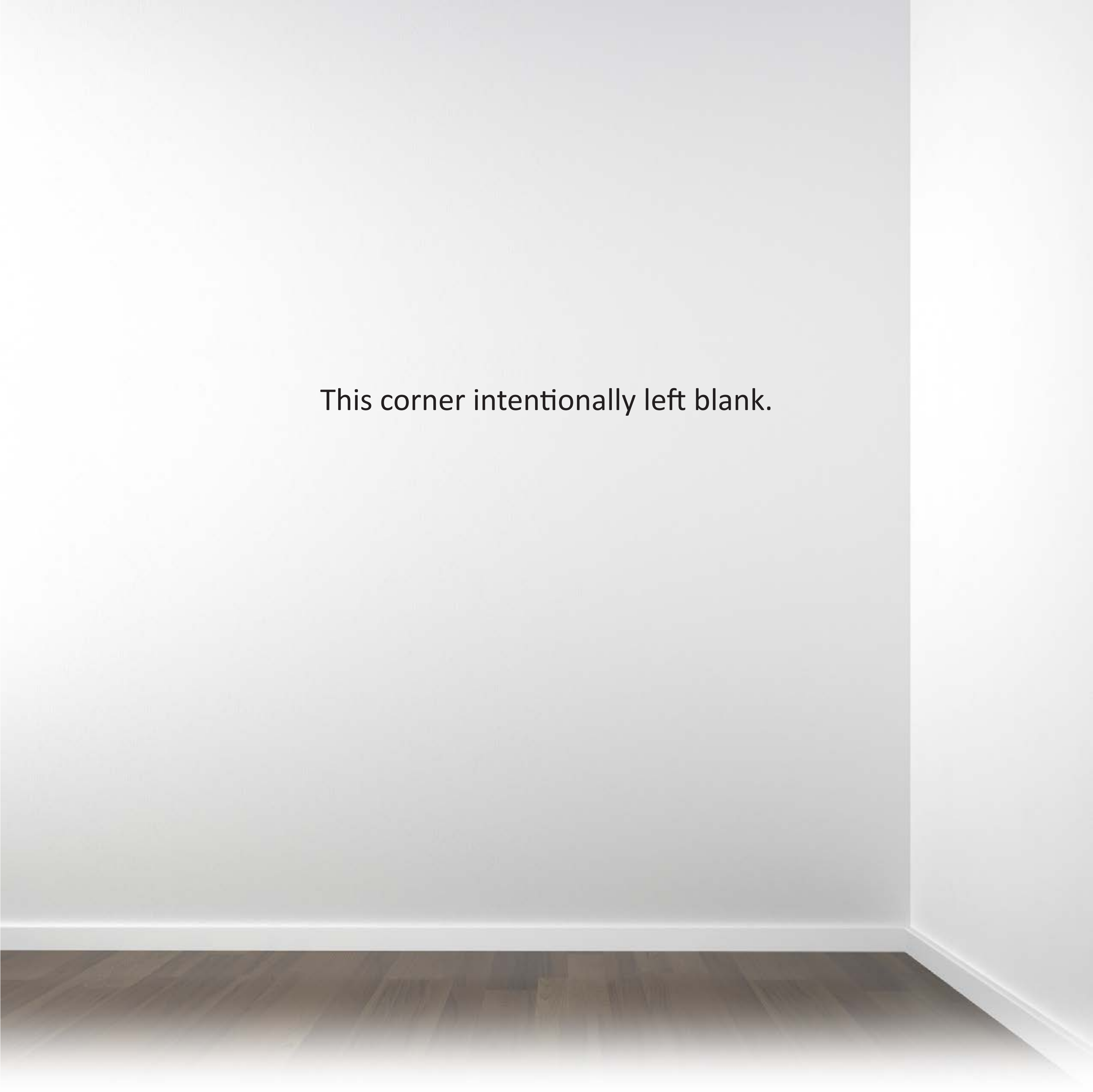
See accompanying independent auditors' report.

SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Individual or Firm	Nature of Service	Commission / Fee 2013	Commission / Fee 2012
Cortex Applied Research, Inc.	Policy Consultants	$ 39,908	$ 43,636
Linea Solutions, Inc.	Oversight Project Manager for Pension Admin System	545,458	115,641
Milliman, Inc.	Actuarial Services	-	1,048
The Segal Company	Actuarial Services	48,187	45,458
Kern County Counsel	Legal Counsel	121,337	189,952
Hanson Bridgett	Legal Counsel	124	14,126
Manatt, Phelps & Phillips, LLP	Legal Counsel	283	14,689
Nossaman LLP	Legal Counsel	21,957	-
Ice Miller	Legal Counsel	9,317	-
Public Pension Professionals	Legal Counsel	21,663	15,849
Professional Administrative System	Personnel Consultants	444	-
Brown Armstrong Accountancy Corporation	External Auditors	-	27,987
CliftonLarsonAllen	External Auditors	34,261	-
Total Payments to Consultants		**$ 842,939**	**$ 468,385**

(These payments were made to outside consultants other than investment professionals. A Schedule of Investment Fees is presented on pages 67 and 68 in the Investment Section.)

See accompanying independent auditors' report.



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Section III
Investment

An almond orchard in bloom

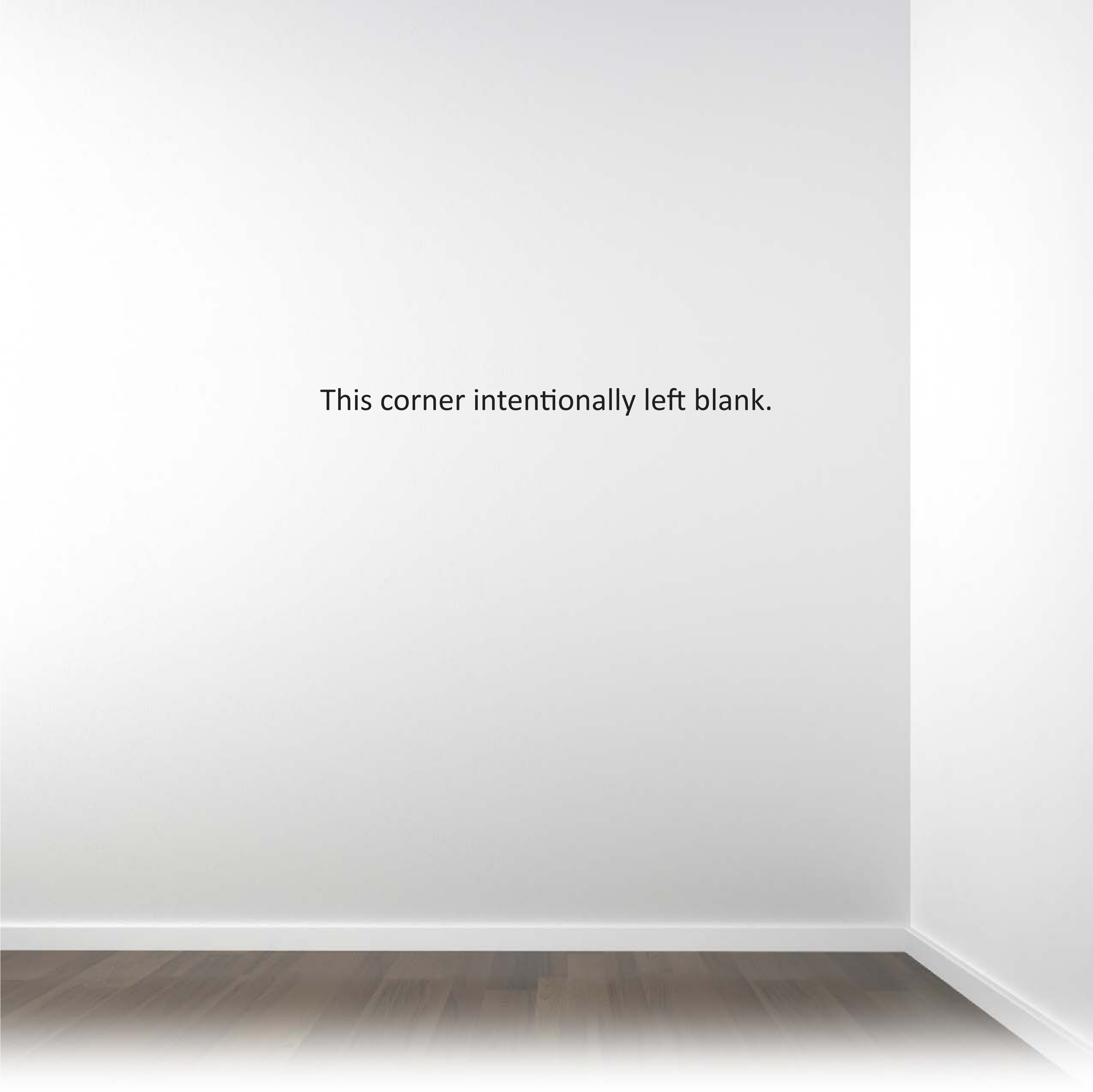
What you'll find if you explore Kern County is a sea of almond orchards.

It is a very beautiful sight, particularly in the spring when the almond orchards bloom in row after row of white and pink petals. They remain on the branches a short time, just long enough for the bees to cross-pollenate them. The scene is so picturesque that families gather to take photos at an orchard's edge.

Kern County farmers have committed nearly 150,000 acres (229 square miles) to almonds! California boasts 99 percent of the nation's almond production (80 percent of the world's), with Kern being the top-producing county.

