COMPREHENSIVE ANNUAL FINANCIAL REPORT 2017

Fiscal Years Ended June 30, 2017 and 2016

KCERA

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
A defined benefit public pension plan in Kern County, California

Comprehensive
Annual Financial Report

For Fiscal Years Ended June 30, 2017 and 2016

ISSUED BY:

Dominic Brown, Acting Executive Director
Sheryl Lawrence, Financial Officer

EDITED & DESIGNED BY:

Josiah Vencel, Communications Officer

KERN COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
11125 River Run Blvd., Bakersfield, CA 93311
Ph (661) 381-7700 www.kcera.org

KCERA

TABLE of CONTENTS

INTRODUCTORY
Section

This page intentionally left blank.

Kern County Employees' Retirement Association
Board of Retirement

Dominic D. Brown
Acting Executive Director

November 27, 2017

Dear Board Members:

As Acting 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, 2017 and 2016. 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, 2017, KCERA had 9,668 active and deferred-vested members and paid retirement benefits to 8,087 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, 2017, fourteen 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 Hospital Authority, Kern County Superior Court, Kern County Water Agency, Kern Mosquito and Vector Control District, North of the River Sanitation District, San Joaquin Valley Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito and Vector Control District, and West Side Recreation and Park District.

The Plan is administered by the Kern County Board of Retirement (Board), which consists of nine members and two alternate members. The Board is responsible for establishing policies governing the administration of the retirement plan, determining benefit allowances and managing the investments of KCERA's assets. The Board oversees the Acting Executive Director and the KCERA staff in the performance of their duties in accordance with the County Employees' Retirement Law of 1937 and the bylaws, procedures and policies adopted by the KCERA Board.

MAJOR INITIATIVES

Board Election and Appointments
General members voted in November 2016 to return Bob Jefferson to the Third Member seat on the Board of Retirement. Retirees Phil Franey and John Mattly were appointed to the Eighth Member and Eighth Member Alternate seats, respectively, in lieu of election. The Board of Supervisors reappointed Dustin Dodgin as the Fifth Member and appointed Marko Horvat as the Ninth Member. On June 20, 2017, a special election was held to fill the vacant Second Member seat, resulting in the election of Juan Gonzalez.

New Plan Sponsor Joins KCERA
KCERA welcomed the Kern County Hospital Authority as its fifteenth plan sponsor on July 1, 2016, after being spun off from the County of Kern as a separate legal entity. Months earlier, the Hospital Authority had applied for membership in KCERA and was approved by the Board of Retirement following receipt of a Private Letter Ruling from the IRS. Approximately 1,400 eligible officers and employees of the former county hospital transferred to the Hospital Authority, making it the second largest plan sponsor in KCERA.

Member Web Portal
After nearly two years of planning, configuration and testing, KCERA launched its Member Web Portal in April 2017. Developed by CPAS Systems, Inc., the portal offers plan members and surviving beneficiaries access to their retirement account information in a secure interface accessible from the KCERA website.

Board Adopts Revised Asset Allocation
In July 2016, the Board of Retirement approved adjustments to its strategic asset allocation that included reducing equity and commodities exposures, adding a private credit category and increasing real estate's target range. In December 2016, the Board approved an implementation plan and slated approximately $350 million to transition from equities to fixed income. In the longer term, KCERA will prospect and select managers for its new mandates and fund its illiquid mandates as capital is called.

KCERA Extends Educational Reach
In addition to individual counseling sessions, an information-rich website, online videos and semiannual retirement planning seminars, KCERA launched an initiative to extend its educational reach. This spring, KCERA participated in two "mid-career seminars" with Kern County Deferred Compensation, focusing on subjects relevant to employees in the middle of their careers. In addition, KCERA plans to host a districts-only retirement planning seminar this summer.

KCERA Hires Assistant Executive Director
Following a nationwide recruitment, the Board of Retirement hired Dominic Brown as KCERA's Assistant Executive Director on August 10, 2016. Mr. Brown joined KCERA after an eight-year tenure as a division chief in the Kern County Auditor-Controller's office. He also served a term on the KCERA board, including a year as chairman.

FUNDING

KCERA's funding objective is to meet long-term benefit obligations through level contributions to the Plan and the accrual and compounding of investment income. As of June 30, 2016, the funded ratio of the Plan was 63.4% using actuarial assets and actuarial liabilities of $3,685,447,000 and $5,813,092,000, respectively. The funded percentage increased 1.0% from June 30, 2015 due primarily to lower-than-expected salary and cost-of-living increases.

Pursuant to provisions in the County Employees' Retirement Law of 1937, KCERA engages an independent actuarial consulting firm, Segal Consulting, to conduct annual actuarial valuations. Every three years, an experience study is performed to review all economic and demographic assumptions. The economic and demographic 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, 2016.

The triennial analysis covered several changes to economic and non-economic assumptions that were adopted by the Board of Retirement on July 12, 2017 for the June 30, 2017 actuarial valuation. The actuary recommended changes in the assumptions for inflation, investment return, promotional and merit salary increases, retirement from active employment, percent married, spousal age difference, mortality, termination, disability incidence, percent of members assumed to work under a reciprocal system, and reciprocal salary increases. The major changes included lowering the inflation assumption from 3.25% to 3.0%, lowering the investment return assumption from 7.5% to 7.25%, and changing the mortality tables to a headcount-weighted generational approach.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2017 and 2016 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 that 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 to oversee 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 Fiduciary Net Position of KCERA as of June 30, 2017 and 2016 and its Changes in Fiduciary 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 person" 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 Investment Policy Statement, which states the investment philosophy, investment guidelines, performance objectives and asset allocation of the Plan. The Board employs the services of independent investment consultants Verus Investments 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 2017, the investments of the Plan returned 11.8%* (net of fees). KCERA's annualized rate of return, net of fees, was 4.4% in the past three years, 7.7% in the past five years, and 3.7% 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.

** References in this document to KCERA's investment rate of return assume a time-weighted rate of return unless otherwise specified as a money-weighted rate of return, per GASB 67 guidelines.*

Page 5

PROFESSIONAL SERVICES

The Board retains professional consultants and investment managers to provide professional services essential to the effective and efficient operation of KCERA. These entities are included in the Schedule of Investment Fees on pages 75-77.

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 72 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, 2016. 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 your 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,

Dominic D. Brown
Acting 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, 2016

Executive Director/CEO

Each year, a Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose Comprehensive Annual Financial Reports (CAFRs) achieve the highest standards in government accounting and reporting.

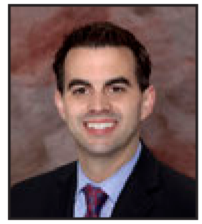
CAFRs must satisfy Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

KCERA has earned this prestigious award yet again, this time for its 2016 Comprehensive Annual Financial Report.

KCERA believes its Fiscal Year 2017 CAFR continues to meet the Certificate of Achievement Program's requirements and will submit it to the Government Finance Officers Association to determine its eligibility for another certificate.

As of June 30, 2017

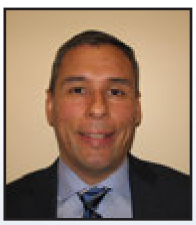
David Couch
Appointed by Board of Supervisors
Present term expires 12/31/2018



Dustin Dodgin
Chairman of the Board
Appointed by Board of Supervisors
Present term expires 12/31/2019

Phil Franey
Elected by Retired Members
Present term expires 12/31/2019

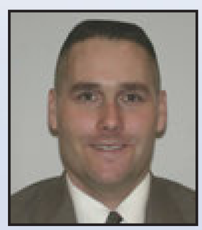
Juan Gonzalez
Elected by General Members
Present term expires 12/31/2018



Marko Horvat
Appointed by Board of Supervisors
Present term expires 12/31/2019

Bob Jefferson
Elected by General Members
Present term expires 12/31/2019

Jordan Kaufman
County Treasurer-Tax Collector
Ex-Officio Member



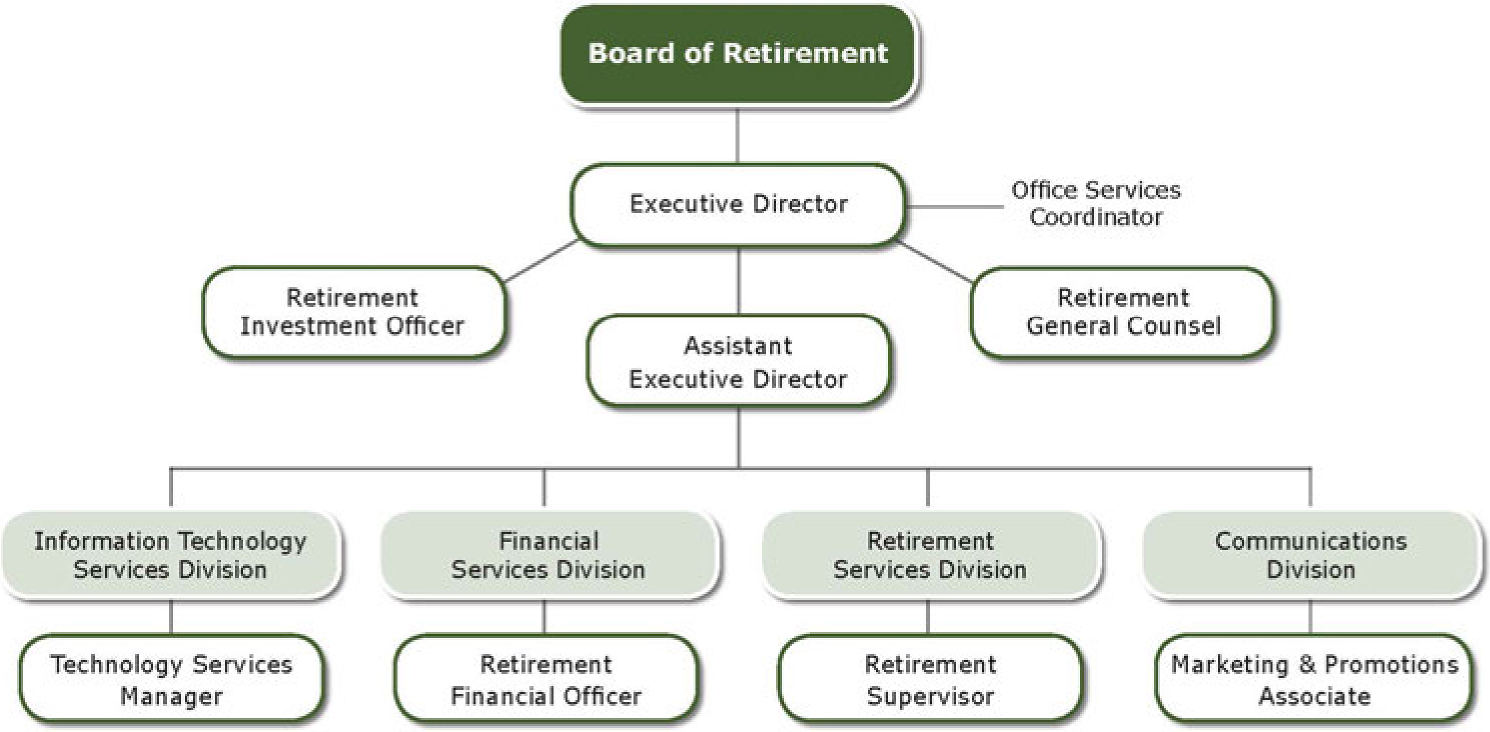
Thad Kennedy, *Alternate*
Vice-Chairman of the Board
Elected by Safety Members
Present term expires 12/31/2018

Rick Kratt
Elected by Safety Members
Present term expires 12/31/2018

John Mattly, *Alternate*
Elected by Retired Members
Present term expires 12/31/2019

Lauren Skidmore
Appointed by Board of Supervisors
Present term expires 12/31/2018

As of June 30, 2017



As of June 30, 2017

ACTUARY
The Segal Company, Inc.

AUDITOR
CliftonLarsonAllen, LLP

CUSTODIAN
The Northern Trust Company

INVESTMENT CONSULTANTS
Verus Investments
Albourne America LLC

LEGAL
Foley & Lardner, LLP
Hanson Bridgett, LLP
Ice Miller, LLP
Nossaman, LLP
Reed Smith, LLP

OTHER SPECIALIZED SERVICES
Agility Recovery Solutions
Aurora Systems Consulting, Inc.
Cortex Applied Research, Inc.
Glass, Lewis & Co., LLC
Deutsche Bank

Refer to the Investment Section for a list of Investment Managers and the Schedule of Investment Management Fees.

This page intentionally left blank.

FINANCIAL Section

CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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, as of and for the years ended June 30, 2017 and 2016, 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 opinions 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 opinions.

A member of Nexia International

Board of Retirement and the Finance Committee
Kern County Employees' Retirement Association

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, 2017 and 2016, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 changes in the net pension liability and related ratios, employer contributions and money-weighted rate of return as listed in the table of contents 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 opinions 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 is 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, investment, actuarial and statistical sections 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.

Board of Retirement and the Finance Committee
Kern County Employees' Retirement Association

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2017, on our consideration of the Kern County Employees' Retirement Association'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 solely 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 the effectiveness of Kern County Employees' Retirement Association's 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

CliftonLarsonAllen LLP

Denver, Colorado
November 27, 2017

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 that affected the operations and performance during the years ended June 30, 2017 and 2016. It is presented as a narrative overview and analysis in conjunction with the Acting Executive Director's *Letter of Transmittal* included in the Introductory Section of the Comprehensive Annual Financial Report.

Financial Highlights

- KCERA's net position increased by $391.3 million during the fiscal year ended June 30, 2017, an 11.0% increase from the last fiscal year. The increase was principally due to strength in financial markets, notably KCERA's U.S. and non-U.S. equities, fixed income and commodities allocations.

- Member contributions increased by $1.4 million, or 4.1%, mainly as a result of scheduled member contribution rate changes and other demographic changes. Employer contributions increased by $6.4 million, or 2.7%, due to a change in the prepayment methodology. The average employer contribution rate decreased from 45.64% of payroll for fiscal year 2015-16 to 45.11% for fiscal year 2016-17.

- The total fund's investment performance surpassed the actuarial assumed rate of return for the fiscal year. The investment portfolio reported a total return of 11.8% (net of fees)* versus the actuarial assumed rate of return of 7.5% for the fiscal year ended June 30, 2017. The total fund realized a return in excess of the total fund's policy return of 10.0%. Outperformance was mainly driven by the fixed income and commodities allocations.

- Vested pension benefits increased by $16.5 million, or 6.1%, over the prior year. The increase is attributable to a 3.4% increase in retired members and beneficiaries receiving pension benefits, and a 2.6% increase in the average monthly benefit, which rose to $2,975 in the fiscal year.

- As of June 30, 2016, the date of the most recent actuarial valuation, the funded ratio for KCERA was 63.4% compared to the funded ratio of 62.4% as of June 30, 2015. The increase in the ratio is mainly due to lower-than-expected salary and cost-of-living increases, offset largely by investment losses and lower-than-expected actual contributions.

Overview of Basic Financial Statements and Accompanying Information

1) **The Statement of Fiduciary 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 Fiduciary 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.

** References in this document to KCERA's investment rate of return assume a time-weighted rate of return unless otherwise specified as a money-weighted rate of return, per GASB 67 guidelines.*

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

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

4) **Required Supplementary Information** consists of three required schedules and their related notes: Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Employer Contributions, and Schedule of Money-Weighted Rate of Return.

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

Fiduciary 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 fiduciary net position–restricted for pension benefits at June 30, 2017 was $4.0 billion, an increase of $391.3 million, or 11.0%, from June 30, 2016. KCERA's fiduciary net position-restricted for pension benefits at June 30, 2016 was $3.6 billion, a decrease of $53.5 million, or -1.5%, from June 30, 2015. 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 $34.6 million, $33.3 million and $30.3 million for the years ended June 30, 2017, 2016 and 2015, respectively. Employer contributions were $241.1 million, $234.7 million and $215.5 million for the years ended June 30, 2017, 2016 and 2015, respectively.

Member contributions increased by $1.4 million (4.1%) in 2017 and increased by $3.0 million (9.7%) in 2016. The increase in member contributions in 2017 and 2016 was mainly the result of changes in the demographics of the tiers and scheduled member contribution rates.

Employer contributions increased by approximately $6.4 million (2.7%) in 2017 and increased by approximately $19.2 million (8.9%) in 2016. The increase in 2017 employer contributions was primarily due to a change in the prepayment methodology for the County of Kern and the San Joaquin Valley Air Pollution Control District.