DID YOU KNOW … ?

In 2011, Kern County's almond harvest was worth more than $725 million. The only agricultural commodity of greater value to Kern was milk.



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WURTS & ASSOCIATES

2321 ROSECRANS AVENUE SUITE 2250 | EL SEGUNDO, CALIFORNIA 90245 | T: 310.297.1777 | F: 310.297.0878

November 1, 2013

Ms. Anne Holdren
Executive Director
Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Dear Ms. Holdren:

Wurts & Associates, Inc. is pleased to have had the opportunity to serve the Kern County Employees' Retirement Association since July 2011 and to provide this investment review for the year ending June 30, 2013.

Wurts & Associates independently calculated the Fund's fiscal year performance results using data on market valuations and transactions provided by the Fund's custodian bank, the Northern Trust Company. For the fiscal year ended June 30, 2013, KCERA's retirement fund had an investment gain of 10.7% (gross of fees) and 10.4% (net of fees) and ended the year with total assets of approximately $3.1 billion.

All of KCERA's retirement funds are managed according to guidelines codified in KCERA's Statement of Investment Goals, Objectives and Policies. This Statement is reviewed periodically to ensure best practices are employed in all aspects of our work and was last updated in February 2012.

<u>Capital Markets Review</u>
Global investments advanced significantly during the year with just a few hiccups along the way, even as economic growth remained sluggish and significant macroeconomic risks remain.

Early in the fiscal year, the European Central Bank announced its plan to buy select European sovereign bonds in an effort to combat rising borrowing costs and deal more directly with the region's debt crisis. The Federal Reserve Bank announced its much anticipated third round of monetary stimulus (QE3) with the goal of keeping interest rates low until employment improves. Japan, as well, introduced massive monetary stimulus to keep interest rates low in an attempt to promote economic growth. Despite persistently slow growth, however, equity markets rose in these regions, clearly linking stock market buoyancy with monetary stimulus rather than economic fundamentals.

As the 2012 calendar year drew to a close, equity markets continued to rally around the world (only 3 of the 46 largest equity markets were down in 2012), supported by continued accommodative central bank policies and expectations that global economic growth would continue in 2013. International markets did better than domestic in the last quarter of the calendar year, as international stocks had previously fallen farther and not recovered as much as domestic stocks. A last-minute deal was reached on New Year's Eve to avoid the looming fiscal cliff in the U.S. as the debt ceiling was raised and tax rates were raised modestly.

Then, in the first calendar quarter of this year, global equity markets began to uncouple and went in different directions; U.S. stocks took off again, returning 11.1% for the quarter; developed international markets advanced but more slowly as Europe experienced its sixth consecutive quarter of negative growth; and Emerging Markets fell, despite some signs of stronger economic activity.

The big news in the last quarter of the fiscal year (specifically in late May and June) was the markets' response to expected Fed tightening of its massive monetary stimulus program (fears that later proved premature). The repercussions of this rippled through global investment markets, as interest rate increases accelerated and concerns that liquidity would dry up caused funds to flow from emerging markets. This led to further divergence among global stock markets: U.S. stocks held on to modest gains; international developed markets pulled back; and emerging markets got hammered.

Although the full year was a good one for most investors embracing equity risk, it turned out to heavily favor those with an overweight to U.S. stocks. The S&P 500 returned 20.6%, while developed international markets returned 19.1%, and emerging markets eked out a 3.2% return. As rates rose, bonds performed less well, particularly late in the year, with a full-year return of negative 0.7%.

Looking ahead, we remain concerned that markets appear heavily reliant on monetary stimulus with little prospect for strong and sustainable economic growth. Economic fundamentals continue to disappoint in most cases with lackluster employment and wage growth at the top of the list. In a period with relatively high valuations on virtually every asset class and a high degree of global economic risk, we find it hard to identify attractive opportunities and must once again rely on broad diversification and a long-term investment horizon to pull us through.

Asset Allocation

At fiscal year-end, KCERA's asset allocation was broadly in line with Investment Policy targets, as shown in the table below:

ASSET CLASS	**Target Allocation**	**Year-end Allocation**
Domestic Equity	**23%**	**24.6%**
International Equity	**22%**	**22.1%**
Fixed Income	**29%**	**32.1%**
Real Estate	**5%**	**7.6%**
Hedge Funds	**10%**	**0.3%**
Private Equity	**5%**	**6.8%**
Commodities	**6%**	**0.0%**
Cash	**0%**	**6.4%**

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SEATTLE | LOS ANGELES

The relatively high level of cash in the portfolio at year-end is a result of funds awaiting deployment into the hedge fund and commodities allocations.

Investment Performance

The total fund's investment performance exceeded its actuarial assumed rate of return for the fiscal year as robust domestic and international equity returns more than made up for lackluster fixed income performance. Investment highlights for the fiscal year include:

- KCERA's total fund returned 10.4% for the fiscal year, versus the policy return of 8.6%. Outperformance was driven by active managers in international equity and fixed income and modest favorable asset allocation variances.

- KCERA's Domestic Equity composite return of 21.5%, in line with the benchmark Russell 3000 Index. Modest outperformance by the Plan's large cap managers was more than offset by underperformance in the small cap space.

- The International Equity allocation returned 16.3% versus 14.1% for the policy index for the year, driven by favorable relative performance from most managers.

- KCERA's Fixed Income composite, which includes a broad selection of domestic and international bonds, earned 0.9% and outperformed the Barclays Credit Aggregate Bond Index by 160 basis points. The beneficial effects of the allocation to high yield debt and outperformance by the Plan's core-plus managers more than offset the negative effects of the emerging market debt ant TIPS allocations.

- The Plan's Real Estate allocation includes a REIT manager, which invests in U.S. and Global REITs. Two additional real estate investments are held in closed-end funds. The REITS underperformed the Plan's composite index, the NCREIF Property Index, while the closed-end funds mostly outperformed for the year.

- As the hedge fund allocation is being transitioned from a fund-of-funds structure to a direct investment program, the allocation to hedge funds significantly outperformed its benchmark of T-bills plus 400 basis points, 12.0% versus 4.2%.

Wurts & Associates appreciates the opportunity to assist the KCERA Board in meeting the Plan's long-term investment objectives. We look forward to continuing in our role of investment advisor and providing guidance to help navigate ever-changing capital markets.

Sincerely,

Scott J. Whalen
Executive Vice President, Senior Consultant

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OUTLINE OF INVESTMENT POLICIES ADOPTED BY THE BOARD OF RETIREMENT FEBRUARY 8, 2012

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

- Protecting the corpus of the Fund;
- Managing the Fund in a prudent manner recognizing risk and return trade-offs;
- Earning adequate investment returns in order to protect and pay the benefits promised to the participants with a minimum amount of associated risk;
- Maintaining sufficient liquidity to fund expenses and benefit payments as they come due; and
- Complying with applicable law.

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 and KCERA's chief investment officer 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 Board of Retirement adopted the current asset allocation policy in October 2011. The target asset allocation and the actual asset allocation at June 30, 2013 are as follows:

			Target Ranges	
Asset Class	**Actual**	**Target**	**Minimum**	**Maximum**
Domestic Equity	24.6%	23.0%	8.0%	38.0%
International Equity	22.2%	22.0%	7.0%	37.0%
Fixed Income	32.1%	29.0%	14.0%	44.0%
Real Estate	7.6%	5.0%	0.0%	10.0%
Private Equities	6.8%	5.0%	0.0%	10.0%
Hedge Funds	0.3%	10.0%	0.0%	15.0%
Commodities	0.0%	6.0%	0.0%	8.0%
Cash	6.4%	0.0%		
Total	**100.0%**	**100.0%**		