Net investment and securities lending income was $426.6 million, -$27.5 million and $81.9 million for the years ended June 30, 2017, 2016 and 2015, respectively. The increase in 2017 can be attributed to robust earnings in U.S. and international equities and private equity.

For the fiscal years ended June 30, 2017, 2016 and 2015, the KCERA portfolio returned (net of fees) 11.8%, -0.5% and 2.4%, respectively. More information on KCERA's investment portfolio is contained in the investment section of this report.

Benefits, Refunds and Expenses

Deductions to plan fiduciary 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 $288.8 million, $272.3 million and $257.2 million for the years ended June 30, 2017, 2016 and 2015, respectively. Pension benefits increased by approximately $16.5 million (6.1%) in 2017 and $15.1 million (5.9%) in 2016.

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 3.4% in 2017 and by 3.3% in 2016. The average monthly benefit for retirees and beneficiaries increased by 2.6% in 2017 and 2.5% in 2016.

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 $5,000 death benefit. In addition to pension benefits, the supplemental retirement benefits paid were $13.1 million, $13.2 million and $13.2 million for the years ended June 30, 2017, 2016 and 2015, respectively. Refunds of member contributions were $3.9 million, $3.3 million and $3.5 million for the years ended June 30, 2017, 2016 and 2015, respectively.

KCERA's administrative expenses were $5.2 million, $5.2 million and $4.9 million for the years ended June 30, 2017, 2016 and 2015, respectively.

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

June 2017	June 2016	June 2015
$24.1 million	$22.7 million	$21.4 million
8,087	7,824	7,574

FIDUCIARY NET POSITION

Table 1 (In thousands)

	2017	Increase (Decrease) Amount	2016	Increase (Decrease) Amount	2015
Assets					
Current Assets	$ 247,801	$ 72,899	$ 174,902	$ (46,630)	$ 221,532
Investments	4,000,484	412,622	3,587,862	(33,148)	3,621,010
Securities Lending Collateral	123,154	47,154	76,000	2,874	73,126
Capital Assets	3,805	(674)	4,479	(703)	5,182
Total Assets	**4,375,244**	**532,002**	**3,843,243**	**(77,607)**	**3,920,850**
Liabilities					
Current Liabilities	289,195	93,539	195,656	(26,975)	222,631
Liabilities for Security Lending	123,154	47,154	76,000	2,874	73,126
Total Liabilities	**412,349**	**140,694**	**271,656**	**(24,101)**	**295,757**
Fiduciary Net Position – Restricted for Pension Benefits	**$ 3,962,895**	**$ 391,308**	**$ 3,571,587**	**$ (53,506)**	**$ 3,625,093**

CHANGES IN FIDUCIARY NET POSITION

Table 2 (In thousands)

	2017	Increase (Decrease) Amount	2016	Increase (Decrease) Amount	2015
Additions					
Member Contributions	$ 34,649	$ 1,371	$ 33,278	$ 2,953	$ 30,325
Employer Contributions	241,112	6,398	234,714	19,237	215,477
Net Investment Income (Loss)	426,607	454,142	(27,535)	(109,465)	81,930
Total Additions	**702,368**	**461,911**	**240,457**	**(87,275)**	**327,732**
Deductions					
Pension Benefits	288,750	16,481	272,269	15,116	257,153
Supplemental Retirement Benefits	13,143	(44)	13,187	(27)	13,214
Refunds of Member Contributions	3,924	642	3,282	(216)	3,498
Administrative Expenses	5,243	18	5,225	339	4,886
Total Deductions	**311,060**	**17,097**	**293,963**	**15,212**	**278,751**
Increase (Decrease) in Net Position	**391,308**	**444,814**	**(53,506)**	**(102,487)**	**48,981**
Fiduciary Net Position – Restricted for Pension Benefits					
At Beginning of Year	**$ 3,571,587**	**$ (53,506)**	**$ 3,625,093**	**$ 48,981**	**$ 3,576,112**
At End of Year	**$ 3,962,895**	**$ 391,308**	**$ 3,571,587**	**$ (53,506)**	**$ 3,625,093**

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 Fiduciary 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. Unrealized gains and losses effect the reserves indirectly through an actuarial asset "smoothing" process and 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 7.5% from the total fund's actual return on net position. The Market Stabilization Reserve was ($74.4) million, ($235.3) million and ($26.0) million for the years ended June 30, 2017, 2016 and 2015, respectively.

Interest at the actuarial rate of 7.5%, 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 the contingency reserve. KCERA credited the reserves 6.62% in fiscal year 2017 and 4.70% in fiscal year 2016. In addition, in fiscal year 2017, 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 to a positive position.

(In thousands)

KCERA Reserves

	2017	2016	2015
Member Reserve	$ 351,592	$ 320,400	$ 295,448
Employer Reserve	786,356	724,857	680,206
Cost of Living Reserve	1,178,952	1,085,752	1,014,755
Retired Member Reserve	1,558,678	1,512,898	1,493,040
Supplemental Retiree Benefit Reserve	178,079	179,365	183,959
Contingency Reserve	(16,355)	(16,355)	(16,355)
Market Stabilization Reserve	(74,407)	(235,330)	(25,960)
Total	**$ 3,962,895**	**$ 3,571,587**	**$ 3,625,093**

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.

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 sheryl.lawrence@kcera.org or (661) 381-7700.

As of June 30, 2017 and 2016

(In thousands)

	2017	2016
Assets		
Cash and Cash Equivalents	$ 84,238	$ 73,532
Receivables:		
Investments Sold	153,925	89,980
Interest and Dividends	6,621	7,300
Contributions and Other Receivables	2,949	4,055
Total Receivables	163,495	101,335
Investments at Fair Value:		
Domestic Debt Securities and Bonds	1,313,639	935,451
International Bonds	257,854	148,493
Domestic Equities	788,828	957,087
International Equities	737,122	727,075
Real Estate Investments	229,250	185,273
Alternative Investments	513,713	503,784
Commodities	155,853	135,433
Swaps/Options	4,225	(4,734)
Collateral Held for Securities Lending	123,154	76,000
Total Investments at Fair Value	4,123,638	3,663,862
Capital Assets:		
Computer Software	6,298	6,298
Equipment/Computers	562	562
Accumulated Depreciation	(3,055)	(2,381)
Total Capital Assets	3,805	4,479
Prepaid Expenses	68	35
Total Assets	4,375,244	3,843,243
Liabilities		
Securities Purchased	286,618	189,852
Collateral Held for Securities Lent	123,154	76,000
Contributions and Other Liabilities	2,577	5,804
Total Liabilities	412,349	271,656
Fiduciary Net Position – Restricted for Pension Benefits	**$ 3,962,895**	**$ 3,571,587**

See accompanying notes to the financial statements.

Years Ended June 30, 2017 and 2016

(In thousands)

	2017	2016
Additions		
Contributions:		
Employer	$ 241,112	$ 234,714
Member	34,649	33,278
Total Contributions	275,761	267,992
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	400,655	(45,569)
Interest	30,913	28,967
Dividends	13,106	20,677
Real Estate Investments	6,042	(11,511)
Other Investment Income	-	3
Total Investment Income (Loss)	450,716	(7,433)
Less: Investment Expenses	24,609	20,420
Net Investment Income (Loss)	426,107	(27,853)
Securities Lending Income:		
Earnings:	555	383
Less: Rebates & Bank Fees	55	65
Net Securities Lending Income	500	318
Total Additions	702,368	240,457
Deductions		
Retirement and Survivor Benefits	288,750	272,269
Supplemental Retirement Benefits	13,143	13,187
Refunds of Member Contributions	3,924	3,282
Administrative Expenses	5,243	5,225
Total Deductions	311,060	293,963
Net Increase (Decrease)	**391,308**	**(53,506)**
Fiduciary Net Position – Restricted for Pension Benefits At Beginning of Year	**3,571,587**	**3,625,093**
Fiduciary Net Position – Restricted for Pension Benefits At End of Year	**$ 3,962,895**	**$ 3,571,587**

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, Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Hospital Authority, Kern County Superior Court, Kern County Water Agency, Kern Mosquito and Vector Control District, North of the River Sanitation District, San Joaquin Valley Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito and Vector Control District, and West Side Recreation and Park District. The Plan is administered by the Kern County Board of Retirement, which consists of nine members and two alternate members.

As of June 30, 2017, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active – Vested	4,078	1,383	5,461
Active – Non-Vested	2,893	384	3,277
Total Active Members	**6,971**	**1,767**	**8,738**
Terminated – Deferred Vested	806	124	930
Retirees and Beneficiaries	6,181	1,906	8,087
Total Members	**13,958**	**3,797**	**17,755**

As of June 30, 2016, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active – Vested	4,183	1,363	5,546
Active – Non-Vested	2,612	477	3,089
Total Active Members	**6,795**	**1,840**	**8,635**
Terminated – Deferred Vested	784	108	892
Retirees and Beneficiaries	5,967	1,857	7,824
Total Members	**13,546**	**3,805**	**17,351**

Benefit Provisions

KCERA provides service retirement, disability, death, survivor and supplemental benefits to eligible employees. All regular full-time employees of the County of Kern or contracting districts who work 50% or more of the regular standard hours required become members of KCERA effective on the first day of the payroll period following the date of hire. Safety membership includes those in active law enforcement, fire suppression, criminal investigation and probation officers.

General members (excluding Tier III) are eligible to retire at age 70 regardless of service or at age 50 with 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. General Tier III members are eligible to retire at age 70 regardless of service or at age 52 with 5 or more years of retirement service credit.

NOTE 1 – DESCRIPTION OF PLAN

Benefit Provisions *(cont.)*

Safety members are eligible to retire at age 70 regardless of service or at age 50 with 10 or more years of retirement service credit. A member with 20 years of service is eligible to retire regardless of age.

The retirement benefit the member will receive is based on age at retirement, final average compensation (FAC), years of retirement service credit and retirement benefit tier.

General member benefits for Tier I and Tier II are calculated pursuant to California Gov. Code Sections 31676.17 and 31676.01, respectively. The monthly allowance is equal to 1/50th of FAC times years of accrued retirement service credit times age factor from Section 31676.17 (Tier I) or 1/90th of FAC times years of accrued retirement service credit times age factor from Section 31676.01 (Tier II). General Tier III member benefits are calculated pursuant to the provisions found in California Government Code Section 7522.20(a).

The monthly allowance is equal to the FAC multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

Safety member benefits for Tier I and Tier II are calculated pursuant to California Gov. Code Sections 31664.1 and 31664, respectively. The monthly allowance is equal to 3% of FAC times years of accrued retirement service credit times age factor from Section 31664.1 (Tier I) or 1/50th (2%) of FAC times years of accrued retirement service credit times age factor from Section 31664 (Tier II).

For members in Tier I or Tier II, the maximum monthly retirement allowance is 100% of FAC. There is no FAC limit on the maximum retirement benefit for General Tier III members.

The maximum amount of compensation earnable that can be taken into account for 2017 for members with membership dates on or after July 1, 1996 but before January 1, 2013 is $270,000. The maximum amount of compensation earnable that was taken into account for 2016 was $265,000. For General Tier III members enrolled in Social Security who joined on or after January 1, 2013, the maximum pensionable compensation that can be taken into account for 2017 is $118,775. The maximum pensionable compensation taken into account for 2016 was $117,020. These limits are adjusted on an annual basis. Members are exempt from paying member contributions and employers are exempt from paying employer contributions on compensation in excess of the annual cap.

FAC consists of the highest 12 consecutive months of pay for a General Tier I or Tier IIA member or a Safety Tier I or Tier IIA member, and the highest 36 consecutive months of pay for a General Tier IIB or Tier III member or a Safety Tier IIB member.

The member may elect an unmodified retirement allowance or an optional retirement allowance. The unmodified option provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible spouse or partner is one married to or registered with the member for at least one year prior to the effective retirement date. Certain surviving spouses or partners may also be eligible if marriage or partnership occurred at least two years prior to the date of death and the surviving spouse or partner is age 55 as of the date of death. There are also four optional retirement allowances the member may choose. Each option requires a reduction in the unmodified allowance to grant the member the ability to provide certain benefits to a surviving spouse, domestic partner or named beneficiary having an insurable interest in the life of the member.

NOTE 1 – DESCRIPTION OF PLAN

Death Benefits:

Death Before Retirement

An active member's beneficiary is entitled to receive death benefits, which consist of accumulated contributions and interest and one month of salary for each full year of service, up to a maximum of six months' salary.

If a member is vested and his/her death is not the result of job-caused injury or disease, the spouse or registered domestic partner will be entitled to receive, for life, a monthly allowance equal to 60% of the retirement allowance they would have been entitled to receive if they had retired for a 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, his/her spouse or registered domestic partner receives, for life, a monthly allowance equal to at least 50% of the member's final average salary. This can also apply to minor children under age 18 (continuing to age 22 if enrolled full time in an accredited school).

Death After Retirement

If a member dies after retirement, a death benefit of $5,000 is payable to his/her designated beneficiary or estate.

If the retirement was for a nonservice-connected disability and the member chose the unmodified allowance option, the surviving spouse, registered domestic partner or minor children will receive a monthly continuance equal to 60% of the benefit. If the retirement was for a service-connected disability, the spouse, registered domestic partner or minor children will receive a 100% continuance of the member's benefit.

Disability Benefit:

A member with five years of service, regardless of age, who becomes permanently incapacitated for the performance of duty will be eligible for a nonservice-connected disability retirement. Any member who becomes permanently incapacitated for the performance of duty as a result of injury or disease arising out of and in the course of employment, is eligible for a service-connected disability, regardless of service length or age.

Cost-of-Living Adjustment:

An annual cost-of-living adjustment (COLA) of up to 2.0% 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 Benefits:

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 $5,000 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.

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.

Investment income is recognized as revenue when earned. The net appreciation (depreciation) in the fair value of investments is recorded as an increase (decrease) to investment income based on investment valuations, which includes both realized and unrealized gains and losses on investments.

Administrative Expenses
KCERA's board annually adopts the operating budget for the administration of KCERA. Costs of administering the Plan are charged against the Plan's earnings. KCERA's administrative budget is calculated pursuant to Government Code Section 31580.2(a), which provides that the administrative expenses incurred in any year may not exceed the greater of either twenty-one-hundredths of 1 percent (0.21%) of the actuarial accrued liability of the system or $2,000,000, as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5. Government Code Section 31580.2(b) provides that expenditures for computer software, hardware and computer technology consulting services in support of the computer products shall not be considered a cost of administrative expenses in the calculation.

Cash Equivalents
Cash equivalents are assets that are readily convertible into cash, such as short-term government bonds or Treasury bills and commercial paper. Cash equivalents are distinguished from other investments through their short-term existence; they mature within 3 months. A cash equivalent must also be an investment with an insignificant risk of change in value. Although cash equivalents are not cash, they are presented on the Statement of Fiduciary Net Position together with cash using the title "Cash and Cash Equivalents."

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, 2017 and 2016.
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	Net asset value provided by the Fund manager based on the underlying financial statements and performance of the investments.
Real estate investments	Estimated based on 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 or appraisals used by the investment manager. The KCERA property is valued based on an annual appraisal.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Risks and Uncertainties
KCERA invests in various investment securities, which are exposed to various risks, including interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Fiduciary Net Position.

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	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.

GASB Pronouncements
In March 2016, GASB issued Statement No. 82 (GASB 82), *Pension Issues, an Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. KCERA implemented GASB 82 starting with the fiscal year ended June 30, 2017. There was no material impact on KCERA's financial statements as a result of the implementation of GASB 82.

NOTE 3 – DEPOSITS AND INVESTMENTS

The Board of Retirement (the Board) has the fiduciary responsibility and authority to oversee the investment portfolio. The Board is governed by the County Employees' Retirement Law of 1937. It is also governed by California Government Code Sections 31594 and 31595, which provide for prudent person governance of the Plan. Under this law, the type and amount of plan investments as well as the quality of securities are not specifically delineated; rather, the investments made are assumed to be in the best interest of the Plan such that others with similar information would acquire similar investments. 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 investments shall be made for the exclusive purpose of providing benefits to the participants and their beneficiaries and defraying reasonable expenses to the Plan.

The Board maintains a formal Investment Policy Statement, which addresses guidelines for the investment process. The primary investment objectives for KCERA's assets shall be:

1. Funding benefits
2. Long-term growth of capital
3. Preservation of purchasing power

A specific investment objective for KCERA's assets is for the asset value, exclusive of contributions or withdrawals, to grow over the long run. Another objective is for the assets to earn, through a combination of investment income and capital appreciation, a rate of return (net of fees) in excess of the established benchmarks over a full market cycle (typically 3-5 years).

The Board retains a number of professional investment managers. Investment manager selection is an important decision involving complex due diligence. The Board's investment policy requires independent performance measurement of investment managers and establishes total return objectives for the total portfolio and major categories of investments. The Board adopts investment guidelines for KCERA's investment managers which are included within their respective investment management agreements.

KCERA's policy regarding the allocation of invested assets is established and may be amended by the Board. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation as of June 30, 2017:

Asset Class	Target
Domestic Equity	19%
International Equity	18%
Fixed Income	29%
Real Estate	10%
Hedge Funds	10%
Private Equity	5%
Private Credit	5%
Commodities	4%

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of pension investment expenses, was 12.0%. For the year ended June 30, 2016, it was 0.3%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits

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

NOTE 3 – DEPOSITS AND INVESTMENTS

Deposits *(cont.)*

Below is a summary of cash, deposits and short-term investments as of June 30, 2017 and 2016:

(In thousands)

Held by	2017	2016
County of Kern	$ 10,186	$ 9,644
Wells Fargo	1,288	1,256
Northern Trust	72,688	62,586
Disbursements in excess of cash balances	76	46
Total	**$ 84,238**	**$ 73,532**

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, 2017, KCERA had $2.4 million in deposits held at The Northern Trust Company that were uninsured and uncollateralized.

Investments

Investments of the Plan are reported at fair value. In fulfilling its responsibilities, the Board of Retirement has contracted with investment managers and a master global custodian. For the year ended June 30, 2017, The Northern Trust Company is the global custodian for the majority of the investments of the Plan.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The KCERA 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, 2017 and 2016, KCERA's assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations, as shown on the next page.

NOTE 3 – DEPOSITS AND INVESTMENTS

Standard & Poor's (S&P) Credit Quality by Investment Type

As of June 30, 2017 (In thousands)

Type of Investment	S&P Credit Quality AAA	AA	A	BBB-B	CCC-C	D-NR	Agency*	Total
Asset-Backed Securities	$ 6,258	$ 2,267	$ 1,311	$ 1,894	$ 3,029	$ 2,766	$ -	**$ 17,525**
Bank Loans	-	-	-	9,426	107	3,437	-	**12,970**
Collateralized Bonds	-	-	-	-	-	800	-	**800**
Commercial Mortgage-Backed Securities	1,336	638	-	976	-	10,513	-	**13,463**
Corporate Bonds	9,575	5,061	28,867	252,384	17,469	28,452	-	**341,808**
Corporate Convertible Bonds	-	-	-	2,605	187	518	-	**3,310**
Government Agencies	-	3,421	-	3,741	-	-	115	**7,277**
Government Bonds	-	1,066	6,817	32,563	634	3,083	-	**44,163**
Government Mortgage-Backed Securities	-	-	-	-	-	878	136,515	**137,393**
Government-Issued Commercial Mortgage-Backed Securities	-	-	-	-	-	-	564	**564**
Municipal / Provincial Bonds	-	940	2,040	546	-	1,321	-	**4,847**
Non-Government-Backed C.M.O.s	169	1,523	335	1,073	501	7,239	-	**10,840**
Collective / Commingled Funds	97,957	649,054	-	8,454	-	75,649	**-**	**831,114**
Total	**115,295**	**663,970**	**39,370**	**313,662**	**21,927**	**134,656**	**137,194**	**1,426,074**
U.S. Treasuries & Notes								**145,419**
Total Fixed Income								**$1,571,493**

** "Agency" refers to a position for which an issue is implicitly guaranteed by the U.S. Government.*

NOTE 3 – DEPOSITS AND INVESTMENTS

Standard & Poor's (S&P) Credit Quality by Investment Type

As of June 30, 2016 (In thousands)

Type of Investment	S&P Credit Quality AAA	AA	A	BBB-B	CCC-C	D-NR	Agency*	Total
Asset-Backed Securities	$ 4,781	$ 2,805	$ 2,141	$ 1,996	$ 3,598	$ 1,789	$ 274	**$ 17,384**
Bank Loans	-	-	-	8,475	354	1,871	-	**10,700**
Commercial Mortgage-Backed Securities	2,103	1,288	110	2,170	-	8,512	-	**14,183**
Corporate Bonds	-	4,779	35,968	216,226	14,856	20,650	-	**292,479**
Corporate Convertible Bonds	-	-	-	50	-	124	-	**174**
Government Agencies	-	3,710	-	896	-	-	-	**4,606**
Government Bonds	-	320	12,755	22,321	-	8,356	-	**43,752**
Government Mortgage-Backed Securities	-	-	95	-	-	676	123,399	**124,170**
Government-Issued Commercial Mortgage-Backed Securities	-	-	-	-	-	-	651	**651**
Municipal / Provincial Bonds	-	2,787	997	1,008	-	630	-	**5,422**
Non-Government-Backed C.M.O.s	243	1,773	775	1,003	1,089	8,065	-	**12,948**
Collective / Commingled Funds	-	265,124	-	15,180	-	146,793	-	**427,097**
Total	**$ 7,127**	**$ 282,586**	**$ 52,841**	**$ 269,325**	**$ 19,897**	**$ 197,466**	**$ 124,324**	**$ 953,566**
U.S. Treasuries & Notes								**130,378**
Total Fixed Income								**$1,083,944**

** "Agency" refers to a position for which an issue is implicitly guaranteed by the U.S. Government.*

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments *(cont.)*

Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counter-party 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, 2017, 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 12% of the aggregate fair value of the Fund. The maximum allocation to a single active management product is 8%. 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 noninvestment-grade issuer should not represent more than 2% of the fair 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, 2017 and 2016 (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, 2017 and 2016, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

(In thousands)

		Investment Maturities (in years) as of June 30, 2017				
Investment Type	**Fair Value**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Maturity Not Determined**
Asset-Backed Securities	$ 17,525	$ -	$ 537	$ 7,201	$ 9,787	$ -
Bank Loans	12,970	1,484	6,629	4,857	-	-
Collateralized Bonds	800	-	-	800	-	-
Commercial Mortgage-Backed	13,463	-	244	-	13,219	-
Corporate Bonds	341,808	15,042	142,140	132,805	49,886	1,935
Corporate Convertible Bonds	3,310	-	736	831	1,743	-
Government Agencies	7,277	-	2,322	3,731	1,224	-
Government Bonds	165,404	1,630	50,489	43,404	69,881	-
Government Mortgage-Backed	137,393	-	621	1,041	51,348	84,383
Government-Issued Commercial Mortgage-Backed	564	-	191	342	31	-
Index-Linked Government Bonds	24,178	-	5,472	16,751	1,955	-
Municipal / Provincial Bonds	4,847	-	178	1,303	3,366	-
Non-Government-Backed C.M.O.s	10,840	818	499	885	8,638	-
Collective / Commingled Funds	831,114	-	-	-	-	831,114
Total	**$ 1,571,493**	**$ 18,974**	**$ 210,058**	**$ 213,951**	**$ 211,078**	**$ 917,432**

NOTE 3 – DEPOSITS AND INVESTMENTS

Investments *(cont.)*

(In thousands)

Investment Type	Fair Value	Investment Maturities (in years) as of June 30, 2016 Less Than 1	1-5	6-10	More Than 10	Maturity Not Determined
Asset-Backed Securities	$ 17,384	$ 44	$ 1,781	$ 4,954	$ 10,605	$ -
Bank Loans	10,700	857	8,532	1,311	-	-
Commercial Mortgage-Backed	14,183	257	-	-	13,926	-
Corporate Bonds	292,479	7,235	129,463	98,310	55,224	2,247
Corporate Convertible Bonds	174	-	124	-	50	-
Government Agencies	4,605	10	2,325	645	1,625	-
Government Bonds	139,189	1,608	39,472	32,078	66,031	-
Government Mortgage-Backed	124,170	-	644	1,319	49,879	72,328
Government-Issued Commercial Mortgage-Backed	651	-	127	455	69	-
Index-Linked Government Bonds	34,942	1,960	208	18,057	14,717	-
Municipal / Provincial Bonds	5,422	-	887	-	4,535	-
Non-Government-Backed C.M.O.s	12,948	-	-	1,583	11,365	-
Collective / Commingled Funds	427,097	-	-	-	-	427,097
Total	**$1,083,944**	**$ 11,971**	**$ 183,563**	**$ 158,712**	**$ 228,026**	**$ 501,672**

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 18% 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, 2017 and 2016.

NOTE 3 – DEPOSITS AND INVESTMENTS

As of June 30, 2017 (In thousands, USD)

	Foreign Currency	Fair Value
Cash	Argentine Peso	$ 39
	Australian Dollar	41
	Brazilian Real	301
	Canadian Dollar	6,473
	Swiss Franc	179
	Chinese Yuan Renminbi	146
	Euro	464
	British Pound Sterling	320
	Hong Kong Dollar	102
	Hungarian Forint	81
	Japanese Yen	137
	Mexican Peso	219
	New Zealand Dollar	1
	Russian Ruble	216
	Swedish Krona	7
	Turkish Lira	30
Cash Collateral / Variation Margin	Canadian Dollar	(184)
	Euro	942
	British Pound Sterling	140
	Japanese Yen	78
Equities	Australian Dollar	10,115
	Canadian Dollar	11,770
	Swiss Franc	9,891
	Danish Krone	4,286
	Euro	44,486
	British Pound Sterling	22,232
	Hong Kong Dollar	14,388
	New Israeli Shekel	1,744
	Japanese Yen	36,302
	South Korean Won	4,998
	Norwegian Krone	471
	Swedish Krona	3,011
	Singapore Dollar	1,491
	South African Rand	4,099
Fixed Income	Argentine Peso	1,310
	Brazilian Real	4,389
	Canadian Dollar	545
	Chilean Peso	320
	Chinese Yuan Renminbi	69
	Colombian Peso	469
	Danish Krone	7,869
	Euro	757
	British Pound Sterling	1,125
	Hungarian Forint	1,520
	Mexican Peso	5,187
	Malaysian Ringgit	405
	Polish Zloty	1,630
	Russian Ruble	3,777
	Turkish Lira	1,527
Swaps / Options	Canadian Dollar	217
	Euro	159
	British Pound Sterling	(84)
Total Foreign Cash & Investments		**$ 210,167**

As of June 30, 2016 (In thousands, USD)

	Foreign Currency	Fair Value
Cash	Brazilian Real	$ 76
	Canadian Dollar	9
	Chinese Yuan Renminbi	51
	Euro	87
	British Pound Sterling	36
	Hungarian Forint	40
	Japanese Yen	263
	Mexican Peso	333
	Malaysian Ringgit	38
	Russian Ruble	17
	Singapore Dollar	1
Cash Collateral / Variation Margin	Canadian Dollar	217
	Euro	98
	British Pound Sterling	37
	Japanese Yen	17
Equities	Australian Dollar	10,566
	Canadian Dollar	9,965
	Swiss Franc	24,124
	Danish Krone	2,407
	Euro	72,000
	British Pound Sterling	54,670
	Hong Kong Dollar	17,925
	Indonesian Rupiah	945
	New Israeli Shekel	1,083
	Japanese Yen	65,001
	South Korean Won	4,757
	Norwegian Krone	532
	Swedish Krona	3,291
	Singapore Dollar	1,426
	South African Rand	1,982
Fixed Income	Brazilian Real	2,441
	Chilean Peso	320
	Chinese Yuan Renminbi	1,638
	Colombian Peso	462
	Euro	1,099
	British Pound Sterling	1,188
	Hungarian Forint	1,448
	Mexican Peso	9,669
	Malaysian Ringgit	1,817
	Polish Zloty	3,086
	Russian Ruble	2,818
	Turkish Lira	1,216
Swaps / Options	Australian Dollar	(5)
	Canadian Dollar	(195)
	Euro	153
	British Pound Sterling	51
Total Foreign Cash & Investments		**$ 299,200**

NOTE 3 – DEPOSITS AND INVESTMENTS

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, collateralized mortgage obligations, and collateralized bond obligations (CBO). Mortgage-backed securities, collateralized mortgage obligations and asset-backed securities are created from pools of mortgages or other assets (receivables). A CBO is an investment-grade, asset-based security comprised of low-rated bonds that are transferred to a special purpose vehicle that manages the issue.

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, 2017	June 30, 2016
Mortgage-Backed Securities	$ 151,420	$ 139,004
Asset-Backed Securities	17,525	17,384
Collateralized Mortgage Obligation Securities	10,840	12,948
Collateralized Bond Obligations	800	-
Total	**$ 180,585**	**$ 169,336**

NOTE 4 – FAIR VALUE MEASUREMENT

KCERA's investments are measured and reported within the fair value hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value:

- Level 1 – Investments reflect prices quoted in active markets.
- Level 2 – Investments reflect prices that are based on a similar observable asset, either directly or indirectly, which may include inputs in markets that are not considered to be active.
- Level 3 – Investments reflect prices based on unobservable sources.

The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Debt, equities and investment derivatives classified in Level 1 of the fair value hierarchy are valued directly from a predetermined primary external pricing vendor. Assets classified in Level 2 are subject to pricing by an alternative pricing source due to lack of information available by the primary vendor. Assets classified in Level 3, due to lack of an independent pricing source, are valued using an internal fair value as provided by the investment manager.

NOTE 4 – FAIR VALUE MEASUREMENT

Investments and Short-Term Holdings Measured at Fair Value

(In thousands)

	6/30/2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Debt Securities:	**$ 747,593**	**$ 145,419**	**$ 581,099**	**$ 21,075**
Asset-Backed Securities	177,266	-	165,066	12,200
Bank Loans	12,971	-	12,971	-
Bond Funds	7,213	-	7,213	-
Collateralized Debt Obligations	6,740	-	-	6,740
Corporate Debt Securities	344,264	-	342,984	1,280
Government Debt Securities	172,061	121,241	50,820	-
State & Local Government Debt Secur.	2,045	-	2,045	-
Structured Debt	24,178	24,178	-	-
Escrow	855	-	-	855
Equity Investments:	**652,493**	**574,546**	**77,886**	**61**
Common Stock	404,199	403,304	834	61
Convertible Equity	1,834	432	1,402	-
Equity Funds	239,610	163,960	75,650	-
Preferred Stock	5,214	5,214	-	-
Stapled Securities	1,636	1,636	-	-
Real Assets:	**4,317**	**-**	**-**	**4,317**
Real Estate	4,317	-	-	4,317
Investments Measured at the Net Asset Value (NAV)	**2,591,857**	**-**	**-**	**-**
Real Estate Funds	224,933	-	-	-
Hedge Funds	348,133	-	-	-
Private Equity	165,580	-	-	-
Commingled Commodity Fund	155,853	-	-	-
Commingled Equity Fund	949,107	-	-	-
Commingled Bond Funds	748,251	-	-	-
Derivatives	**4,224**	**2,364**	**1,860**	**-**
Credit Contracts	115	-	115	-
Interest Rate Contracts	1,879	82	1,797	-
Other	2,230	2,282	(52)	-
Invested Securities Lending Collateral	**123,154**	**-**	**123,154**	**-**
Indemnified Repurchase Agreements	123,154	-	123,154	-
Total	**$ 4,123,638**	**$ 722,329**	**$ 783,999**	**$ 25,453**

NOTE 4 – FAIR VALUE MEASUREMENT

Investments and Short-Term Holdings Measured at Fair Value

(In thousands)

	6/30/2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observ-able Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value				
Debt Securities:	**$ 667,327**	**$ 130,378**	**$ 503,857**	**$ 33,092**
Asset-Backed Securities	171,342	-	144,404	26,938
Bank Loans	10,700	-	10,700	-
Bond Funds	10,480	-	10,480	-
Collateralized Debt Obligations	1,525	-	-	1,525
Corporate Debt Securities	292,653	-	289,016	3,637
Government Debt Securities	141,779	95,436	46,343	-
State & Local Government Debt Secur.	3,905	-	2,914	991
Structured Debt	34,942	34,942	-	-
Escrow	1	-	-	1
Equity Investments:	**767,591**	**695,727**	**71,192**	**672**
Common Stock	637,616	636,944	-	672
Convertible Equity	325	325	-	-
Equity Funds	120,578	49,386	71,192	-
Preferred Stock	6,632	6,632	-	-
Stapled Securities	2,440	2,440	-	-
Real Assets:	**4,375**	**-**	**-**	**4,375**
Real Estate	4,375	-	-	4,375
Investments Measured at the Net Asset Value (NAV)	**2,153,304**	**-**	**-**	**-**
Real Estate Funds	180,899	-	-	-
Hedge Funds	325,654	-	-	-
Private Equity	178,130	-	-	-
Commingled Commodity Fund	135,433	-	-	-
Commingled Equity Fund	987,763	-	-	-
Commingled Bond Fund	345,425	-	-	-
Derivatives	**(4,735)**	**2,770**	**(7,506)**	**1**
Credit Contracts	(177)	-	(177)	-
Equity Contracts	-	-	-	-
Foreign Exchange Contracts	(11)	-	(11)	-
Interest Rate Contracts	(7,334)	(12)	(7,322)	-
Other	2,787	2,782	4	1
Invested Securities Lending Collateral	**76,000**	**-**	**76,000**	**-**
Indemnified Repurchase Agreements	76,000	-	76,000	-
Total	**$ 3,663,862**	**$ 828,876**	**$ 643,543**	**$ 38,139**

NOTE 4 – FAIR VALUE MEASUREMENT

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

(In thousands)

Investments Measured at Net Asset Value (NAV)	6/30/2017	Redemption Frequency	Redemption Notice Period	Unfunded Commitments
Commingled Bond Funds [1]	$ 748,251	Daily, Quarterly, None	2-30 Days	$ -
Commingled Commodity Funds [1]	155,853	Daily, Monthly	1-30 Days	-
Commingled Equity Fund Domestic [1]	559,691	Daily, Quarterly	1-60 Days	-
Commingled Equity Fund Non-US [1]	389,416	Daily, Monthly	1-15 Days	-
Hedge Funds:				
CTA [2]	21,258	Monthly	30 Days	-
Directional [3]	42,547	Monthly	30-60 Days	-
Equity Long/Short [4]	22,619	Quarterly	45 Days	-
Event-Driven [5]	46,965	Quarterly, Annually, 36 Months	45-90 Days	-
Fund of Funds [6]	5	Semi-annually	91 Days	-
Multi-Strategy [7]	116,500	Quarterly, Annually	60-90 Days	-
Relative Value [8]	98,239	Monthly, Quarterly, Semi-annually	45-120 Days	-
Real Estate Funds [9]	224,933	Quarterly, None	30-45 Days	30,843
Private Asset Funds [9]	165,580	N/A	N/A	44,687
Total	**$ 2,591,857**			**$ 75,530**

[1] *Commingled Bond Funds, Commodity Funds and Equity Funds*: Five bond funds, three commodity funds and five equity funds are considered to be commingled in nature. Each is valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments.