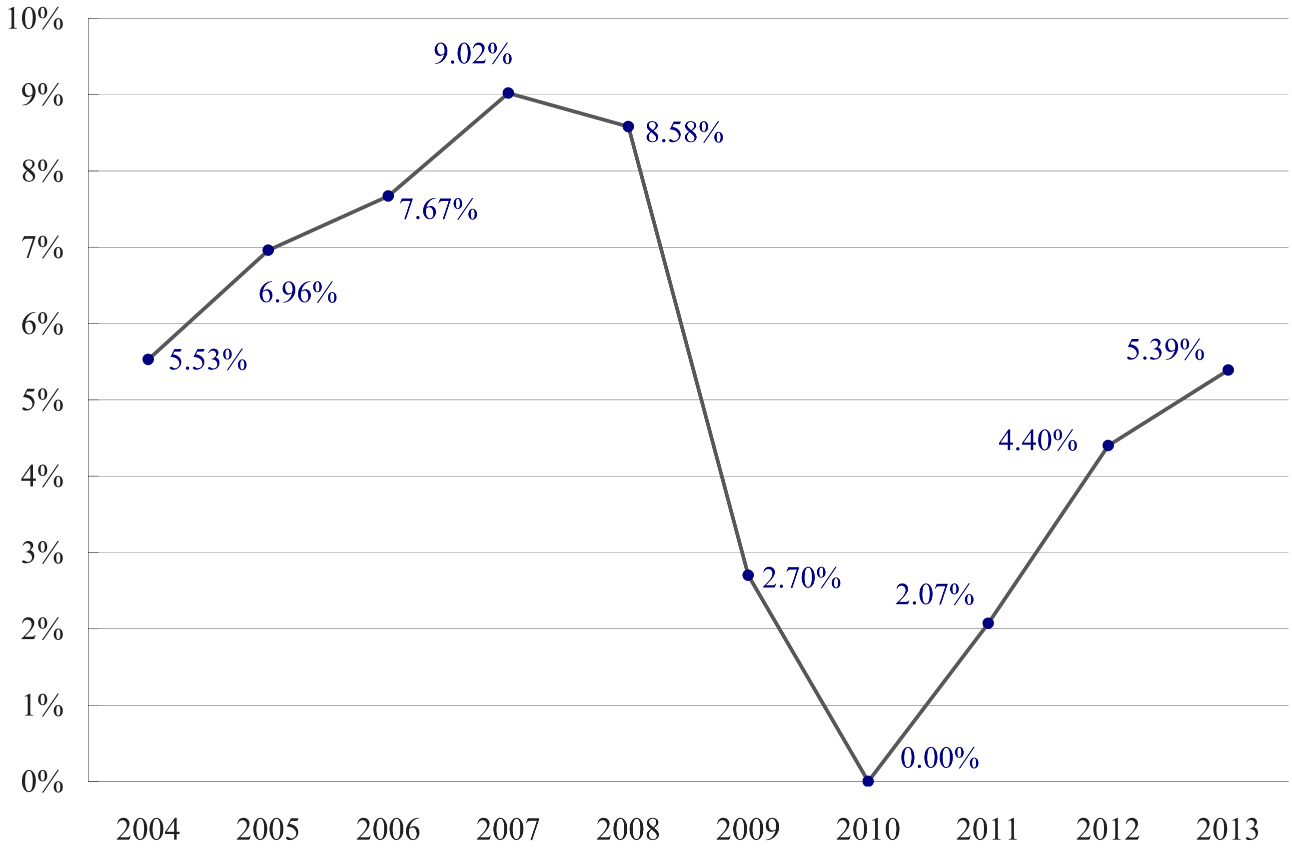
Note: On June 28, 2013, $45 million in cash was moved to hedge fund managers, which is not reflected in the actual asset allocation above.

INVESTMENT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2013

Type of Investment	Fair Value (In thousands)	% of Total Fair Value
Domestic Equities		
All Cap Passive	$ 260,862	8.41%
Large Cap Enhanced	102,051	3.29%
Large Cap	296,727	9.57%
Small Cap Growth	53,383	1.72%
Small Cap Value	53,198	1.72%
Total Domestic Equities	766,221	24.71%
International Equities		
Large Cap	$ 476,660	15.37%
Small Cap	94,009	3.03%
Emerging Markets	117,757	3.80%
Total International Equities	688,426	22.20%
Fixed Income		
Fixed Income Core	$ 222,453	7.17%
Fixed Income Core Plus	375,246	12.10%
TIPS	107,600	3.47%
High Yield	132,178	4.26%
Emerging Markets	155,813	5.03%
Total Fixed Income	993,290	32.03%
Real Estate		
U.S. REITs	$ 129,534	4.18%
Global REITs	27,085	0.87%
Property	3,889	0.13%
Total Real Estate	160,508	5.18%
Alternative Investments		
Private Equities	$ 210,850	6.80%
Hedge Funds	133,966	4.32%
Total Alternative Investments	344,816	11.12%
Opportunistic	$ 75,399	2.43%
Cash & Cash Equivalents	$ 72,101	2.33%
Total Investments	**$ 3,100,761**	**100.00%**
Reconciliation		
KCERA Capital Assets	$ 5,743	
KCERA Receivables / Payables	(1,734)	
Fiduciary Net Position	**$ 3,104,770**	

HISTORY OF PERFORMANCE
ANNUAL RETURNS (NET OF FEES)
FOR PERIODS ENDED JUNE 30

HISTORY OF INVESTMENT EARNINGS
FIVE-YEAR SMOOTHED ASSET VALUATION
FOR 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	Annualized 5-Year	Annualized 10-Year
Total Fund:	10.4	10.0	3.3	6.6
Benchmark: Policy Index*	8.6	10.1	5.0	7.5
Domestic Equities:	21.5	19.0	7.1	7.8
Benchmark: Russell 3000 Index	21.5	18.6	7.2	7.8
International Equities:	16.3	9.0	-0.1	8.4
Benchmark: MSCI ACWI ex-US	14.1	8.5	-0.3	9.1
Fixed Income:	0.9	5.7	7.0	N/A
Benchmark: Barclays Aggregate Index	-0.7	3.5	5.2	N/A
Real Estate:	5.6	N/A	N/A	N/A
Benchmark: NCREIF Property Index	10.7	N/A	N/A	N/A
Alternative Investment / Hedge Funds:	12.0	6.3	1.9	N/A
Benchmark: 90-Day T-Bills + 400 bps	4.2	4.1	4.3	N/A
Private Equities:	7.3	9.7	3.8	8.0
Benchmark: Russell 3000 + 300 bps	18.0	16.3	9.5	12.4
Cash:	0.3	0.5	1.0	2.4
Benchmark: 90-Day T-Bills	0.1	0.1	0.2	1.6

* Total Fund: 23% Russell 3000
22% MSCI ACWI ex-U.S.
29% Barclays Aggregate
5% NCREIF Property
6% DJ UBS Commodities
10% 90-Day T-Bills + 400 bps
5% Russell 3000 + 300 bps

Note: Return calculations were prepared, net of fees, using a time-weighted rate of return based on market values.

INVESTMENT PROFESSIONALS AS OF JUNE 30, 2013

INVESTMENT MANAGERS

Domestic Equity

Columbia Management Investment Advisors, LLC
(Minneapolis, MN)

Fisher Asset Management, LLC
(Woodside, CA)

Mellon Capital Management Corporation
(San Francisco, CA)

Pacific Investment Management Co., LLC
(Newport Beach, CA)

PanAgora Asset Management, Inc.
(Boston, MA)

T. Rowe Price Associates, Inc.
(Baltimore, MD)

International Equity

BlackRock Institutional Trust Company
(San Francisco, CA)

Capital Guardian International, Inc.
(Los Angeles, CA)

J.P. Morgan Investment Management, Inc.
(New York, NY)

Pyramis Global Advisors Trust Company
(Boston, MA)

Real Estate

LaSalle Investment Management, L.P.
(Baltimore, MD)

Opportunistic

Long Wharf Real Estate Partners, LLC
(Boston, MA)

Global Fixed Income

Gramercy Funds Management LLC
(Greenwich, CT)

Mellon Capital Management Corporation
(San Francisco, CA)

Neuberger Berman Fixed Income, LLC
(Chicago, IL)

Pacific Investment Management Co., LLC
(Newport Beach, CA)

Stone Harbor Investment Partners
(New York, NY)

Western Asset Management Company
(Pasadena, CA)

Alternative Investment

Abbott Capital Management, LLC
(New York, NY)

Amici Global Partners, L.P.
(New York, NY)

K2 Advisors, LLC
(Stamford, CT)

Och-Ziff Capital Management Group LLC
(New York, NY)

Pantheon Ventures, Inc.
(San Francisco, CA)

CONSULTANTS

Wurts & Associates, Inc.
(Seattle, WA)

Albourne America LLC
(San Francisco, CA)

CUSTODIAN

The Northern Trust Company
(Chicago, IL)

LARGEST STOCK DIRECT HOLDINGS (BY MARKET VALUE) AS OF JUNE 30, 2013

Shares	Stocks	Market Value
18,498	Apple	$ 7,326,688
80,698	Exxon Mobile	$ 7,291,064
57,060	Chevron	$ 6,752,480
116,327	Citigroup	$ 5,580,206
174,730	Royal Dutch Shell	$ 5,574,729
501,097	HSBC Holdings	$ 5,249,135
5,586	Google	$ 4,917,747
199,008	Cisco	$ 4,837,884
90,874	JP Morgan Chase	$ 4,797,238
94,116	Verizon	$ 4,737,799

LARGEST BOND DIRECT HOLDINGS (BY MARKET VALUE) AS OF JUNE 30, 2013

Par	Bonds	Market Value
17,000,000	U.S. Treasury Notes 2% due 02-15-2022	$ 16,626,799
15,200,000	U.S. Treasury Notes 1.625% due 08-15-2022 Reg	$ 14,260,686
10,700,000	U.S. Treasury Notes 2% due 02-15-2023 Reg	$ 10,297,915
10,300,000	U.S. Treasury 1% due 11-30-2019	$ 9,813,160
10,140,000	U.S. Treasury Notes 1.75% due 05-15-2023 Reg	$ 9,496,739
8,000,000	FNMA Single Family Mortgage 3.5% 30 Years Settles July	$ 8,121,248
7,900,000	U.S. Treasury 1.75% due 05-15-2022	$ 7,532,776
7,100,000	FNMA Single Family Mortgage 3% 30 Years Settles July	$ 6,936,920
6,290,000	U.S. Treasury Notes 1.125% due 04-30-2020 Reg	$ 5,981,400
5,870,000	U.S. Treasury Notes 1.375% due 05-31-2020 Reg	$ 5,665,008

A complete list of portfolio holdings is available upon request.