[2] *CTA*: The objective of this fund is to provide consistent long-term appreciation of assets through implementation of a systematic trading model or portfolio of systematic trading models that trade in a number of debt, equity, foreign exchange and commodity instruments and derivative contracts.

[3] *Directional*: The three global macro funds utilizing this strategy seek to generate consistent long-term appreciation through active, direct and indirect, leveraged trading and investment on a global basis in multiple investment strategies. All three funds are valued at NAV.

[4] *Equity Long/Short Hedge Fund*: Consisting of one fund utilizing both long and short strategies seeking risk-adjusted returns principally through investment in the Asian-Pacific region.

[5] *Event-Driven Hedge Funds*: Consisting of two funds, this strategy seeks to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event. These investments are valued at NAV per share.

[6] *Fund of Funds*: Side pocket of illiquid investments from the constituent underlying funds for a fund-of-funds terminated on 2013.

[7] *Multi-Strategy Hedge Funds*: The three funds that make up this group aim to pursue varying strategies in order to diversify risks and reduce volatility. These investments are valued at NAV per share.

[8] *Relative Value Hedge Funds*: Consisting of five funds, this strategy's main focus is to benefit from valuation discrepancies that may be present in related financial instruments by simultaneously purchasing or selling these instruments.

[9] *Private Asset and Real Estate Funds*: KCERA's Private Asset portfolio consists of 9 funds investing primarily in buyouts with some exposure to distressed funds, venture capital and special situations. The Real Estate portfolio, comprised of 5 funds, invests mainly in U.S. commercial real estate and utilizes a combination of Core open-end commingled funds and closed-end Value-Added funds. The open-end funds are eligible for redemption on a quarterly basis. Distributions are received from the closed-end funds as underlying investments within the funds are liquidated. Individual holdings contained in the funds are recorded at estimated fair value using a combination of the income, cost and sales comparison approaches.

NOTE 4 – FAIR VALUE MEASUREMENT

The valuation method for investments measured at the net asset value (NAV) per share, or equivalent, is presented in the table below.

(In thousands)

Investments Measured at Net Asset Value (NAV)	6/30/2016	Redemption Frequency	Redemption Notice Period	Unfunded Commitments
Commingled Bond Funds [1]	$ 345,425	Daily, Quarterly, None	2-30 Days	$ -
Commingled Commodity Funds [1]	135,433	Daily, Monthly	1-30 Days	-
Commingled Equity Fund Domestic [1]	595,496	Daily, Quarterly	1-60 Days	-
Commingled Equity Fund Non-US [1]	392,267	Monthly	3-15 Days	-
Hedge Funds:				
CTA [2]	25,574	Monthly	30 Days	-
Directional [3]	42,217	Monthly	30-60 Days	-
Equity Long/Short [4]	19,439	Quarterly	45 Days	-
Event-Driven [5]	38,762	Quarterly, Annually, 36 Months	45-90 Days	-
Fund of Funds [6]	3,007	Semi-annually	91 Days	-
Multi-Strategy [7]	103,674	Quarterly, Annually	60-90 Days	-
Relative Value [8]	92,981	Monthly, Quarterly, Semi-annually	45-120 Days	-
Real Estate Funds [9]	180,899	Quarterly, None	30-45 Days	56,016
Private Asset Funds [9]	178,130	N/A	N/A	59,288
Total	**$ 2,153,304**			**$ 115,304**

[1] *Commingled Bond Funds, Commodity Funds and Equity Funds*: Five bond funds, three commodity funds and six equity funds are considered to be commingled in nature. Each is valued at the net asset value (NAV) of units held at the end of the period based upon the fair value of the underlying investments.

[2] *CTA*: The objective of this fund is to provide consistent long-term appreciation of assets through implementation of a systematic trading model or portfolio of systematic trading models that trade in a number of debt, equity, foreign exchange and commodity instruments and derivative contracts.

[3] *Directional*: The three global macro funds utilizing this strategy seek to generate consistent long-term appreciation through active, direct and indirect, leveraged trading and investment on a global basis in multiple investment strategies. All three funds are valued at NAV.

[4] *Equity Long/Short Hedge Fund*: Consisting of one fund utilizing both long and short strategies seeking risk-adjusted returns principally through investment in the Asian-Pacific region.

[5] *Event-Driven Hedge Funds*: Consisting of two funds, this strategy seeks to gain an advantage from pricing inefficiencies that may occur in the onset or aftermath of a corporate action or related event. These investments are valued at NAV per share.

[6] *Fund of Funds*: Side pocket of illiquid investments from the constituent underlying funds for a fund-of-funds terminated on 2013.

[7] *Multi-Strategy Hedge Funds*: The three funds that make up this group aim to pursue varying strategies in order to diversify risks and reduce volatility. These investments are valued at NAV per share.

[8] *Relative Value Hedge Funds*: Consisting of five funds, this strategy's main focus is to benefit from valuation discrepancies that may be present in related financial instruments by simultaneously purchasing or selling these instruments.

[9] *Private Asset and Real Estate Funds*: KCERA's Private Asset portfolio consists of 9 funds investing primarily in buyouts with some exposure to distressed funds, venture capital and special situations. The Real Estate portfolio, comprised of 5 funds, invests mainly in U.S. commercial real estate and utilizes a combination of Core open-end commingled funds and closed-end Value-Added funds. The open-end funds are eligible for redemption on a quarterly basis. Distributions are received from the closed-end funds as underlying investments within the funds are liquidated. Individual holdings contained in the funds are recorded at estimated fair value using a combination of the income, cost and sales comparison approaches.

NOTE 5 – 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. Deutsche Bank is KCERA's agent for securities lending.

Deutsche Bank 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. Securities are lent for collateral. All securities loans can be terminated on demand by either KCERA or the borrower.

U.S. securities are loaned versus collateral valued at 102% of the fair value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 110% of the fair 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; the borrower is required to deliver additional collateral when necessary so that the total collateral held by the agent will at least equal the fair value of the borrowed securities. Deutsche Bank invests cash collateral in repurchase agreements on an overnight and term basis collateralized by readily liquid and marketable securities at 102% or greater.

At June 30, 2017, KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% or 110% plus accrued interest.

The tables below show the balances relating to securities lending transactions as of June 30, 2017 and 2016.

As of June 30, 2017 (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
Equities	$ 53,179	$ 54,520	$ 15,603	$ 15,728
Corporate Bonds	57,171	58,533	-	-
Government Bonds	9,877	10,101	-	-
Total	**$ 120,227**	**$ 123,154**	**$ 15,603**	**$ 15,728**

As of June 30, 2016 (In thousands)

Security Type	Fair Value of Loaned Securities Securitized by Cash	Cash Collateral
Equities	$ 37,765	$ 40,336
Corporate Bonds	28,671	29,354
Depository Receipt	462	476
Government Bonds	5,719	5,834
Total	**$ 72,617**	**$ 76,000**

NOTE 6 – DERIVATIVES

Description of and Authority for Derivative Investments

KCERA invests in derivative financial investments (i.e., 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; an opposite position from the cash instrument could be taken in the derivative instrument to alter the exposure to or the risk of the cash instrument.

Portfolios may not sell securities short nor create leverage through the use of financial futures and options. Uncovered futures or options positions are prohibited.

Financial futures and options may only be used to hedge currency risk or to manage portfolio duration. Investment in structured notes is prohibited. KCERA may invest in the following:

Futures

Futures contracts are used to hedge against a possible increase in the price of currency. Futures contracts are classified by category of underlying instrument, such as equity, fixed income, commodity or cash equivalent. Derivative positions are tied to the performance of underlying securities. Futures contracts are priced "mark-to-market," and daily settlements are recorded as investment gains or losses. Accounting for the daily mark-to-markets in this manner, the fair 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 fair values of futures contracts with corresponding offsets. When a futures contract is closed, futures are removed from the 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 options 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 fair 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 44.

NOTE 6 – DERIVATIVES

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

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 fair values of swaps can fluctuate, swaps are represented as assets (if fair value is greater than zero) and liabilities (if fair 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 the record. The difference between any closing premium exchanged and the 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; the two pending cash flows are 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 fair 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 the settlement of the forward FX contract. KCERA does not discount the valuation of the anticipated cash flows associated with pending forward FX contracts.

Summary of Investment Derivatives

Investment derivative instruments are reported as investments (if fair value is greater than zero) or liabilities (if fair value is less than zero) as of fiscal year end on the Statement of Fiduciary Net Position. Listed market prices are used to report the fair 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 Fiduciary Net Position as a component of investment revenue.

As of June 30, 2017 and 2016, 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.

NOTE 6 – DERIVATIVES

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, 2017, in addition to a summary of KCERA's derivatives as of June 30, 2017 and 2016, are as follows:

Investment Derivatives Summary and Summary of Credit Ratings

As of June 30, 2017 (In thousands)

Investment Derivative Type	Changes in Fair Value Gain (Loss)	Fair Value	Notional Value	S&P Credit Rating AA	A	BBB	Exchange Traded	Not Available
Futures	$ (77)	$ -	$ (19,188)	$ -	$ (114)	$ -	$ 96	$ (13)
Options	109	(31)	(3)	-	49	-	-	91
Swaps	(3,075)	1,987	-	-	-	-	-	(647)
Foreign Exchange Contracts	1,128	(646)	-	-	-	-	-	-
Rights/Warrants Equity Contracts	79	-	-	-	-	-	-	-
Total Value	**$ (1,836)**	**$ 1,310**	**$ (19,191)**					
Total Subject to Credit Risk				**$ -**	**$ (65)**	**$ -**	**$ 96**	**$ (569)**

As of June 30, 2016 (In thousands)

Investment Derivative Type	Changes in Fair Value Gain (Loss)	Fair Value	Notional Value	S&P Credit Rating AA	A	BBB	Exchange Traded	Not Available
Futures	$ 3,147	$ -	$ (44,782)	$ -	$ -	$ -	$ -	$ -
Options	939	(24)	13	(5)	1	-	(17)	(4)
Swaps	(3,169)	(7,498)	-	-	(6)	(123)	-	45
Foreign Exchange Contracts	(821)	148	-	-	-	-	-	148
Rights/Warrants Equity Contracts	-	-	-	-	-	-	-	-
Total Value	**$ 96**	**$ (7,374)**	**$ (44,769)**					
Total Subject to Credit Risk				**$ (5)**	**$ (5)**	**$ (123)**	**$ (17)**	**$ 189**

NOTE 6 – DERIVATIVES

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, 2017 and 2016, KCERA had the following investment derivative interest rate risks:

As of June 30, 2017 (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	$ (19,188)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Options	(3)	(31)	57	-	12	(100)	-	-
Swaps	-	1,987	33	-	-	201	1,510	243
Forward Exchange Contracts	-	(646)	(339)	-	(307)	-	-	-
Total	**$ (19,191)**	**$ 1,310**	**$ (249)**	**$ -**	**$ (295)**	**$ 101**	**$ 1,510**	**$ 243**

As of June 30, 2016 (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	$ (44,782)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Options	13	(24)	(26)	(2)	-	4	-	-
Swaps	-	(7,498)	-	3	-	(479)	(3,349)	(3,672)
Forward Exchange Contracts	-	148	77	67	3	-	-	-
Total	**$ (44,769)**	**$ (7,374)**	**$ 51**	**$ 68**	**$ 3**	**$(475)**	**$(3,349)**	**$(3,672)**

NOTE 6 – DERIVATIVES

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, 2017 and 2016, KCERA had the derivative foreign currency exposures listed in the table below.

As of June 30, 2017 (In thousands)

	Foreign Currency	Fair Value (USD)
Cash Collateral/Variation Margin	Canadian Dollar	$ (184)
	Euro	942
	British Pound Sterling	140
	Japanese Yen	78
Foreign Exchange Contracts	Australian Dollar	1,567
	Canadian Dollar	(6,973)
	Swiss Franc	(782)
	Chinese Yuan Renminbi	(185)
	Danish Krone	(8,002)
	Euro	(700)
	British Pound Sterling	(520)
	Japanese Yen	2,833
	South Korean Won	(2,217)
	Mexican Peso	(13)
	New Zealand Dollar	(1,568)
Options	Euro	17
Swaps	Canadian Dollar	217
	Euro	142
	British Pound Sterling	(84)
Total Foreign Derivatives		**$ (15,292)**

As of June 30, 2016 (In thousands)

	Foreign Currency	Fair Value (USD)
Cash Collateral/Variation Margin	Canadian Dollar	$ 217
	Euro	98
	British Pound Sterling	37
	Japanese Yen	17
Foreign Exchange Contracts	Australian Dollar	638
	Chinese Yuan Renminbi	(1,658)
	Danish Krone	(11)
	Euro	(681)
	British Pound Sterling	501
	Japanese Yen	182
	South Korean Won	(3,105)
	Mexican Peso	1,017
	Malaysian Ringgit	(695)
	Russian Ruble	(117)
	Singapore Dollar	(1,303)
	New Taiwan Dollar	(591)
Options	Australian Dollar	(5)
Swaps	Canadian Dollar	(195)
	Euro	153
	British Pound Sterling	51
Total Foreign Derivatives		**$ (5,450)**

NOTE 7 – CONTRIBUTIONS

Following the establishment of KCERA on January 1, 1945, eligible employees and their beneficiaries became entitled to pension, disability and survivor benefits under the provisions of the CERL. As a condition of participation under the provisions of the CERL, members are required to pay a percentage of their salaries, depending on their entry age 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 while minimizing the volatility of contribution rates for participating employers 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.

Total contributions made during fiscal years 2017 and 2016, respectively, amounted to approximately $275.7 million and $268.0 million, of which $241.1 million and $234.7 million were contributed by employers, and $34.6 million and $33.3 million were contributed by members.

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, respectively. 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 of 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 2016, the Plan had no excess earnings; $0 was reserved to fund the employer COLA contributions in fiscal year 2017.

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 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 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 2017 ranged from 27.33% to 62.97% of covered payroll, with a combined average of 45.11% for all employers.

NOTE 7 – CONTRIBUTIONS

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 2017 ranged from 4.45% to 18.48% and were applied to the member's base pay plus "pensionable" 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," as defined in PEPRA, hired on or after January 1, 2013 pay a flat member contribution rate: 50% of the total Normal Cost rate.

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 Memorandum 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 were required to pay 100% of the employees' retirement contributions with the employer paying no part of the employees' contributions. Effective in 2014, non-contributing County general and safety members were required to pay one-third of their employee contributions. Buttonwillow Recreation and Park District and San Joaquin Valley Air Pollution Control District did not elect the 1997 MOU. Buttonwillow employees continue to pay 50% of their full rates. San Joaquin's Tier I members pay 39% of the Normal Cost rate as of June 30, 2017. Employees of the Kern County Superior Court are required to pay an additional 8% of base salary.

Interest is credited to member contributions semiannually 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 8 – 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 their 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, 2017, -0.41% of the Plan's net position were in contingencies, according to the Board of Retirement's Interest Credit Policy.

NOTE 8 – RESERVE ACCOUNTS AND DESIGNATIONS OF NET POSITION

Balances in these reserve accounts and designations of net position available for pension and other benefits at June 30, 2017 and 2016 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

(In thousands)

Reserve Account	2017	2016
Members' Deposit Reserve – General	$ 225,695	$ 207,468
Members' Deposit Reserve – Safety	103,224	91,699
Members' Deposit Reserve – Special District	22,673	21,233
Employers' Advance Reserve – General	359,449	336,966
Employers' Advance Reserve – Safety	388,434	350,036
Employers' Advance Reserve – Special District	38,473	37,855
Cost-of-Living Reserve – General	661,092	610,830
Cost-of-Living Reserve – Safety	469,813	431,644
Cost-of-Living Reserve – Special District	48,047	43,278
Retired Members' Reserve – General	1,089,422	1,043,456
Retired Members' Reserve – Safety	469,256	469,442
Supplemental Retiree Benefit Reserve (SRBR)	124,229	121,471
SRBR allocated for 0.5% COLA	53,850	57,894
Contingency Reserve	(16,355)	(16,355)
Total reserves at five-year smoothed market actuarial valuation	**4,037,302**	**3,806,917**
Market Stabilization Reserve*	(74,407)	(235,330)
Total Fiduciary Net Position – Restricted for Pension Benefits	**$ 3,962,895**	**$ 3,571,587**

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

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Capital Commitments

In fiscal year 2013, KCERA's Board approved funding new direct hedge fund managers. As of June 30, 2017, KCERA had funded $348.1 million between 15 hedge funds managers to reach a target hedge fund allocation of 10% of the total portfolio.

As of June 30, 2017, KCERA's Board also had committed $602.5 million to the private assets and real estate funds listed in the table below, with fair value totaling $231.3 million. The general partner draws down invested capital from all limited partners, when necessary, to fund investments.

NOTE 10 – 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 a 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 was subject to an automatic 10.4% increase beginning on the fifth anniversary of the commencement date, November 2015, and on each fifth year anniversary date thereafter during the lease term. The sum of payments due for fiscal year ended June 30, 2017 is $332,644 for base rent and $18,356 for HVAC, parking lot maintenance, insurance and assessment fees. KCERA's base rent and other costs are abated from KPI's rental income.

As of June 30, 2017 (In thousands)

Fund	Commitments	Amounts Funded	Distributions	Fair Value
Abbott Capital Private Equity Fund IV	$ 50,000	$ 48,250	$ 74,250	$ 10,276
Abbott Capital Private Equity Fund V	65,000	61,750	64,645	24,047
Abbott Capital Private Equity Fund VI	50,000	45,500	20,500	42,858
Colony Distressed Credit and Special Situations Fund IV	60,000	34,228	4,087	32,206
Fidelity Real Estate Growth Fund III	100,000	89,254	115,966	2,182
Invesco Real Estate Fund III	60,000	54,874	52,494	26,178
Invesco U.S. Value-Add Fund IV	50,000	35,029	6,756	31,634
Pantheon USA Fund III	7,500	7,335	8,198	76
Pantheon USA Fund V	25,000	24,175	35,900	2,370
Pantheon USA Fund VI	35,000	33,075	36,365	14,690
Pantheon USA Fund VII	50,000	46,200	41,075	34,741
Pantheon Global Secondary Fund III "B"	50,000	47,300	41,850	10,090
Total	**$ 602,500**	**$ 526,970**	**$ 502,086**	**$ 231,348**

NOTE 11 – NET PENSION LIABILITY

The components of the net pension liability are as follows:

	June 30, 2017	June 30, 2016
Total Pension Liability	$ 6,326,870,318	$ 5,985,226,950
Plan Fiduciary Net Position	(3,962,895,176)	(3,571,587,594)
Net Pension Liability	**$ 2,363,975,142**	**$ 2,413,639,356**
Plan Fiduciary Net Position as Percentage of Total Pension Liability	62.64%	59.67%

The Plan's Fiduciary Net Position includes assets held for the Supplemental Retiree Benefit Reserve (SRBR). A split of the Total Pension Liability (TPL), Plan's Fiduciary Net Position (FNP) and Net Pension Liability (NPL) by the regular benefits (non-SRBR) and the SRBR benefits as of June 30, 2017 and June 30, 2016 are shown in the tables below.

June 30, 2017	Regular Benefits (Non-SRBR)	SRBR Benefits	Total KCERA
Total Pension Liability	$ 6,270,652,272	$ 56,218,046	$ 6,326,870,318
Plan Fiduciary Net Position	$ 3,838,665,847	$ 124,229,329	$ 3,962,895,176
Net Pension Liability (Asset)	$ 2,431,986,425	$ (68,011,283)	$ 2,363,975,142

June 30, 2016	Regular Benefits (Non-SRBR)	SRBR Benefits	Total KCERA
Total Pension Liability	$ 5,919,517,878	$ 65,709,072	$ 5,985,226,950
Plan Fiduciary Net Position	$ 3,450,116,704	$ 121,470,890	$ 3,571,587,594
Net Pension Liability (Asset)	$ 2,469,401,174	$ (55,761,818)	$ 2,413,639,356

The net pension liability was measured as of June 30, 2017 and 2016. Plan fiduciary net position (plan assets) was valued as of the measurement date while the total pension liability was determined based upon rolling forward the total pension liability from actuarial valuations as of June 30, 2016 and 2015, respectively.

Plan provisions. The plan provisions used in the measurement of the net pension liability are the same as those used in the KCERA actuarial valuation as of June 30, 2017 and June 30, 2016, respectively. The TPL and the Plan's Fiduciary Net Position include liabilities and assets held for the Supplemental Retiree Benefit Reserve (SRBR).

Actuarial assumptions and methods. The total pension liability as of June 30, 2017 that was measured by an actuarial valuation as of June 30, 2016 was re-measured as of June 30, 2016 to reflect the actuarial assumptions that the KCERA Board of Retirement has approved for use in its actuarial valuation as of June 30, 2017. Those actuarial assumptions were based on the results of an Experience Study for the period from July 1, 2013 through June 30, 2016. They are the same as the assumptions used in the June 30, 2017 funding valuation. In particular, the actuarial assumptions on the next page were applied to all periods included in the measurement.

NOTE 11 – NET PENSION LIABILITY

As of June 30, 2017

Inflation:	3.00%
Salary Increases:	General: 4.00% to 9.00%. Safety: 4.00% to 12.50%. Varies by service, including inflation.
Investment Rate of Return:	7.25%, net of pension plan investment expenses, including inflation.
Administrative Expenses:	0.90% of payroll allocated to both employers and members based on the components of the total average contribution rate (before expenses) for employers and members.
Other Assumptions:	Same as those used in the June 30, 2017 funding valuation. These assumptions were developed in the analysis of actuarial experience for the period July 1, 2013 through June 30, 2016.

As of June 30, 2016

Inflation:	3.25%
Salary Increases:	General: 4.25% to 9.25%. Safety: 4.25% to 11.75%. Varies by service, including inflation.
Investment Rate of Return:	7.50%, net of pension plan investment expenses, including inflation.
Administrative Expenses:	0.90% of payroll allocated to both employers and members based on the components of the total average contribution rate (before expenses) for employers and members.
Other Assumptions:	Same as those used in the June 30, 2016 funding valuation. These assumptions were developed in the analysis of actuarial experience for the period July 1, 2010 through June 30, 2013.

The Entry Age Actuarial Cost Method used in KCERA's annual actuarial valuation has also been applied in measuring the Service Cost and TPL with one exception. For purposes of measuring the Service Cost and TPL, KCERA has reflected the same plan provisions used in determining the member's Actuarial Present Value of Projected Benefits. This is different from the version of this method applied in KCERA's annual funding valuation, where the Normal Cost and Actuarial Accrued Liability are determined as if the current benefit accrual rate had always been in effect.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (i.e., expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. This data is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized on the next page.

NOTE 11 – NET PENSION LIABILITY

	Target Allocation	Long-Term Expected Real Rate of Return	Weighted Average
Large Cap U.S. Equity	15%	5.61%	0.84%
Small Cap U.S. Equity	4%	6.37%	0.25%
Global Equity	6%	6.50%	0.39%
Developed International Equity	8%	6.96%	0.56%
Emerging Market Equity	4%	9.28%	0.37%
U.S. Core Fixed Income	19%	1.06%	0.20%
High Yield / Specialty	6%	3.65%	0.22%
Emerging Market Debt	4%	3.85%	0.15%
Core Real Estate	5%	4.37%	0.22%
Value-Added Real Estate	5%	6.00%	0.30%
Commodities	4%	3.76%	0.15%
Hedge Funds	10%	4.70%	0.47%
Private Equity	5%	8.70%	0.44%
Private Credit	5%	5.10%	0.26%
Total	**100%**		**7.82%***

** Includes inflation at 3.00%.*

Discount rate: The discount rate used to measure the total pension liability was 7.25% as of June 30, 2017 and 7.50% as of June 30, 2016. The projection of cash flows used to determine the discount rates assumed member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

For this purpose, only employee and employer contributions intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2017 and June 30, 2016.

The discount rate assumptions have been developed without taking into consideration any impact of the 50/50 allocation of future excess earnings between the retirement and Supplement Retiree Benefit Reserve (SRBR) asset pools.

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of KCERA as of June 30, 2017, calculated using the discount rate of 7.25%, as well as what KCERA's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.25%) or 1 percentage point higher (8.25%) than the current rate:

	1% Decrease (6.25%)	Current (7.25%)	1% Increase (8.25%)
Net Pension Liability as of June 30, 2017	$ 3,214,150,584	$ 2,363,975,142	$ 1,665,995,113

	1% Decrease (6.50%)	Current (7.50%)	1% Increase (8.50%)
Net Pension Liability as of June 30, 2016	$ 3,185,339,715	$ 2,413,639,356	$ 1,774,768,225

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS FOR LAST 10 FISCAL YEARS ENDED JUNE 30

(In thousands)

	2017	2016	2015	2014	2013
Total Pension Liability:					
Service Cost	$ 122,184	$ 123,181	$ 125,161	$ 125,118	$ 125,644
Interest	438,385	427,646	415,820	400,559	384,837
Change of Benefit Terms	-	-	5,036	-	-
Differences between Expected and Actual Experience	(109,368)	(105,053)	(89,306)	(57,034)	(49,064)
Changes of Assumptions	196,259	-	-	205,039	-
Benefit Payments, including Refunds	(305,817)	(288,738)	(273,865)	(257,495)	(242,630)
Net Change in Total Pension Liability	341,643	157,036	182,846	416,187	218,787
Total Pension Liability: Beginning of Year	5,985,227	5,828,191	5,645,345	5,229,159	5,010,372
Total Pension Liability: End of Year (a)	**6,326,870**	**5,985,227**	**5,828,191**	**5,645,346**	**5,229,159**
Plan Fiduciary Net Position:					
Contributions – Employer	224,351	234,713	215,477	220,393	211,677
Contributions – Employee	51,410	33,279	30,325	25,810	20,283
Net Investment Income	426,606	(27,535)	81,931	487,591	319,432
Benefit Payments, including Refunds	(305,817)	(288,738)	(273,864)	(257,495)	(242,630)
Administrative Expense	(5,243)	(5,224)	(4,887)	(4,958)	(4,016)
Miscellaneous	-	-	-	-	-
Net Change in Plan Fiduciary Net Position	391,307	(53,505)	48,982	471,341	304,746
Plan Fiduciary Net Position: Beginning of Year	3,571,587	3,625,093	3,576,112	3,104,770	2,800,024
Plan Fiduciary Net Position: End of Year (b)	**3,962,895**	**3,571,587**	**3,625,093**	**3,576,112**	**3,104,770**
Net Pension Liability: (a) - (b)	**$ 2,363,975**	**$ 2,413,639**	**$ 2,203,098**	**$ 2,069,234**	**$ 2,124,389**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	62.64%	59.67%	62.20%	63.35%	59.37%
Covered Employee Payroll*	$ 546,671	$ 537,540	$ 531,598	$ 533,851	$ 543,558
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	432.43%	449.02%	414.43%	387.61%	390.83%

The pension schedules in the required supplementary information are intended to show information for ten years. Data is provided only for those years for which information is available. Additional years' information will be displayed when it becomes available.

** "Covered employee payroll" represents compensation earnable and pensionable compensation. Only compensation earnable and pensionable compensation that would possibly go into the determination of retirement benefits are included.*

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as % of Covered Employee Payroll
2008	$ 137,264,000	$ 137,264,000	0	$ 482,879,000	28.43%
2009	$ 138,815,000	$ 138,815,000	0	$ 482,879,000	28.74%
2010	$ 151,127,000	$ 151,127,000	0	$ 559,872,000	26.99%
2011	$ 177,444,000	$ 177,444,000	0	$ 559,380,000	31.72%
2012	$ 189,837,000	$ 189,837,000	0	$ 526,079,162	36.09%
2013	$ 211,677,000	$ 211,677,000	0	$ 516,465,189	40.99%
2014	$ 220,393,000	$ 220,393,000	0	$ 533,850,811	41.28%
2015	$ 215,477,000	$ 215,477,000	0	$ 531,598,183	40.53%
2016	$ 216,229,000	$ 216,229,000	0	$ 537,539,991	40.23%
2017	$ 224,351,000	$ 224,351,000	0	$ 546,671,003	41.04%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Methods and assumptions used to establish actuarially determined contribution rates:

Valuation date: Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.

Actuarial cost method: Entry Age Actuarial Cost Method.

Amortization method: Level percent of payroll for total unfunded liability (assuming 3.625% increase).

Remaining amortization period: 18.5 years as of June 30, 2017 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 an 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 (except for a change due to retirement incentives, which is amortized over a declining period of up to 5 years).

Asset valuation method: Fair 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 fair value basis and are recognized semiannually over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION *(cont.)*

	June 30, 2017	June 30, 2016
Actuarial Assumptions:		
Investment rate of return	7.25%, net of investment expenses, including inflation	7.50%, net of investment expenses, including inflation
Inflation rate	3.00%	3.25%
Real across-the-board salary increase	0.50%	0.50%
*Projected salary increases**	General: 4.00% to 9.00% Safety: 4.00% to 12.50%	General: 4.25% to 9.25% Safety: 4.25% to 11.75%
Administrative expenses	0.90% of payroll allocated to both the employer and member based on the components of the total average contribution rate (before expenses) for the employer and member	0.90% of payroll allocated to both the employer and member based on the components of the total average contribution rate (before expenses) for the employer and member
Cost-of-living adjustments	2.5% (actual increases based on CPI increases with a 2.5% maximum)	2.5% (actual increases based on CPI increases with a 2.5% maximum)
Other assumptions	Same as those used in the June 30, 2017 funding actuarial valuation	Same as those used in the June 30, 2016 funding actuarial valuation

** For 2017, includes inflation at 3.00% plus real across-the-board salary increase of 0.50% plus merit and promotional increases. For 2016, includes inflation at 3.25% plus real across-the-board salary increase of 0.50% plus merit and promotional increases.*

SCHEDULE OF MONEY-WEIGHTED RATE OF RETURNS FOR LAST 10 FISCAL YEARS ENDED JUNE 30

	2017	2016	2015	2014	2013
Annual Money-Weighted Rate of Return*	12.0%	0.3%	3.0%	15.5%	10.8%

** Net of investment expenses.*

Data is provided only for those years for which information is available.