ASSETS UNDER MANAGEMENT
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

(In thousands)

Asset Classes	2013	2012
Domestic Equities	$ 761,442	$ 716,940
International Equities	681,582	584,238
Fixed Income	1,003,867	880,964
Real Estate	158,935	150,421
Hedge Funds	133,966	152,892
Private Equities	210,850	211,901
Opportunistic	75,399	74,609
Investments at Fair Value	**$ 3,026,041**	**$ 2,771,965**
Cash & Short-Term Investments	105,131	25,722
Investments Sold / Purchased	(39,636)	(8,756)
Investment Income & Other Liabilities	9,225	7,967
Total Assets Under Management	**$ 3,100,761**	**$ 2,796,898**
KCERA Capital Assets	5,743	4,186
KCERA Receivables / Payables	(1,734)	(1,060)
Fiduciary Net Position	**$ 3,104,770**	**$ 2,800,024**

SCHEDULE OF INVESTMENT FEES
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

Investment Managers' Fees*	2013	2012
Domestic Equity Managers:		
Columbia Management	$ 183,207	$ 332,272
Fisher Asset Management	496,409	486,285
Mellon Capital Management	58,167	51,361
PanAgora Asset Management	647,342	892,089
T. Rowe Price Associates	474,572	398,117
Total Domestic Equity Managers	1,859,697	2,160,123
International Equity Managers:		
BlackRock Institutional Trust Company	$ 187,401	$ 250,821
JP Morgan Investment Management	1,068,767	710,995
Pyramis Global Advis. (Large & Small Cap)	1,163,014	973,659
Total International Equity Managers	2,419,182	1,935,475
High Yield Managers:		
Neuberger Berman Fixed Income	$ 301,709	$ 269,859
Western Asset Management	134,406	117,058
Total High Yield Managers	436,115	386,917
Fixed Income Managers:		
Gramercy Funds Management	$ 405,956	$ -
Mellon Capital Mgmt (Fixed Income & TIPS)	84,954	99,499
PIMCO	538,664	680,038
Western Asset Managment	465,682	393,616
Total Global Fixed Income Managers	1,495,256	1,173,153
Real Estate Managers:		
LaSalle Investments (Domestic & Global)	$ 609,587	$ 530,518
Total Real Estate Managers	609,587	530,518
Total Investment Managers' Fees	**$ 6,819,837**	**$ 6,186,186**

* *Includes fees paid directly to investment managers.*

(Schedule of Investment Fees continued on next page)

SCHEDULE OF INVESTMENT FEES *(cont.)*

Investment Consultant Fees	2013	2012
Custodial Fees		
The Northern Trust Company	$ 375,723	$ 365,625
Policy Implementation Overlay Strategy		
The Clifton Group	$ 108,325	$ -
Actuarial Fees		
Milliman, Inc.	$ -	$ (27,415)
The Segal Company	168,545	171,150
Investment Consultant Fees		
Albourne America LLC	$ 400,000	$ 14,444
Glass, Lewis & Co.	25,000	25,000
Wurts & Associates	330,000	330,000
Legal Fees		
Foley & Lardner LLP	$ 93,820	$ -
Foster Pepper PLLC	141,712	842,572
Hansen Bridgett LLP	29,222	-
Hemming Morse, Inc.	12,215	73,323
Insight Consulting LLC	14,668	483,504
Kern County Counsel	5,338	30,975
Manatt, Phelps & Phillips	6,020	406,054
Nossaman LLP	15,526	62,639
Public Pension Consultants	2,451	4,174
Other	5,781	32,379
Due Diligence Travel Expenses		
Trustees / KCERA Management	$ 18,526	$ 9,812
Security Lending Fees		
The Northern Trust Company	$ 26,195	$ 14,749
Real Estate Expenses		
KCERA Property Inc.	$ 42,124	$ 14,255
Total Investment Fees	**$ 8,641,028**	**$ 9,059,426**

Section IV
Actuarial

Mild rapids in the lower Kern River

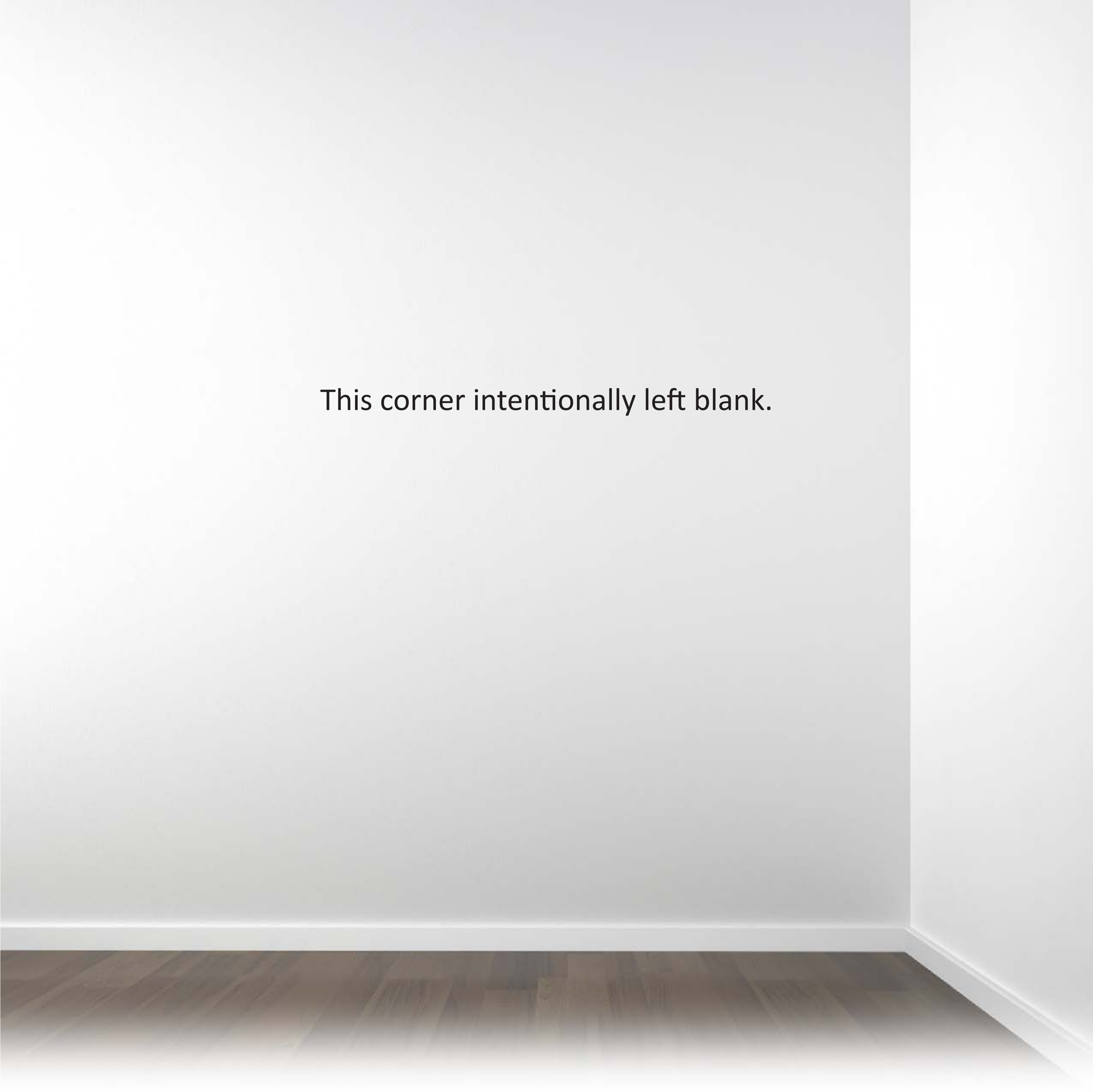
What you'll find if you explore Kern County is a wild ride down the Kern River.

The Kern River offers sixty miles of adventurous rafting, but it is not all for the faint of heart. With rapids starting at a mild Class 2, kids and professionals alike can get an adrenaline rush throughout the spring and summer months.

Fed by the melting snow pack of Mt. Whitney into the Lake Isabella reservoir, where it is released from the Isabella dam each April, the lower Kern River is a safer ride for younger rafters. But the truly intense whitewater is found higher in the Sierra Nevada mountains, where violent Class 5 rapids and waterfalls test the will of even the bravest adventurers.

DID YOU KNOW ... ?

The Kern River is 165 miles long, beginning on the eastern side of Tulare County and ending on the western side of Kern, where most of it is diverted to supply local water.



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Segal Consulting

100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 www.segalco.com

October 8, 2013

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

Re: Kern County Employees' Retirement Association

Dear Members of the Board:

The Segal Company (Segal) prepared the June 30, 2012 actuarial valuation of the Kern County Employees' Retirement Association (KCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

As part of the June 30, 2012 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. However, the scope of this examination does not qualify as an audit. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, retirement plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over 10 six-month periods. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of four and a half years from that date. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 50% of the market value of assets.

One of the general goals of an actuarial valuation is to establish contribution rates, which, over time, will remain level as a percentage of payroll for each generation of active members. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL).

Board of Retirement
Kern County Employees' Retirement Association
October 8, 2013
Page 2

The UAAL as of June 30, 2011 is amortized as a level percentage of payroll over a 23.5-year period as of June 30, 2012. Effective June 30, 2012, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a 18-year closed period effective with each valuation. Any change in unfunded actuarial accrued liability that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years). The progress being made towards meeting the funding objective through June 30, 2012 is illustrated in the Schedule of Funding Progress.

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the Association's CAFR is provided below:

Exhibit I	Schedule of Active Member Valuation Data;
Exhibit II	Retirees and Beneficiaries Added To and Removed From Retiree Payroll;
Exhibit III	Solvency Test;
Exhibit IV	Actuarial Analysis of Financial Experience; and
Exhibit V	Schedule of Funding Progress.