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Staffing:		
Salaries	$ 1,804,212	$ 1,630,998
Benefits	1,339,368	1,340,845
Temporary staff	16,380	16,731
Staffing Total	3,159,960	2,988,574
Staff Development	44,427	45,853
Professional Fees:		
Actuarial fees	51,964	53,672
Audit fees	51,000	45,045
Back file/microfiche conversion	-	109,031
Consultant fees	28,873	79,100
Legal fees	82,396	89,342
Professional Fees Total	214,233	376,190
Office Expenses:		
Building expenses	53,361	42,683
Communications	16,339	14,462
Equipment lease	13,011	13,506
Equipment maintenance	7,447	9,646
Memberships	8,012	8,974
Office supplies & misc. admin.	25,586	28,068
Payroll & accounts payable fees	6,010	5,885
Postage	38,798	20,435
Subscriptions	6,655	6,862
Utilities	41,422	37,569
Office Expenses Total	216,641	188,090
Insurance	128,124	107,055
Member Services:		
Benefit payment fees	43,791	54,538
Disability - legal fees	50,465	24,362
Disability - medical advisors	120,445	43,836
Disability - professional services	34,054	9,230
Member communications	37,050	24,364
Members Services Total	$ 285,805	$ 156,332

See accompanying independent auditors' report. *Schedule continued on next page.*

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016 *(cont.)*

	2017	2016
Systems:		
Audit - security & vulnerability scan	$ 9,800	$ 8,575
Business continuity expenses	10,437	69,499
Hardware	97,192	55,363
Licensing & support	247,290	363,462
Member self-serve portal	-	42,240
Software	72,014	29,975
Website design	1,560	-
Systems Total	438,293	569,113
Board of Retirement:		
Board compensation	9,203	14,598
Board conferences & training	24,827	27,512
Board elections	46,299	14,046
Board meetings	1,621	2,057
Board of Retirement Total	81,950	58,212
Depreciation / Amortization	673,792	735,032
Total Administrative Expenses	**$ 5,243,225**	**$ 5,224,452**

SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Investment Manager Fees:		
Equity	$ 5,587,224	$ 7,092,156
Fixed income	2,972,414	1,978,271
Commodities	1,241,604	729,346
Real estate	2,225,336	1,884,677
Private equity / Credit funds	2,187,500	2,243,330
Hedge funds	9,064,841	5,001,057
Total Investment Manager Fees	23,278,919	18,928,837
Other Investment Expenses:		
Custodian	327,627	347,819
Actuarial valuation	140,894	259,961
Investment consultants	761,855	745,000
Legal fees	28,675	91,574
Due diligence	36,001	14,626
Real estate	34,579	31,630
Total Other Investment Expenses	1,329,631	1,490,610
Total Fees and Other Investment Expenses	**24,608,550**	**20,419,447**
Securities Lending Rebates and Bank Fees	55,521	65,138
Total Investment Expenses	**$ 24,664,071**	**$ 20,484,585**

See accompanying independent auditors' report.

SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

		Commission / Fee	
Individual or Firm	**Nature of Service**	**2017**	**2016**
Cortex Applied Research, Inc.	Policy consultants	$ 20,641	$ 40,200
Segal Consulting	Actuarial services	51,964	53,672
Kern County Counsel	Legal counsel	56,747	25,009
Hanson Bridgett	Legal counsel	3,236	12,046
Nossaman LLP	Legal counsel	56,322	36,482
Ice Miller	Legal counsel	4,611	23,521
Reed Smith LLP	Legal counsel	11,945	14,145
Alliance Resources Consulting	Recruiting services	-	27,500
Upside Strategies	HR consultants	8,216	-
Ralph Anderson & Associates	Compensation study	-	11,400
CliftonLarsonAllen	External auditors	51,000	45,045
Agility Recovery Solutions	Disaster recovery	8,073	7,378
Aurora Systems Consulting	System audit	9,800	8,575
BMI Imaging Systems	Back filing	-	38,693
Fidelity National Tech. Imaging	Back filing	-	69,332
Total Payments to Consultants		**$ 282,555**	**$ 412,998**

These payments were made to outside consultants other than investment professionals.
A Schedule of Investment Fees is presented on pages 75-77 in the Investment Section.

See accompanying independent auditors' report.

INVESTMENT Section

This page intentionally left blank.

November 3, 2017

Mr. Dominic Brown
Acting Executive Director
Kern County Employees' Retirement Association
11125 River Run Boulevard
Bakersfield, CA 93311

Dear Mr. Brown,

Verus 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 fiscal year ending June 30, 2017.

Verus independently calculated the Fund's fiscal year performance results utilizing a time-weighted annualized rate of return methodology (modified Dietz method) with data on market valuations and transactions provided by the Fund's custodian bank, the Northern Trust Company. For the fiscal year ended June 30, 2017, KCERA's retirement fund had an investment gain of 12.2% (gross of fees) and 11.8% (net of fees) and ended the fiscal year with total assets of approximately $3.94 billion.

All KCERA's investments 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 July 2016.

Capital Markets Review

Developed and emerging economies around the world have exhibited synchronized growth for the first time during this recovery, which positively impacted the markets. Compared to economies around the globe, the U.S. economy is further along in its cycle, as the current expansion has continued for about eight years. Despite the length of the expansion, the U.S. economy continues to chug along. Headline unemployment is still improving and is currently at 4.2%, a low not seen since 2001. A broader measure of unemployment that captures underemployed and discouraged workers also improved to 8.3% compared to 9.7% from the prior year. Productivity is up as GDP grew 2.2% year-over-year compared to 1.2% for last year. Consumer sentiment remains positive as well, reflecting an overall upbeat view of the economy. The University of Michigan Consumer Sentiment Survey unexpectedly increased from 95.1 to 101.1 which is the highest level since 2004.

2321 Rosecrans Avenue, Suite 2250, El Segundo California 90245 310-297-1777 verusinvestments.com

Verus

Globally, interest rates are still at historic lows, and very little monetary tightening is priced in across developed markets over the forthcoming period. One reason why the markets may not be pricing in higher interest rates is that inflation in developed countries has yet to see much pressure outside the U.K. and remains below central bank targets.

Lower inflation has also helped emerging market economies by allowing central banks to pursue looser monetary policy. Monetary stimulus has the potential to provide a tailwind for future economic growth. Also helping performance in emerging markets is the recent reversal in currency trends.

Equity markets have responded positively to the condition of synchronized global growth. Equities measured by the U.S. broad market Russell 3000 provided an 8.9% return over the year ending June 30. Over the same period, international equities of developed nations, measured by the MSCI EAFE Index, returned 20.3%, and emerging markets increased as well, as the MSCI EM index rose 23.7%. Real Estate's solid performance continued with the NCREIF-ODCE index advancing 7.9% for the fiscal year. On the other hand, U.S. fixed income was down -0.3% over the period as represented by the Barclay's U.S. Aggregate, as interest rates have moved up gradually.

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	Year-End Allocation*
Domestic Equity	19%	18.6%
International Equity	18%	20.3%
Fixed Income	29%	38.2%
Real Estate	10%	5.4%
Hedge Funds	10%	8.8%
Private Equity	5%	3.5%
Private Credit	5%	0.8%
Commodities	4%	4.0%
Opportunistic	0%	0.6%
Cash	0%	0.4%

**May not sum to 100% due to rounding*

The overweight to fixed income at the end of the fiscal year is due to use of the asset class as a holding place for scheduled investments in private credit and real estate.

Verus

Investment Performance

The total fund's investment performance beat the actuarial assumed rate of return for the fiscal year as risk markets rose. Investment highlights for the fiscal year include:

- KCERA's total fund returned 12.2% for the fiscal year, versus the policy benchmark return of 10.0%. Strong contributions relative to the policy came from the Plan's domestic equities, fixed income, and commodities allocations.

- KCERA's Domestic Equity composite return of 19.4% outperformed the benchmark Russell 3000 Index that returned 18.5% during the period.

- The International Equity allocation returned 21.2% for the fiscal year, slightly outperforming the benchmark return of 21.0% over the same period.

- KCERA's Fixed Income composite, which includes a broad selection of domestic and international bonds, returned 4.6% and outperformed the Barclays Aggregate Bond Index by 490 basis points. Allocations to emerging market debt and high yield fixed income contributed to relative performance.

- The Plan's Real Estate allocation includes two open-end funds that invest in mostly income generating core properties, and three closed-end funds invested in value-added strategies. Overall, the real estate portfolio returned 6.3% for the year, underperforming the benchmark return of 7.9%.

- The direct hedge fund portfolio delivered a return of 8.0% just slightly underperforming its custom benchmark, which returned 8.1%.

As always, Verus greatly 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, CFA
Executive Managing Director

POLICIES ADOPTED BY THE BOARD OF RETIREMENT ON MARCH 9, 2016

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 Government Code Sections 31594 and 31595, which provide a standard of care commonly known as the "prudent expert rule," a rule that 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 investment consultants. 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; four members are elected by active and retired members of KCERA; and the County Treasurer-Tax Collector is a statutory member of the Board.

Summary of Investment Guidelines

The Board of Retirement has adopted an Investment Policy Statement to serve as the framework for investment policy making and investment objective setting within the context of applicable California laws. The Statement establishes investment 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 is outlined below:

- 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 the KCERA Proxy Voting Policy for dealing with proxies. 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 ensure 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 also in view of the costs of such transactions.

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 compliance at regular intervals. KCERA's investment consultant and investment staff participate in policy formulation and new manager searches, as well as in the termination of existing managers failing to perform or maintain compliance with their investment mandates.

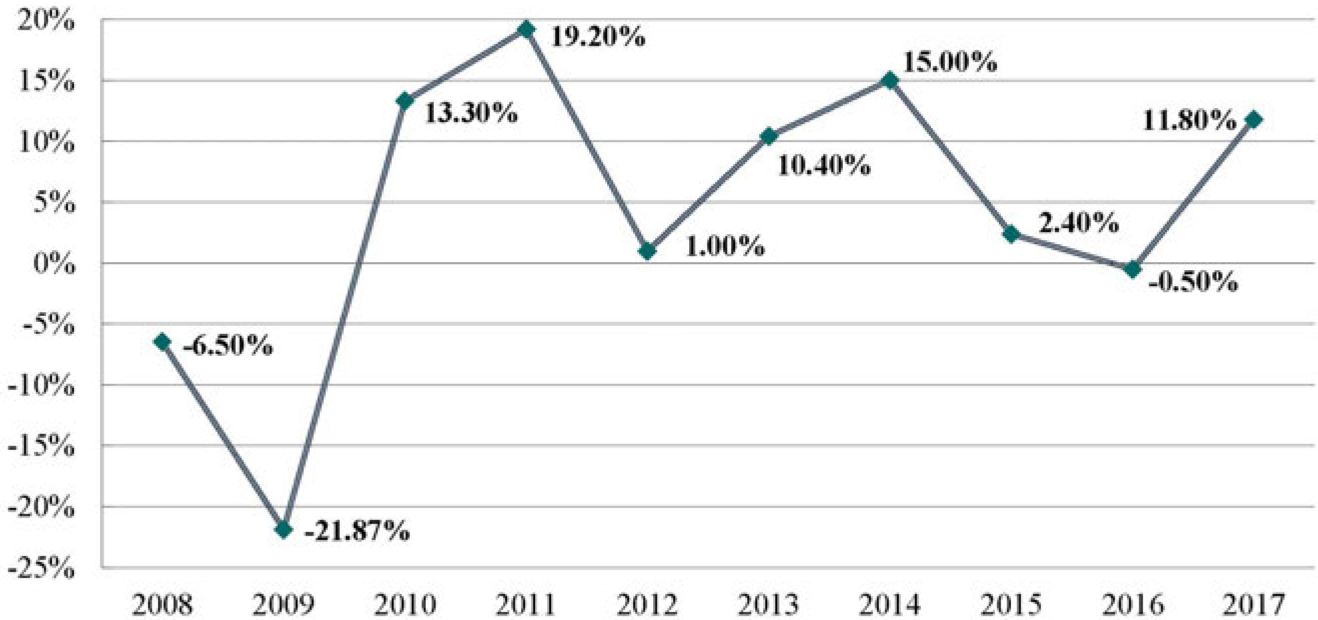
The Board of Retirement adopted the current asset allocation policy in July 2016. KCERA's strategic target asset allocation and actual asset allocation as of June 30, 2017 are as follows:

			Target Ranges	
Asset Class	**Actual**	**Target**	**Minimum**	**Maximum**
Domestic Equity	18.5%	19.0%	10.0%	30.0%
International / Global Equity	20.2%	18.0%	10.0%	30.0%
Global Fixed Income	38.1%	29.0%	19.0%	39.0%
Real Estate	5.8%	10.0%	3.0%	15.0%
Private Equity	3.4%	5.0%	0.0%	10.0%
Hedge Funds	8.8%	10.0%	0.0%	15.0%
Commodities	3.9%	4.0%	0.0%	8.0%
Private Credit	0.8%	5.0%	0.0%	8.0%
Cash and Equivalents	0.5%	0.0%	0.0%	5.0%
Total	**100.0%**	**100.0%**		

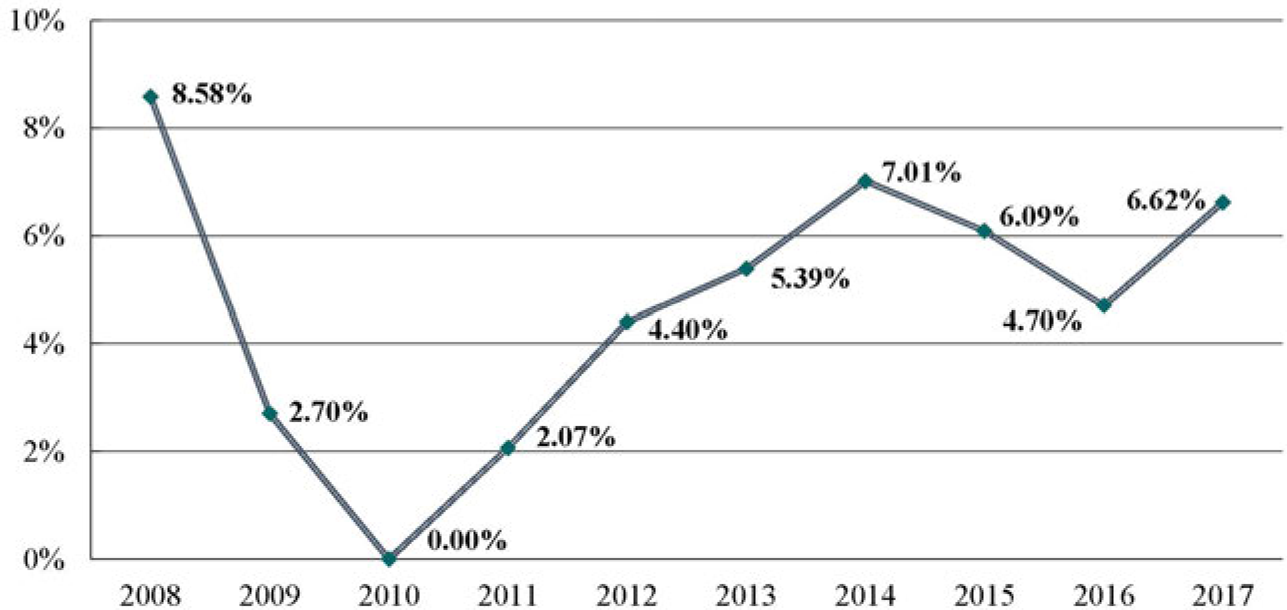
Year Ended June 30, 2017

Type of Investment	Fair Value (In thousands)	% of Total Fair Value
Domestic Equities:		
All Cap Passive	$ 101,531	2.56
Large Cap Enhanced	458,160	11.57
Large Cap	-	0.00
Small Cap Growth	78,783	1.99
Small Cap Value	93,747	2.37
Total Domestic Equities	732,221	18.49
International / Global Equities:		
Large Cap	283,351	7.16
Global	203,247	5.13
Small Cap	143,749	3.63
Emerging Markets	170,222	4.30
Total International Equities	800,569	20.22
Fixed Income:		
Core	646,699	16.33
Core Plus	399,476	10.09
Structured Debt	90,744	2.29
High Yield	199,355	5.04
Emerging Markets	170,967	4.32
Total Fixed Income	1,507,241	38.07
Real Estate:		
Core	164,939	4.17
Value Added	57,812	1.46
Real Estate Private Equity	2,181	0.06
Property	4,490	0.11
Total Real Estate	229,422	5.80
Alternative Investments:		
Private Credit	32,206	0.81
Private Equities	133,374	3.37
Hedge Funds	348,133	8.79
Commodities	155,853	3.94
Total Alternative Investments	669,566	16.91
Cash & Cash Equivalents	19,886	0.50
Assets in Liquidation	291	0.01
Total Investments	**$ 3,959,196**	**100.00**
KCERA Capital Assets	3,873	
KCERA Receivables / Payables	(174)	
Fiduciary Net Position	**$ 3,962,895**	

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



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 (i.e., 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.