The non-economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the June 30, 2011 Actuarial Experience Study. The economic valuation assumptions included in the Actuarial Section were adopted by the Retirement Board and are generally based on our recommendations following the June 30, 2011 Review of Economic Actuarial Assumptions. Note that the investment return assumption was developed without taking into consideration the impact of the 50/50 excess earnings allocation between the retirement and Supplemental Retiree Benefit Reserve asset pools. It is our opinion that the assumptions used in the June 30, 2012 valuation produce results, which, in aggregate, reflect the future experience of the retirement plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years and the next experience analysis is due to be performed as of June 30, 2014.

In the June 30, 2012 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) decreased from 60.8% to 60.5%. The employer's rate has decreased from 42.76% of payroll to 42.67% of payroll, while the employee's rate has increased from 3.19% of payroll to 4.27% of payroll.

Under the asset smoothing method, the total unrecognized investment losses are $277 million as of June 30, 2012. These investment losses will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years.

The deferred losses of $277 million represent 10% of the market value of assets as of June 30, 2012. Unless offset by future investment gains or other favorable experience, the recognition of the $277 million market losses is expected to have an impact on the Association's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 60.5% to 54.8%.
- If the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate would increase from 42.67% to about 46.88% of payroll.

We are members of the American Academy of Actuaries and we are qualified to render the actuarial opinion contained herein.

Sincerely,

Paul Angelo, FSA, EA, MAAA, FCA
Senior Vice President and Actuary

John Monroe, ASA, EA, MAAA
Vice President and Associate Actuary

ST/hy
Enclosures

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Economic Assumptions

Interest Rate:	7.75% per year
Salary Increases:	General: 4.50% to 10.00%. Safety: 4.50% to 11.00% (see Table 1 on page 76).
Inflation Assumption:	3.25% per year
Cost-of-Living Adjustments:	2.50% (actual increases depend on CPI increases; 2.5% maximum)

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 remaining amortization period for all UAAL was 23.5 years as of June 30, 2012. Effective June 30, 2012, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over an 18-year closed period, effective with each valuation. Any change in UAAL that arises due to plan amendments is amortized over its own declining 15-year period (with the exception of a change due to retirement incentives, which are amortized over a declining period of up to 5 years).

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

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS *(cont.)*

Actuarial Methods (cont.)

Amortization Period (cont.):

2. According to a 5-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 5-year amortization period.

Demographic Assumptions

Post-Retirement Mortality:

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

B) Beneficiaries: Rates are the same as a General service retiree of the opposite sex.

C) Disability Retirement: RP-2000 Combined Healthy Mortality Table. Rates set forward six years for General members and one year for Safety members.

Proportion of Members with Spouse or Partner at Retirement: 75% 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 77.

Reciprocal Agency: For current active members, the probability of joining a reciprocal agency immediately after terminating is 55% for General members and 60% for Safety members.

Deferred Retirement Age for Vested Termination: Age 57 for General members. Age 53 for Safety 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, 2012. The most recently updated Summary of Actuarial Assumptions and Methods was adopted by the Board of Retirement on December 9, 2011.

ASSUMED RATE OF SALARY INCREASE

Table 1

Annual Increase in Salary (before wage inflation*)

Years of Service	General Members	Safety Members
0	6.00%	7.00%
1	5.00%	5.75%
2	4.00%	4.50%
3	3.00%	3.50%
4	2.50%	3.00%
5	2.00%	2.50%
6	1.75%	2.25%
7	1.50%	2.00%
8	1.25%	1.75%
9	1.00%	1.25%
10	0.90%	1.00%
11	0.80%	0.95%
12	0.70%	0.90%
13	0.60%	0.85%
14	0.50%	0.80%
15	0.50%	0.75%
16	0.50%	0.70%
17	0.50%	0.65%
18	0.50%	0.60%
19	0.50%	0.55%
20 & Over	0.50%	0.50%

* Inflation: 3.25% per year, plus "across-the-board" salary increases of 0.75% per year, plus the promotional and merit increases listed in the chart.

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
Table 2

(In percentages)

Age Nearest	Ordinary Death	Disability*	Service Retirement Tier I	Service Retirement Tier II
General Members - Male				
20	0.03	0.02	0.00	0.00
30	0.04	0.05	0.00	0.00
40	0.10	0.18	0.00	0.00
50	0.19	0.36	6.00	3.00
60	0.53	0.40	22.00	13.00
General Members - Female				
20	0.02	0.02	0.00	0.00
30	0.02	0.05	0.00	0.00
40	0.06	0.18	0.00	0.00
50	0.16	0.36	6.00	3.00
60	0.44	0.40	22.00	13.00
Safety Members - Male				
20	0.03	0.05	0.00	0.00
30	0.04	0.21	0.00	0.00
40	0.10	0.60	0.00	0.00
50	0.19	1.64	16.00	5.00
60	0.53	4.40	25.00	25.00
Safety Members - Female				
20	0.02	0.05	0.00	0.00
30	0.02	0.21	0.00	0.00
40	0.06	0.60	0.00	0.00
50	0.16	1.64	16.00	5.00
60	0.44	4.40	25.00	25.00

* 55% of General disabilities are assumed to be service-connected disabilities, and the other 45% are assumed to be nonservice-connected disabilities. Furthermore, 100% of Safety disabilities are assumed to be service-connected disabilities.

(In percentages)

Years of Service	Withdrawal General	Withdrawal Safety
0	18.00	9.00
5	6.00	2.50
10	3.25	2.00
15	2.30	1.10
20	1.50	0.00
25	1.00	0.00
30 & Over	0.00	0.00

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date*	Plan Type	Members	Annual Payroll	Annual Average Pay	Increase in Average Pay
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%**
06/30/10	General	6,802	$ 423,551,766	$ 62,269	5.5%
	Safety	1,765	$ 141,008,072	$ 79,891	4.4%
	Total	**8,567**	**$ 564,559,838**	**$ 65,899**	**5.2%**
06/30/11	General	6,487	$ 404,729,012	$ 62,391	0.2%
	Safety	1,700	$ 135,105,643	$ 79,474	-0.5%
	Total	**8,187**	**$ 539,834,655**	**$ 65,938**	0.1%
06/30/12	General	6,494	$ 406,039,414	$ 62,525	0.2%
	Safety	1,759	$ 137,518,061	$ 78,180	-1.6%
	Total	**8,253**	**$ 543,557,475**	**$ 65,862**	-0.1%

** Valuations were performed December 31 for 2007 and earlier. Valuations are 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*
2007	5,355	374	177	5,552	$13,845,079	$2,524,520	$139,133,420	8.9%	$25,060
2008	5,552	196	97	5,651	$ 5,039,591	$1,610,546	$145,783,557	4.8%	$25,798
2009	5,651	458	182	5,927	$16,056,013	$2,751,455	$164,591,026	12.9%	$27,770
2010	5,927	476	204	6,199	$13,128,260	$3,658,618	$181,377,904	10.2%	$29,259
2011	6,199	569	198	6,570	$27,159,926	$3,568,064	$204,969,766	13.0%	$31,198
2012	6,570	499	179	6,890	$24,783,041	$3,411,092	$226,341,715	10.4%	$32,851

** Excludes SRBR amounts.*

*** Plan year ended December 31 for 2007 and earlier. Plan year ends June 30 for 2008 and later.*

SOLVENCY TEST
(Dollars in thousands)

	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)
12/31/07	$ 215,281	$ 1,773,557	$ 1,366,917	$ 3,355,755	$ 2,589,817	100%	100%	44%
06/30/08	$ 222,418	$ 1,913,946	$ 1,535,096	$ 3,671,460	$ 2,654,316	100%	100%	34%
06/30/09	$ 232,426	$ 2,159,371	$ 1,813,403	$ 4,205,200	$ 2,780,215	100%	100%	21%
06/30/10	$ 229,784	$ 2,380,826	$ 1,846,429	$ 4,457,038	$ 2,794,644	100%	100%	10%
06/30/11	$ 225,649	$ 2,680,161	$ 1,766,538	$ 4,672,348	$ 2,839,747	100%	98%	0%
06/30/12	$ 231,626	$ 2,933,987	$ 1,729,377	$ 4,894,990	$ 2,960,507	100%	93%	0%

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(In thousands)

	Gain (or Loss) for Year – UAAL		
	June 30, 2012	**June 30, 2011**	**June 30, 2010**
Investment Performance Greater (Less) than Expected	$ (91,605)	$ (172,663)	$ (216,000)
Salary Increase (Greater) Less than Expected	62,906	77,879	16,600
Other Experience Including Demographic Changes	(49,628)	(83,260)	8,400
Change in Assumptions/Methodology	-	34,866	-
Plan Changes	-	228	-
Composite Gain (or Loss) During Year	**$ (78,327)**	**$ (142,950)**	**$ (180,300)**

SUMMARY OF MAJOR PLAN PROVISIONS

Benefit Sections 31676.01, 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 12 consecutive months of pensionable pay, including base salary and other pay elements includible as a result of the "Ventura" decision.

Vesting

Members are considered vested in the Plan after obtaining 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, an average annuity at age 50 of 1.5% of final compensation for Safety Tier I members, and an average annuity at age 50 of 1.0% of final compensation for Safety Tier II 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 pre-tax basis, per IRS Code Section 414(h)(2). Interest is credited to contributions on June 30 and December 31, per the County Employees' Retirement Law of 1937, Article 5.5.

Withdrawal Benefits

If a member resigns, his or her contributions plus interest can be refunded. Members with less than five years of service may elect to leave his or her 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 Benefits

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.

General Tier I is 3.0% of final compensation for each year of service at age 60, multiplied by Government Code Section 31676.17 factors. General Tier II is 1.62% of final compensation for each year of service at age 65, multiplied by Government Code Section 31676.01 factors.

Berrenda Mesa Water District and Inyokern Community Services District 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 or Kern on or after October 27, 2007, or hired by the following special districts: North of the River Sanitation District on or after October 29, 2007; Kern County Water Agency on or after January 1, 2010; Berrenda Mesa Water District on or after January 12, 2010; the Kern County Superior Courts on or after March 12, 2011; and San Joaquin Valley Air Pollution Control District on or after July 31, 2012.

SUMMARY OF MAJOR PLAN PROVISIONS *(cont.)*

Service Retirement Benefits *(cont.)*
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.

Safety Tier I is 3.0% of final compensation for each year of service at age 50, multiplied by Government Code Section 31664.1 factors. Safety Tier II is 2.0% of final compensation for each year of service at age 50, multiplied by Government Code Section 31664 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 *(cont.)*

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, 2012 Actuarial Valuation.

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.

Benefits

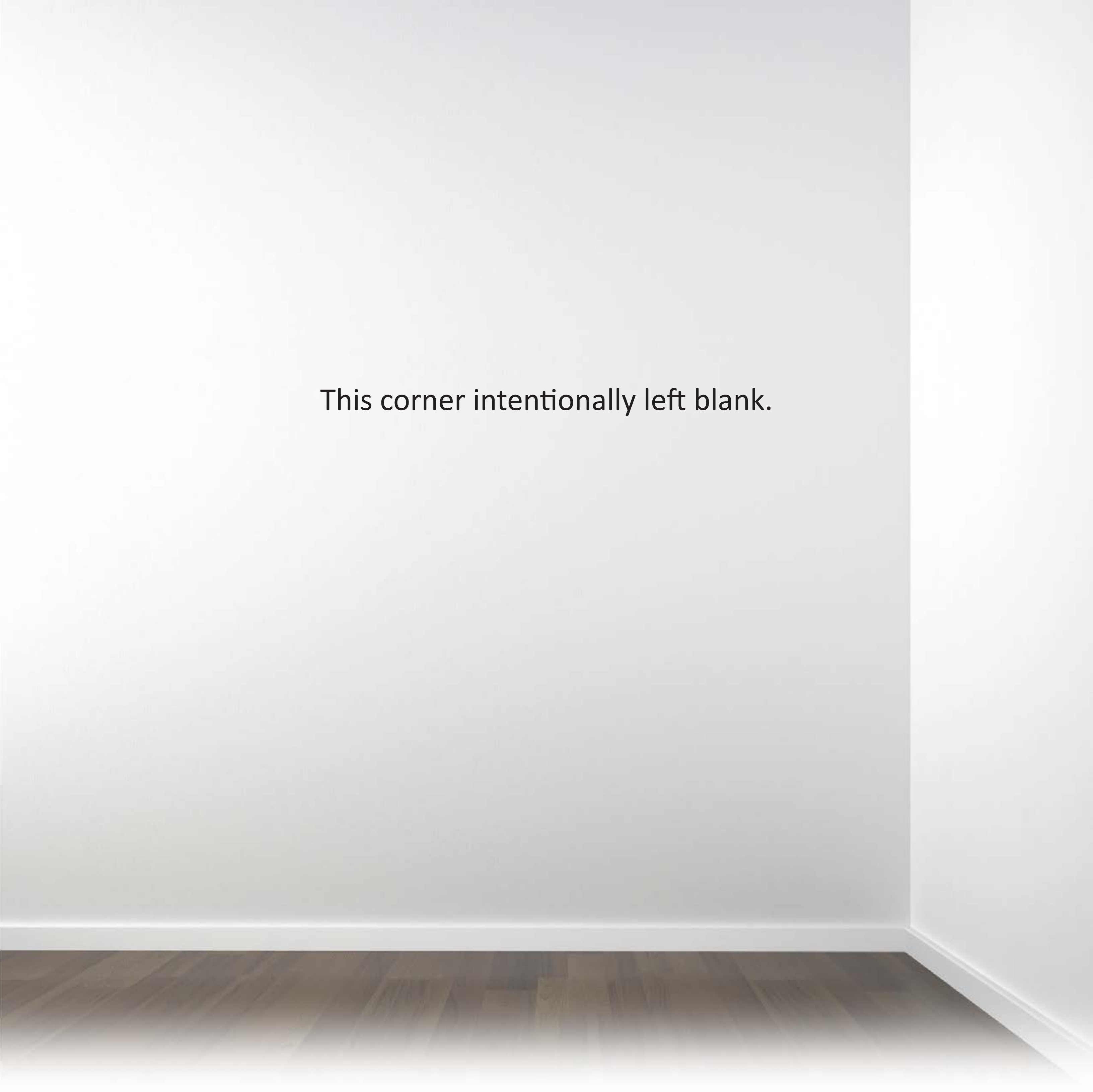
Tier 1:	$35.50 monthly, not subject to cost-of-living adjustments.
Tier 2:	$1.372 times years of service, per month, for members who retired prior to 1985, granted July 1, 1994. $5.470 times years of service, per month, for members who retired prior to 1985, granted July 1, 1996. $10.276 times years 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.

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.

California Public Employees' Pension Reform Act of 2013 (aka "PEPRA" or AB 340)

AB 340 provisions will be reflected in the June 30, 2013 valuation. PEPRA was passed on September 12, 2012 and became effective on January 1, 2013. In general, it affects new members who enter the Plan on or after January 1, 2013. There could be new plan provisions, such as new benefit formulas, a cap on pensionable income, a three-year final average salary, changes to elements of pay used in determining benefits, and new cost-sharing by members.



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SECTION V
Statistical

Tehachapi Wind Farm turbines

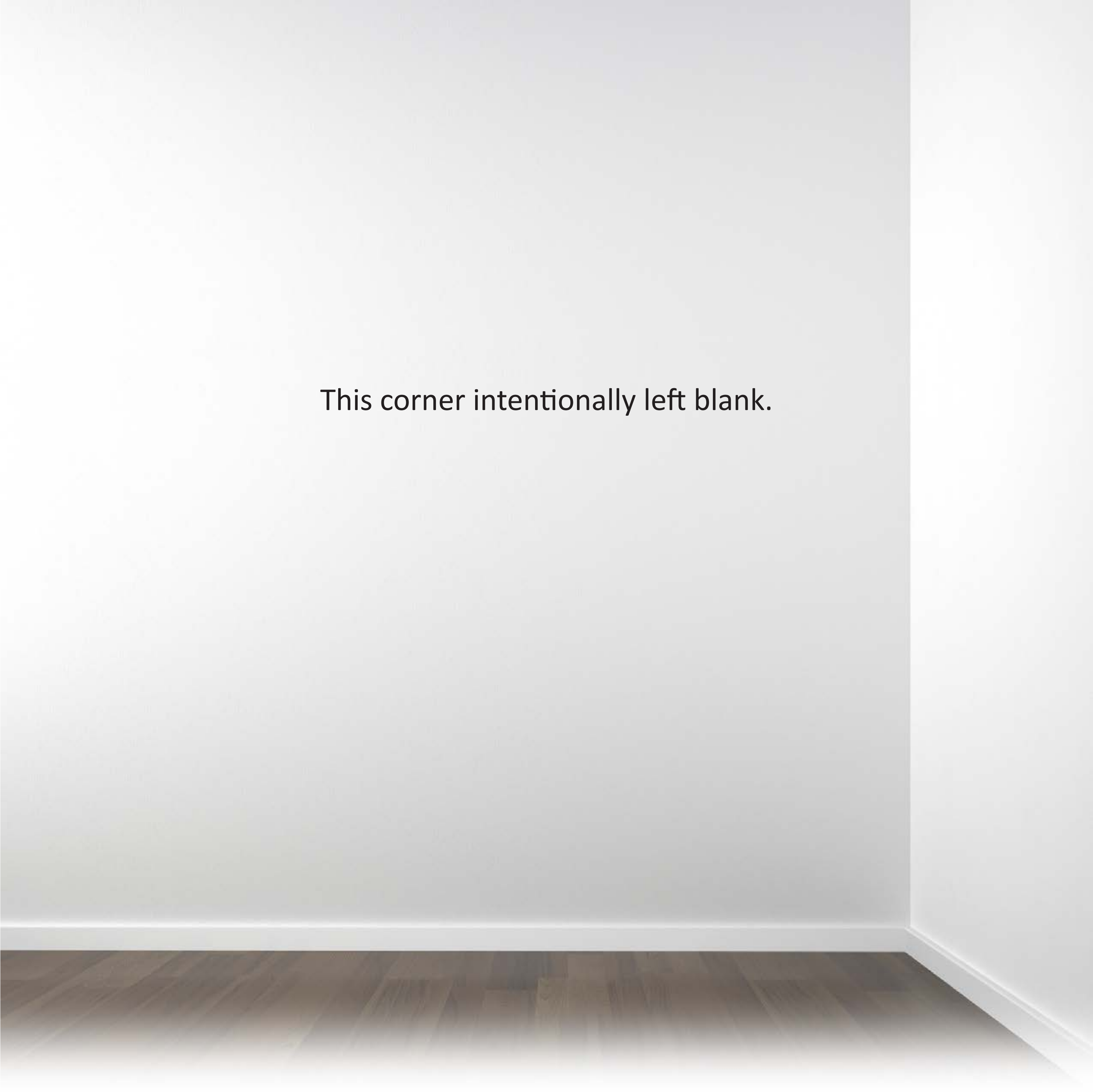
What you'll find if you explore Kern County is a home for alternative energy.