RETURNS FOR PERIODS ENDED JUNE 30

	Current Year	Annualized 3-Year	Annualized 5-Year	Annualized 10-Year
Total Fund:	11.8	4.4	7.7	3.7
Benchmark: Policy Index*	10.0	3.8	6.9	4.7
Domestic Equity:	18.9	9.7	14.7	7.2
Benchmark: Russell 3000	18.5	9.1	14.6	7.3
International Equity:	20.5	2.3	9.1	1.8
Benchmark: MSCI ACWI ex-US	21.0	1.3	7.7	1.6
Global Fixed Income:	4.3	2.4	2.9	4.8
Benchmark: Barclays US Aggregate	-0.3	2.5	2.2	4.5
Real Estate:	5.7	12.2	11.2	N/A
Benchmark: NCREIF-ODCE	7.9	11.3	11.8	N/A
Hedge Funds / Alternative Investments:	7.1	2.3	5.0	2.3
Benchmark: Policy Index**	8.1	4.6	6.0	4.7
Private Equity:	14.1	8.4	10.0	7.1
Benchmark: Russell 3000 + 300 bps	21.6	13.0	16.5	10.8
Private Credit:	7.5	N/A	N/A	N/A
BoA ML High Yield Master II + 2%	15.0	N/A	N/A	N/A
Commodities:	3.8	-12.5	N/A	N/A
Benchmark: Bloomberg Comm. Index	-6.5	-14.8	N/A	N/A

* Total Fund: 19% Russell 3000
18% MSCI ACWI ex-U.S.
29% Barclays US Aggregate
10% NCREIF Property
4% Bloomberg Commodities
10% 91-Day T-Bills + 400 bps
5% Russell 3000 + 300 bps
5% Barclays High Yield + 200 bps

** Hedge Fund: 75% 90-Day T-Bills + 400 bps
25% MSCI ACWI

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

As of June 30, 2017

CONSULTANTS

Verus Investments
Albourne America LLC

CUSTODIAN

The Northern Trust Company

THIRD-PARTY SECURITIES LENDING

Deutsche Bank

INVESTMENT MANAGERS

Domestic Equity

Alliance Bernstein Trust Company
Henderson Geneva Capital Management
Mellon Capital Management Corporation
Pacific Investment Management Company

International / Global Equity

Alliance Bernstein Trust Company
BlackRock Institutional Trust Company
Dimensional Fund Advisors, L.P.
Dodge & Cox Funds
Fidelity Institutional Asset Management
Sustainable Growth Advisors

Real Estate

ASB Real Estate Investors
Invesco Real Estate
J. P. Morgan Chase Bank
Long Wharf Real Estate Partners, LLC

Private Credit

Colony Capital

INVESTMENT MANAGERS *(cont.)*

Private Equity

Abbott Capital Management, LLC
Pantheon Ventures, Inc.

Global Fixed Income

Gramercy Funds Management LLC
Mellon Capital Management Corporation
Pacific Investment Management Company
Stone Harbor Investment Partners
TCW
Western Asset Management Company

Hedge Funds

Aristeia International Limited
Black Diamond / Carlson Capital GP
Brevan Howard Asset Management LLP
Cevian Capital L.P.
D. E. Shaw & Co.
HBK Capital Management
Indus Capital Partners, LLC
Magnetar Capital LLC
MentaGlobal Offshore Limited
MKP Capital Management, LLC
Myriad Asset Management Limited
Och-Ziff Capital Management Group LLC
River Birch International, Ltd.
Systematica BlueTrend Fund Limited
York Capital Management

Commodities

Gresham Investment Management LLC
Pacific Investment Management Co., LLC
Wellington Trust Company

As of June 30, 2017

LARGEST STOCK DIRECT HOLDINGS (FAIR VALUE)

Shares	Stocks	Fair Value ($)
562,000	AIA Group Ltd.	4,107,129
43,535	Visa Inc.	4,082,712
38,718	SAP SE	4,052,613
113,264	Tencent Holdings Ltd.	4,050,921
86,837	Novo-Nordisk	3,713,898
7,117	Regeneron Pharmaceuticals Inc.	3,495,443
3,835	Alphabet Inc.	3,484,980
55,320	Nike Inc.	3,263,880
30,147	KS Cy Southn	3,154,884
40,320	Lowes Cos Inc.	3,126,010

LARGEST BOND DIRECT HOLDINGS (FAIR VALUE)

Par	Bonds	Fair Value ($)
23,390,000	U.S. Treasury 3.75% due 11-15-2043	27,495,132
24,100,000	FNMA Single Family 3.5% 30 Yrs	24,673,580
15,900,000	FNMA Single Family 4% 30 Yrs	16,686,621
12,820,000	U.S. Treasury 1.875% due 03-31-2022	12,827,513
12,500,000	FNMA Single Family 3.5% 30 Yrs	12,816,788
9,000,000	U.S. Treasury 2% due 11-15-2026	8,775,702
8,500,000	U.S. Treasury 2.25% due 07-31-2021	8,661,696
8,900,000	U.S. Treasury 1.5% due 08-15-2026	8,326,021
5,800,000	FNMA Single Family 4.5% 30 Yrs	6,213,818
5,510,000	U.S. Treasury 2.375% due 05-15-2027	5,544,867

A complete list of portfolio holdings is available upon request.

Years Ended June 30, 2017 and 2016

(In thousands)

Asset Classes	2017	2016
Domestic Equity	$ 788,828	$ 957,087
International / Global Equity	737,122	727,075
Fixed Income	1,575,718	1,079,210
Real Estate	229,250	185,273
Hedge Funds	348,133	325,654
Private Credit	133,374	156,603
Private Equity	32,206	21,527
Commodities	155,853	135,433
Investments at Fair Value	**4,000,484**	**3,587,862**
Cash & Short-Term Investments	84,238	73,532
Investments Sold / Purchased	(132,693)	(99,872)
Investment Income & Other Liabilities	7,099	4,955
Total Assets Under Management	**3,959,128**	**3,566,477**
KCERA Capital Assets	3,873	4,479
KCERA Prepaid Expenses	68	35
KCERA Accruals	(174)	596
Fiduciary Net Position	**$ 3,962,895**	**$ 3,571,587**

Years Ended June 30, 2017 and 2016

Investment Manager Fees	2017	2016
Domestic Equity Managers:		
Alliance Bernstein	$ 753,848	$ 570,758
Columbia Management	-	4,467
Henderson Geneva Capital Management	535,708	440,153
Mellon Capital Mgmt (Dynamic U.S. Equity)	905,348	761,553
Mellon Capital Mgmt (U.S. Equity)	51,189	42,017
PIMCO	463,869	-
PanAgora Asset Management	121,010	96,816
Sustainable Growth Advisors	80,017	-
T. Rowe Price Associates	281,006	470,708
Total Domestic Equity Managers	3,191,995	2,386,472
International Equity Managers:		
BlackRock Institutional Trust Company	251,742	1,831,497
Dodge & Cox Funds	106,334	-
JP Morgan Investment Management	123,342	407,888
Pyramis Global Advisors (Large Cap)	463,770	385,687
Pyramis Global Advisors (Small Cap)	752,467	1,171,828
Total International Equity Managers	1,697,655	3,796,900
Emerging Markets Managers:		
Alliance Bernstein	426,732	-
Dimensional Fund Advisors	270,842	234,937
Vontobel Asset Management	-	673,847
Total Emerging Markets Managers	697,574	908,784
High Yield Managers:		
Neuberger Berman Fixed Income	-	14,077
Western Asset Management	362,282	283,258
Total High Yield Managers	362,282	297,335
Global Fixed Income Managers:		
Gramercy Funds Management	553,667	492,474
Mellon Capital Mgmt (Fixed Income)	80,059	44,367
Mellon Capital Mgmt (TIPS)	-	7,435
PIMCO	361,621	(25,997)
Stone Harbor Global Funds	435,369	394,931
TCW Securitized Opportunities	668,464	275,202
Western Asset Management	510,952	492,524
Total Global Fixed Income Managers	2,610,132	1,680,936
Commodities Managers:		
BlackRock Institutional Trust Company	-	94,143
Gresham Investment Management	237,746	233,947
PIMCO	860,590	143,866
Wellington Trust Company	143,268	257,390
Total Commodities Managers	1,241,604	729,346

(Schedule of Investment Fees continued on next page)

Years Ended June 30, 2017 and 2016

Investment Manager Fees	2017	2016
Real Estate Managers:		
ASB Capital Management	$ 533,201	$ 503,879
Long Wharf Real Estate Partners Fund III	192,719	315,828
Invesco Real Estate Fund III	412,172	430,638
Invesco Real Estate US Value-Add Fund IV	323,741	229,635
JPMCB Strategic Property Fund	763,503	376,210
LaSalle Investment Mgmt Domestic REITs	-	28,487
Total Real Estate Managers	2,225,336	1,884,677
Hedge Fund Managers:		
Amici Qualified Associates	-	300,000
Aristeia International Ltd	178,071	147,455
Black Diamond Relative Value Partners	327,048	320,177
BlueTrend Fund	346,522	393,103
Brevan Howard Multi-Strategy Fund	856,786	350,581
Cevian Capital II SP	520,415	301,347
D.E. Shaw Composite Fund	845,780	874,663
HBK Multi-Strategy Fund	402,760	378,769
Indus Pacific Opportunities Fund	1,054,648	(58,623)
Magnetar Structured Credit Fund	633,332	595,918
MentaGlobal Offshore Ltd	357,164	291,359
MKP Opportunity Offshore Ltd	420,359	290,633
Myriad Opportunities Offshore Fund	1,165,066	212,764
OZ Domestic Partners II	1,316,827	1,273
River Birch International Ltd	318,243	265,672
York Capital Management	321,820	335,966
Total Hedge Fund Managers	9,064,841	5,001,057
Private Equity Managers:		
Abbott Capital Mgmt Fund IV	-	142,570
Abbott Capital Mgmt Fund V	321,816	357,576
Abbott Capital Mgmt Fund VI	384,752	427,500
Pantheon Ventures, Inc. V	80,742	158,364
Pantheon Ventures, Inc. VI	174,380	194,512
Pantheon Ventures, Inc. VII	354,863	375,000
Pantheon Ventures, Inc. SEC Fund III	344,933	383,438
Total Private Equity Managers	1,661,486	2,038,960
Private Credit Managers:		
Colony Capital Credit IV, LLC	526,014	204,370
Total Private Credit Managers	526,014	204,370
Total Investment Managers' Fees	**$ 23,278,919**	**$ 18,928,837**

Commissions per share are not readily available to be reported separately.

(Schedule of Investment Fees continued on next page)

Years Ended June 30, 2017 and 2016

Other Investment Expenses	2017	2016
Custodial Fees		
The Northern Trust Company	$ 327,627	$ 347,819
Actuarial Fees		
Milliman	-	82,500
Segal Consulting	140,894	177,461
Investment Consultant Fees		
Albourne America LLC	416,855	400,000
Glass, Lewis & Co.	15,000	15,000
Verus	330,000	330,000
Legal Fees		
Foley & Lardner LLP	1,830	63,116
Hansen Bridgett LLP	15,900	28,458
Nossaman LLP	10,945	-
Due Diligence Travel Expenses		
Trustees / KCERA Management	36,001	14,625
Security Lending Fees		
Deutsche Bank	55,521	65,138
Real Estate Expenses		
KCERA Property Inc.	34,579	31,630
Total Other Investment Expenses	**1,385,152**	**1,555,748**
Total Investment Fees & Services	**$ 24,664,071**	**$ 20,484,585**

This page intentionally left blank.

ACTUARIAL Section

This page intentionally left blank.

Segal Consulting

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

November 9, 2017

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

Re: Kern County Employees' Retirement Association
June 30, 2016 Actuarial Valuation for Funding Purposes

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2016 annual 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 and KCERA's funding policy that was last reviewed with the Board in 2012. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

As part of the June 30, 2016 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. 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 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).

The UAAL as of June 30, 2011 is amortized as a level percentage of payroll over a 19.5-year period as of June 30, 2016. 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

Board of Retirement
Kern County Employees' Retirement Association
November 9, 2017
Page 2

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, 2016 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. Unless otherwise stated, the schedules were prepared based on the results of the actuarial valuation as of June 30, 2016 for funding purposes. The notes to the financial section and Required Supplementary Information were prepared by the Association based on the results of the Govermental Accounting Standards (GAS) 67 actuarial valuation as of June 30, 2017 prepared by Segal.

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 valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the June 30, 2013 Actuarial Experience Study and Review of Economic Actuarial Assumptions.

As we disclosed in our June 30, 2016 funding valuation report, the 7.50% investment return assumption that the Board approved for determining the liabilities for funding purposes and used for establishing the employer and employee contribution rates was developed without considering the impact of any future 50/50 excess earnings allocation. This is based on our understanding that Article 5.5 of the Statute, which authorizes the allocation of 50% of excess earnings to the SRBR, does not allow for the use of a different investment return for funding than is used for interest crediting. This would appear in effect to preclude the prefunding of the SRBR through the use of an assumption lower than the market earnings assumption of 7.50%.

As indicated by the guidance found in Actuarial Standard of Practice (ASOP) No. 4 ("Measuring Pension Obligations and Determining Pension Plan Costs or Contributions"), we performed stochastic modeling in 2015 to estimate the impact of the 50% allocation of future excess earnings to the SRBR. The results of our model indicated that the 50/50 allocation of future excess earnings would have about the same impact as an "outflow" (i.e., assets not available to fund the benefits included in the funding valuation) that would average approximately 0.3% of assets over time. **For informational purposes only,** when we applied the results of our stochastic model to this valuation, we estimated that such an annual outflow would increase the AAL measured in this valuation using a 7.50% investment return assumption from $5.81 billion

5507935v1/13452.002

Board of Retirement
Kern County Employees' Retirement Association
November 9, 2017
Page 3

to $6.02 billion (for a difference of $210 million) and would increase the employer's contribution rate by about 3.9% of payroll.

It is our opinion that the assumptions used in the June 30, 2016 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 was last performed as of June 30, 2016 with those assumptions first being implemented in the June 30, 2017 actuarial valuation.

In the June 30, 2016 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) increased from 62.4% to 63.4%. The aggregate employer contribution rate has decreased from 45.11% of payroll to 44.78% of payroll, while the aggregate employee rate has increased from 6.01% of payroll to 6.22% of payroll.

Under the asset smoothing method, the total unrecognized investment losses are $235 million as of June 30, 2016. 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 $235 million represent about 7% of the market value of assets as of June 30, 2016. Unless offset by future investment gains or other favorable experience, the recognition of the $235 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 63.4% to 59.4%.

- If the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate would increase from 44.78% to 48.21% of payroll.

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

Sincerely,

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

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

MYM/bbf
Enclosures

5507935v1/13452.002

The methods and assumptions below were selected by the actuary as being appropriate for the Plan and were used in the latest actuarial valuation dated June 30, 2016. The most recently updated Summary of Actuarial Assumptions and Methods was adopted by the Board of Retirement on December 10, 2014.

Economic Assumptions

Interest Rate of Return:	7.50% per year, net of investment expenses
Salary Increases:	General: 4.25% to 9.25%. Safety: 4.25% to 11.75% (see Table 1 on page 86).
Inflation Assumption:	3.25% per year
Cost-of-Living Adjustments:	2.50% (actual increases depend on CPI increases; 2.50% maximum)

Actuarial Methods

Funding Method:	Entry Age Funding Method. Costs are 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 are 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 difference between the AAL and the actuarial value of the assets is the Unfunded Actuarial Accrued Liability (UAAL). As of June 30, 2016, the remaining amortization period for all UAAL as of June 30, 2011 was 19.5 years. 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).

Actuarial Methods (cont.)

Amortization Period (cont.): Beginning July 1, 2009, any liability attributable to golden handshakes is paid by one of two methods, as elected by the employer:

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

2. According to a 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 projected with Scale BB to 2023, set forward one year for male and female General members and set back one year for male and female Safety members.

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

C) Disability Retirement: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2023, set forward eight years for male and female General members and set forward four years for male and female Safety members.

Proportion of Members with Spouse/Partner at Retirement: 75% of male active members and 55% of female active employees are assumed to have a spouse or registered domestic partner eligible for the 60% continuance at retirement. Females are assumed to be three years younger than their spouses.