In addition to fossil fuels, Kern is blessed with an abundance of alternative energy resources, namely its wind and sunlight. Deep in the eastern hills sits the Tehachapi Wind Farm, filled with about 5,000 wind turbines, representing the world's second-largest collection of wind generators (and largest in terms of output).

Well-known for its summer heat, Kern also receives full sunlight most of the year. This makes solar energy a very accessible commodity. Solar panels are a common sight on residential homes and even some businesses seeking to take advantage of these natural endowments.

DID YOU KNOW ... ?

The Tehachapi Wind Farm includes old and new generations of turbines. Older models were single- and double-bladed, whereas newer models have three blades.



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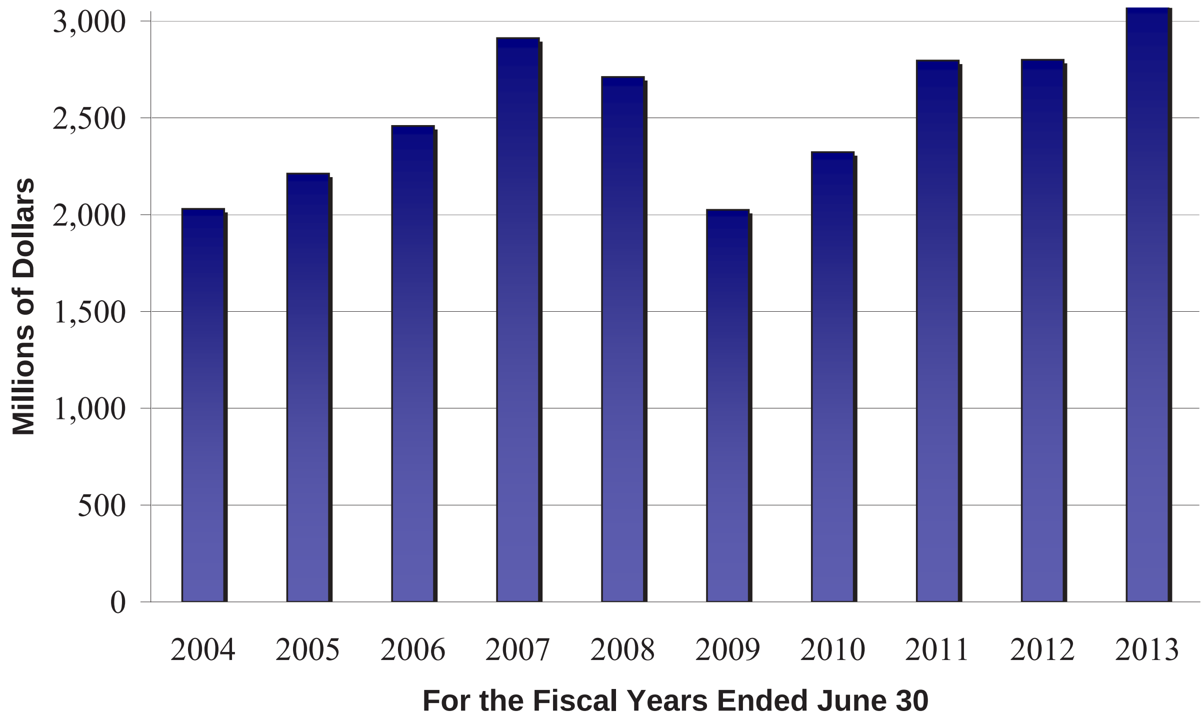
STATISTICAL SECTION OVERVIEW

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. Specifically, the financial and operating information provides contextual data for KCERA's changes in net position, benefit expenses, retirement types, benefit payments and membership data. The financial and operating trend information is located on the following pages.

KCERA Net Position Value



SCHEDULE OF CHANGES IN PLAN NET POSITION
LAST 10 FISCAL YEARS

(In thousands)

	2004	2005	2006	2007	2008
Additions					
Employer Contributions	$ 48,760	$ 60,268	$ 100,734	$ 128,134	$ 137,264
Member Contributions	10,451	10,351	11,775	12,634	15,031
Net Investment Income (Loss)	296,074	224,442	259,760	453,363	(201,562)
Total Additions	**$ 355,285**	**$ 295,061**	**$ 372,269**	**$ 594,131**	**$ (49,267)**
Deductions					
Total Benefit Expenses**	$ 104,960	$ 111,006	$ 123,765	$ 137,078	$ 148,561
Administrative Expenses	2,552	2,501	2,519	3,030	3,341
Miscellaneous	-	3	-	1	-
Total Deductions	**$ 107,512**	**$ 113,510**	**$ 126,284**	**$ 140,109**	**$ 151,902**
Change in Plan Net Position	**$ 247,773**	**$ 181,551**	**$ 245,985**	**$ 454,022**	**$ (201,169)**

	2009	2010	2011	2012	2013
Additions					
Employer Contributions	$ 138,815	$ 151,127	$ 177,444	$ 189,837	$ 211,677
Member Contributions	18,191	17,877	18,271	18,720	20,283
Net Investment Income (Loss)	(677,336)	291,333	503,553	21,150	319,264
Total Additions	**$ (520,330)**	**$ 460,337**	**$ 699,268**	**$ 229,707**	**$ 551,224**
Deductions					
Total Benefit Expenses*	$ 162,489	$ 180,366	$ 201,013	$ 222,140	$ 242,630
Administrative Expenses	3,072	3,207	3,763	3,469	3,848
Miscellaneous	-	547	-	-	-
Total Deductions	**$ 165,561**	**$ 184,120**	**$ 204,776**	**$ 225,609**	**$ 246,478**
Change in Plan Net Position	**$ (685,891)**	**$ 276,217**	**$ 494,492**	**$ 4,098**	**$ 304,746**

** See Schedule of Benefit Expenses by Type on next page.*

SCHEDULE OF BENEFIT EXPENSES BY TYPE
FOR FISCAL YEARS 2009-2013

(In thousands)

	2013	2012	2011	2010	2009
Service Retirement Benefits					
General	$ 127,139	$ 114,742	$ 101,934	$ 89,204	$ 79,546
Safety	68,078	62,207	55,886	49,949	43,311
Total	195,217	176,949	157,820	139,153	122,857
Service-Connected Disability (SCD) Benefits					
General	$ 8,064	$ 7,947	$ 7,924	$ 7,906	$ 7,720
Safety	15,495	15,145	14,656	14,230	13,545
Total	23,559	23,092	22,580	22,136	21,265
Beneficiary Benefits					
General	$ 11,152	$ 10,353	$ 9,533	$ 9,072	$ 8,573
Safety	8,602	8,231	7,580	7,222	6,525
Total	19,754	18,584	17,113	16,294	15,098
Ventura Retro Payments					
General	$ -	$ -	$ -	$ -	$ -
Safety	-	-	-	-	-
Total	-	-	-	-	-
Lump Sum Death Benefits	$ 606	$ 433	$ 383	$ 466	$ 640
Total Benefit Payments	**$ 239,136**	**$ 219,058**	**$ 197,896**	**$ 178,049**	**$ 159,860**
Refunds					
General	$ 2,973	$ 2,408	$ 2,666	$ 1,998	$ 2,270
Safety	521	674	451	319	359
Total	3,494	3,082	3,117	2,317	2,629
Total Benefit Expenses	**$ 242,630**	**$ 222,140**	**$ 201,013**	**$ 180,366**	**$ 162,489**

SCHEDULE OF BENEFIT EXPENSES BY TYPE *(cont.)*
FOR FISCAL YEARS 2004-2008

(In thousands)

	2008	2007	2006	2005	2004
Service Retirement Benefits					
General	$ 71,725	$ 65,324	$ 58,529	$ 50,436	$ 44,539
Safety	39,650	37,075	33,334	29,594	26,029
Total	111,375	102,399	91,863	80,030	70,568
Service-Connected Disability (SCD) Benefits					
General	$ 7,547	$ 7,209	$ 6,846	$ 6,295	$ 6,381
Safety	12,516	11,609	10,771	10,051	9,035
Total	20,063	18,818	17,617	16,346	15,416
Beneficiary Benefits					
General	$ 7,962	$ 7,452	$ 6,991	$ 6,671	$ 6,109
Safety	6,297	5,575	5,109	4,904	4,386
Total	14,259	13,027	12,100	11,575	10,495
Retroactive Payments					
General	$ -	$ -	$ 2	$ 347	$ 2,730
Safety	-	-	-	517	3,454
Total	-	-	2	864	6,184
Lump Sum Death Benefits	$ 490	$ 320	$ 244	$ 259	$ 382
Total Benefit Payments	**$ 146,187**	**$ 134,564**	**$ 121,826**	**$ 109,074**	**$ 103,045**
Refunds					
General	$ 2,084	$ 2,206	$ 1,770	$ 1,794	$ 1,834
Safety	290	308	169	138	81
Total	2,374	2,514	1,939	1,932	1,915
Total Benefit Expenses	**$ 148,561**	**$ 137,078**	**$ 123,765**	**$ 111,006**	**$ 104,960**

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
AS OF JUNE 30, 2013

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
$1-500	387	75	1	0	182	67	14	0	15	33
501-1,000	841	261	44	12	287	122	31	6	45	33
1,001-1,500	956	418	83	76	198	87	30	1	39	24
1,501-2,000	804	430	38	116	98	61	11	3	29	18
2,001-3,000	1,430	799	19	302	78	112	9	15	67	29
3,001-4,000	864	583	6	145	40	48	2	6	22	12
4,001-5,000	595	442	0	98	25	18	0	0	10	2
5,001-6,000	346	303	2	25	9	4	0	1	2	0
Over $6,000	930	908	3	3	5	8	1	0	1	1
Totals	**7,153**	**4,219**	**196**	**777**	**922**	**527**	**98**	**32**	**230**	**152**

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
$1-500	387	9	14	0	0	142	222	0
501-1,000	841	4	31	2	0	296	502	6
1,001-1,500	956	7	45	4	1	353	507	39
1,501-2,000	804	10	29	2	0	290	399	74
2,001-3,000	1,430	10	36	6	2	510	656	210
3,001-4,000	864	5	35	0	0	363	339	122
4,001-5,000	595	1	22	1	1	312	169	89
5,001-6,000	346	1	16	1	0	239	65	24
Over $6,000	930	2	28	2	3	744	148	3
Totals	**7,153**	**49**	**256**	**18**	**7**	**3,249**	**3,007**	**567**

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 BY YEAR OF RETIREMENT AS OF FISCAL YEARS ENDED JUNE 30

	Years of Retirement Service Credit						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Fiscal Year 2004							
Average Annual Benefit	$ 13,056	$ 13,846	$ 17,208	$ 28,197	$ 38,666	$ 59,519	$ 76,190
Average Monthly Benefit	$ 1,088	$ 1,154	$ 1,434	$ 2,350	$ 3,222	$ 4,960	$ 6,349
Average Final Monthly Salary	$ 5,326	$ 3,689	$ 3,702	$ 4,208	$ 4,538	$ 5,234	$ 5,918
Number of Active Retirants	13	21	39	28	28	41	41
Fiscal Year 2005							
Average Annual Benefit	$ 10,873	$ 17,315	$ 20,646	$ 28,818	$ 35,723	$ 55,494	$ 71,109
Average Monthly Benefit	$ 906	$ 1,443	$ 1,721	$ 2,401	$ 2,977	$ 4,624	$ 5,926
Average Final Monthly Salary	$ 4,810	$ 4,232	$ 4,072	$ 4,154	$ 4,174	$ 5,104	$ 5,259
Number of Active Retirants	15	28	60	47	54	62	99
Fiscal Year 2006							
Average Annual Benefit	$ 11,291	$ 15,780	$ 21,870	$ 27,782	$ 38,444	$ 58,071	$ 68,444
Average Monthly Benefit	$ 941	$ 1,315	$ 1,822	$ 2,315	$ 3,204	$ 4,839	$ 5,704
Average Final Monthly Salary	$ 5,242	$ 4,633	$ 4,259	$ 4,124	$ 4,651	$ 5,225	$ 5,229
Number of Active Retirants	15	21	53	54	44	64	82
Fiscal Year 2007							
Average Annual Benefit	$ 9,922	$ 14,302	$ 20,299	$ 30,326	$ 38,963	$ 50,804	$ 68,369
Average Monthly Benefit	$ 827	$ 1,192	$ 1,692	$ 2,527	$ 3,247	$ 4,234	$ 5,697
Average Final Monthly Salary	$ 5,429	$ 4,400	$ 4,592	$ 4,818	$ 4,665	$ 4,829	$ 5,497
Number of Active Retirants	16	38	44	50	46	65	54
Fiscal Year 2008							
Average Annual Benefit	$ 8,748	$ 10,538	$ 18,493	$ 26,220	$ 44,332	$ 55,306	$ 76,392
Average Monthly Benefit	$ 729	$ 878	$ 1,541	$ 2,185	$ 3,694	$ 4,609	$ 6,366
Average Final Monthly Salary	$ 4,458	$ 3,468	$ 4,187	$ 4,150	$ 5,366	$ 5,487	$ 6,173
Number of Active Retirants	13	25	50	38	37	38	42

SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS BY YEAR OF RETIREMENT *(cont.)*
AS OF FISCAL YEARS ENDED JUNE 30

	Years of Retirement Service Credit						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Fiscal Year 2009							
Average Annual Benefit	$ 6,265	$ 12,017	$ 21,871	$ 28,034	$ 49,084	$ 60,089	$ 89,746
Average Monthly Benefit	$ 522	$ 1,001	$ 1,823	$ 2,336	$ 4,090	$ 5,007	$ 7,479
Average Final Monthly Salary	$ 9,785	$ 4,271	$ 5,144	$ 4,603	$ 6,301	$ 6,057	$ 7,406
Number of Active Retirants	12	34	57	48	41	68	95
Fiscal Year 2010							
Average Annual Benefit	$ 8,036	$ 16,719	$ 19,477	$ 33,380	$ 41,191	$ 61,521	$ 84,444
Average Monthly Benefit	$ 670	$ 1,393	$ 1,623	$ 2,782	$ 3,433	$ 5,127	$ 7,037
Average Final Monthly Salary	$ 7,845	$ 5,581	$ 4,761	$ 5,550	$ 5,307	$ 6,423	$ 7,300
Number of Active Retirants	14	33	75	46	67	82	54
Fiscal Year 2011							
Average Annual Benefit	$ 8,304	$ 12,861	$ 22,647	$ 34,790	$ 40,930	$ 58,807	$ 82,015
Average Monthly Benefit	$ 692	$ 1,072	$ 1,887	$ 2,899	$ 3,411	$ 4,901	$ 6,835
Average Final Monthly Salary	$ 5,904	$ 5,112	$ 5,445	$ 5,758	$ 5,419	$ 6,044	$ 7,022
Number of Active Retirants	11	53	78	53	99	99	101
Fiscal Year 2012							
Average Annual Benefit	$ 6,804	$ 13,962	$ 19,839	$ 31,592	$ 42,410	$ 63,350	$ 79,393
Average Monthly Benefit	$ 567	$ 1,164	$ 1,653	$ 2,633	$ 3,534	$ 5,279	$ 6,616
Average Final Monthly Salary	$ 6,900	$ 5,533	$ 4,780	$ 5,505	$ 5,678	$ 6,602	$ 6,961
Number of Active Retirants	14	34	82	52	75	91	80
Fiscal Year 2013							
Average Annual Benefit	$ 7,416	$ 13,697	$ 21,103	$ 30,694	$ 42,584	$ 58,697	$ 72,701
Average Monthly Benefit	$ 618	$ 1,141	$ 1,759	$ 2,558	$ 3,549	$ 4,891	$ 6,058
Average Final Monthly Salary	$ 8,217	$ 5,121	$ 5,092	$ 5,437	$ 5,747	$ 6,297	$ 6,542
Number of Active Retirants	14	29	72	46	66	57	74

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

	2004	2005	2006	2007	2008
County of Kern:					
General Members	6,011	6,029	6,222	6,537	6,348
Safety Members	1,609	1,632	1,646	1,738	1,842
Total	7,620	7,661	7,868	8,275	8,190
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	14	14	12	12
Buttonwillow Recreation and Park District	3	3	3	3	3
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	2	2
Kern County Water Agency	70	68	67	72	89
Kern Mosquito & Vector Control District	18	19	19	19	19
North of the River Sanitation District	8	7	8	9	10
San Joaquin Valley Unified Air Pollution Control District	250	253	267	272	280
Shafter Recreation and Park District	1	0	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito & Vector Control Dist.	8	8	8	8	9
West Side Recreation and Park District	11	10	11	11	11
Kern County Superior Court	-	-	-	-	473
Total	390	391	406	415	915
Total Active Membership:					
General Members	6,401	6,420	6,628	6,952	7,263
Safety Members	1,609	1,632	1,646	1,738	1,842
Total	**8,010**	**8,052**	**8,274**	**8,690**	**9,105**

Data retrieved from the Plan's database.

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

	2009	2010	2011	2012	2013
County of Kern:					
General Members	6,254	5,920	5,622	5,632	5,873
Safety Members	1,854	1,765	1,703	1,762	1,873
Total	8,108	7,685	7,325	7,394	7,746
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	11	10	10	10
Buttonwillow Recreation and Park District	4	5	6	6	6
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	1	1	1
Kern County Water Agency	76	72	73	71	65
Kern Mosquito & Vector Control District	19	19	18	19	18
North of the River Sanitation District	9	10	10	11	13
San Joaquin Valley Unified Air Pollution Control District	291	292	287	281	281
Shafter Recreation and Park District	0	0	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito & Vector Control Dist.	8	8	8	7	7
West Side Recreation and Park District	12	12	10	10	10
Kern County Superior Court	472	444	441	443	353
Total	912	882	871	866	771
Total Active Membership:					
General Members	7,166	6,802	6,493	6,498	6,644
Safety Members	1,854	1,765	1,703	1,762	1,873
Total	**9,020**	**8,567**	**8,196**	**8,260**	**8,517**

PRUDENT INVESTMENT • QUALITY SERVICE

Kern County Employees' Retirement Association
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