Rate of Termination of Employment: Rates vary by years of service, as shown in Table 2 on page 87.

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.

Years of Service	General Members	Safety Members
0	5.50%	8.00%
1	4.00%	6.50%
2	3.50%	5.50%
3	3.00%	4.00%
4	2.25%	3.50%
5	2.00%	3.25%
6	1.75%	3.00%
7	1.50%	2.50%
8	1.25%	1.75%
9	1.00%	1.50%
10	0.90%	1.25%
11	0.80%	1.00%
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%

The chart above depicts annual increases in salary before wage inflation. Inflation is 3.25% per year, plus "across-the-board" salary increases of 0.50% per year, plus the promotional and merit increases listed above.

(Rates in percentages)

Age Nearest	Ordinary Death	Disability*	Service Retirement		
General Members - Male			*Tier I*	*Tier II*	*Tier III*
25	0.04	0.03	0.00	0.00	0.00
30	0.05	0.05	0.00	0.00	0.00
40	0.11	0.14	0.00	0.00	0.00
50	0.23	0.28	6.00	3.00	0.00
60	0.64	0.38	23.00	13.50	13.50
General Members - Female			*Tier I*	*Tier II*	*Tier III*
25	0.02	0.03	0.00	0.00	0.00
30	0.03	0.05	0.00	0.00	0.00
40	0.07	0.14	0.00	0.00	0.00
50	0.17	0.28	6.00	3.00	0.00
60	0.45	0.38	23.00	13.50	13.50
Safety Members - Male			*Tier I*	*Tier II*	
25	0.04	0.08	0.00	0.00	
30	0.04	0.16	0.00	0.00	
40	0.10	0.50	0.00	0.00	
50	0.19	1.35	20.00	6.00	
60	0.52	3.60	20.00	20.00	
Safety Members - Female			*Tier I*	*Tier II*	
25	0.02	0.08	0.00	0.00	
30	0.02	0.16	0.00	0.00	
40	0.06	0.50	0.00	0.00	
50	0.14	1.35	20.00	6.00	
60	0.36	3.60	20.00	20.00	

(Rates in percentages)

Years of Service	Withdrawal	
	General	**Safety**
0	18.00	8.00
5	6.00	2.60
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

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

Valuation Date	Plan Type	Members	Annual Payroll	Annual Average Pay	Increase in Average Pay
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%**
06/30/13	General	6,619	$ 410,905,480	$ 62,080	-0.7%
	Safety	1,866	$ 144,847,330	$ 77,625	-0.7%
	Total	**8,485**	**$ 555,752,810**	**$ 65,498**	**-0.6%**
06/30/14	General	6,629	$ 410,350,884	$ 61,902	-0.3%
	Safety	1,883	$ 145,284,147	$ 77,156	-0.6%
	Total	**8,512**	**$ 555,635,031**	**$ 65,277**	**-0.3%**
06/30/15	General	6,637	$ 411,427,313	$ 61,990	0.1%
	Safety	1,844	$ 145,396,935	$ 78,849	2.2%
	Total	**8,481**	**$ 556,824,248**	**$ 65,655**	**0.6%**
06/30/16	General	6,788	$ 421,043,714	$ 62,028	0.1%
	Safety	1,839	$ 146,217,425	$ 79,509	0.8%
	Total	**8,627**	**$ 567,261,139**	**$ 65,754**	**0.2%**

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

*** Annual payroll data as of June 30, 2009 includes supplemental pay items with pensionable salary.*

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	$139,133,419	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
2013	6,890	468	187	7,171	$22,305,618	$3,825,313	$244,822,020	8.2%	$34,141
2014	7,171	442	216	7,397	$19,663,621	$4,173,211	$260,312,430	3.1%	$35,192
2015	7,397	440	238	7,599	$20,734,025	$5,817,539	$275,229,096	5.7%	$36,219
2016	7,599	454	206	7,847	$20,236,339	$5,034,075	$290,431,360	5.5%	$37,012

** Excludes SRBR amounts*

(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	$ 215,282	$ 1,773,556	$ 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%
06/30/13	$ 244,832	$ 3,153,966	$ 1,709,821	$ 5,108,619	$ 3,120,632	100%	91%	0%
06/30/14	$ 268,826	$ 3,446,962	$ 1,776,652	$ 5,492,440	$ 3,342,122	100%	89%	0%
06/30/15	$ 295,447	$ 3,607,511	$ 1,754,215	$ 5,657,173	$ 3,529,786	100%	90%	0%
06/30/16	$320,400	$ 3,766,875	$ 1,725,817	$ 5,813,092	$ 3,685,447	100%	89%	0%

(In thousands)

	Gain (or Loss) for Year – UAAL		
	June 30, 2016	**June 30, 2015**	**June 30, 2014**
Investment Performance Greater (Less) than Expected	$ (87,833)	$ (34,742)	$ (14,593)
Salary Increase (Greater) Less than Expected	50,037	55,020	68,432
Other Experience Including Demographic Changes	39,692	9,908	5,151
Change in Assumptions/Methodology	-	-	(204,469)
Composite Gain (or Loss) During Year	**$ 1,896**	**$ 30,186**	**$ (145,479)**

SCHEDULE OF FUNDING PROGRESS*

(Dollars 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)
06/30/16	$ 3,685,447	$ 5,813,092	$ 2,127,645	63.4%	$ 567,261	375.1%
06/30/15	$ 3,529,786	$ 5,657,173	$ 2,127,387	62.4%	$ 556,824	382.1%
06/30/14	$ 3,342,122	$ 5,492,440	$ 2,150,318	60.8%	$ 555,634	387.0%
06/30/13	$ 3,120,632	$ 5,108,619	$ 1,987,987	61.1%	$ 555,752	357.7%
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	$ 765,937	77.2%	$ 453,412	168.9%

** Net of SRBR and $5,000 death benefits*

SCHEDULE OF EMPLOYER CONTRIBUTIONS

(Dollars in thousands)

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2016	$ 234,714	100%
2015	$ 215,477	100%
2014	$ 220,393	100%
2013	$ 211,677	100%
2012	$ 189,837	100%
2011	$ 177,444	100%
2010	$ 151,127	100%
2009	$ 138,815	100%
2008	$ 137,264	100%
2007	$ 128,135	100%

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, including Sections 31676.01, 31676.14, 31676.17, 31664, 31664.1 and 7522.20(a), 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 biweekly payroll period following the date of employment.

All safety and general members hired by the County of Kern or a special district on or after January 1, 2013 are subject to the "new member" provisions found in Code Section 7522.20(a) of the Public Employees Pension Reform Act of 2013 (PEPRA).

Final Average Salary

For non-PEPRA benefit tiers, "final average salary" is the highest 12 consecutive months of pensionable pay, including base salary and other pay elements includible as a result of the "Ventura" decision. "Pensionable compensation" for members subject to PEPRA is the highest 36 consecutive months of pensionable pay, including base salary and eligible special pay items defined in PEPRA.

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 pensionable special pays, with the contribution rate being determined by the member's entry age into KCERA, 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.

General and safety members subject to PEPRA provisions will pay 100% of their contributions until retirement. Their contribution rates will be 50% of the actuarially determined Normal Cost rate for each membership group. All other KCERA members will contribute based on their entry age or a flat average rate (i.e., for certain safety bargaining units).

Per IRS Code Section 414(h)(2), member contributions made through payroll deductions are pretax. Interest is credited to contribution balances 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.

Compensation Limit

For members who joined KCERA on or after July 1, 1996 but before January 1, 2013, "compensation earnable" is limited by IRC Section 401(a)(17) and indexed annually for inflation. "Pensionable compensation" for General Tier III members enrolled in Social Security is capped at the Social Security limit and indexed annually for inflation.

Service Retirement Benefits

General members with at least 10 years of retirement service credit who are age 50 or older, have 30 years of service credit regardless of age, or are age 70 regardless of service credit are eligible for service retirement.

Service Retirement Benefits *(cont.)*
General Tier I provides 3.0% of final compensation for each year of service at age 60, multiplied by Government Code Section 31676.17 factors. General Tier II provides 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.

General Tier II applies to most general members hired by the County of Kern and Kern County Hospital Authority on or after October 27, 2007, or hired by the following special districts: Berrenda Mesa Water District on or after January 12, 2010; Buttonwillow Recreation and Park District and East Kern Cemetery District on or after December 17, 2012; Inyokern Community Services District on or after December 13, 2012; Kern County Water Agency on or after January 1, 2010; Kern Mosquito and Vector Control District on or after December 12, 2012; North of the River Sanitation District on or after October 29, 2007; San Joaquin Valley Air Pollution Control District on or after July 31, 2012; Shafter Recreation and Park District on or after December 19, 2012; West Side Cemetery District on or after December 18, 2012; West Side Mosquito and Vector Control District on or after November 15, 2012; and Kern County Superior Court on or after March 12, 2011.

General members hired by the West Side Recreation and Park District on or after January 1, 2013 are General Tier III members. Their benefit formula is 2.5% at age 67. They are eligible to retire at age 52 with 5 years of retirement service credit.

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 provides 3.0% of final compensation for each year of service at age 50, multiplied by Government Code Section 31664.1 factors. Safety Tier II provides 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. This benefit provides between 20% to 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. This benefit provides 50% of the member’s final average monthly compensation, tax-free, for life.

Death Benefit (Before Retirement)
A non-vested active member’s beneficiary is entitled to receive the Basic Death Benefit, which consists of accumulated contributions plus interest and one month of salary for each full year of service, up to six months of salary.

The beneficiary (i.e., eligible spouse or registered domestic partner) of a vested active member who does *not* die in the performance of duty is entitled to either the Basic Death Benefit or a monthly benefit equal to 60% of the benefit payable if the member had retired with a nonservice-connected disability on his or her date of death. This also applies to minor children if there is no eligible spouse or partner.

If a member dies in the performance of duty, the eligible spouse, partner or minor children receives 50% of the member’s final average salary.

Death Benefit (After Retirement)
A death benefit of $5,000 is payable to the designated beneficiary or estate of a retiree after the member dies.

Death Benefit (After Retirement) ***(cont.)***
If a member retired for service or with a nonservice-connected disability and he or she chose the Unmodified Option, the eligible surviving spouse, registered domestic partner or minor children will receive a benefit equal to 60% of the member's retirement benefit. If the retirement was for a service-connected disability, the member's spouse, registered domestic partner or minor children will receive a 100% continuance of the benefit.

Supplemental Retirement Benefits (SRBR)
The Board of Retirement adopted California Government Code Section 31618 on April 23, 1984, which provided for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). The SRBR may be used only for the benefit of retired members and their beneficiaries. The distribution of the SRBR shall be determined by the Board of Retirement. SRBR-approved benefits include all Tier 1, Tier 2, Tier 3 and death benefits approved through the June 30, 2016 Actuarial Valuation.

Post-Retirement Cost-of-Living Benefits
Each April 1, retiree benefits are adjusted by the percentage change in the Consumer Price Index for the preceding calendar year (capped at 2.5%).

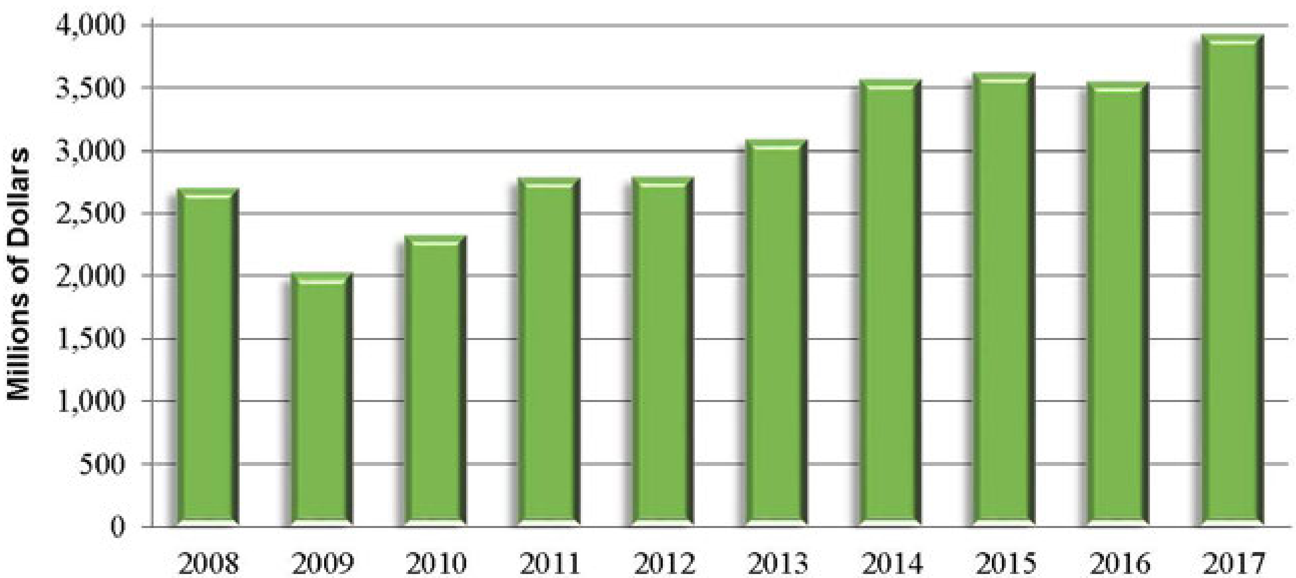
Eligibility	Tier 1:	Hired on or before July 1, 1994.
	Tier 2:	Pensioners with at least five years of credited service and who retired prior to 1981 or 1985 (and their surviving beneficiaries) whose benefits have reduced by 20% in purchasing power since retirement.
	Tier 3:	Pensioners and their surviving beneficiaries whose benefits have reduced by 20% in purchasing power since retirement.
Benefits	Tier 1:	$35.50 per month, 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 $5,000 to a retired 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.

STATISTICAL
Section

This page intentionally left blank.

The Statistical Section offers additional historical perspective and detail to provide a fuller understanding of this year's financial statements, note disclosures and supplementary information. This section also provides 10-year trending of financial and operating information to supply a more comprehensive perspective on 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
FOR THE FISCAL YEARS ENDED JUNE 30



Fiscal Years 2008 – 2017

(In thousands)

	2008	2009	2010	2011	2012
Additions					
Employer Contributions	$ 137,264	$ 138,815	$ 151,127	$ 177,444	$ 189,837
Member Contributions	15,031	18,191	17,877	18,271	18,720
Net Investment Income (Loss)	(201,562)	(677,336)	291,333	503,553	21,150
Total Additions	**(49,267)**	**(520,330)**	**460,337**	**699,268**	**229,707**
Deductions					
Total Benefit Expenses*	148,561	162,489	180,366	201,013	222,140
Administrative Expenses	3,341	3,072	3,207	3,763	3,469
Miscellaneous	-	-	547	-	-
Total Deductions	**151,902**	**165,561**	**184,120**	**204,776**	**225,609**
Change in Fiduciary Net Position	**$ (201,169)**	**$ (685,891)**	**$ 276,217**	**$ 494,492**	**$ 4,098**

(In thousands)

	2013	2014	2015	2016	2017
Additions					
Employer Contributions	$ 211,677	$ 220,393	$ 215,477	$ 234,714	$ 241,112
Member Contributions	20,283	25,810	30,325	33,278	34,649
Net Investment Income (Loss)	319,264	487,494	81,930	(27,535)	426,607
Total Additions	**551,224**	**733,697**	**327,732**	**240,457**	**702,368**
Deductions					
Total Benefit Expenses*	242,630	257,495	273,865	288,738	305,817
Administrative Expenses	3,848	4,860	4,886	5,225	5,243
Miscellaneous	-	-	-	-	-
Total Deductions	**246,478**	**262,355**	**278,751**	**293,963**	**311,060**
Change in Fiduciary Net Position	**$ 304,746**	**$ 471,342**	**$ 48,981**	**$ (53,506)**	**$ 391,308**

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

Fiscal Years 2013 – 2017

(In thousands)

	2013	2014	2015	2016	2017
Service Retirement Benefits					
General	$ 127,139	$ 137,993	$ 148,697	$ 159,101	$ 169,370
Safety	68,078	68,705	72,097	74,978	78,453
Total	195,217	206,698	220,794	234,079	247,823
Service-Connected Disability (SCD) Benefits					
General	8,064	8,331	8,422	8,260	8,411
Safety	15,495	20,565	21,222	21,676	22,207
Total	23,559	28,896	29,644	29,936	30,618
Beneficiary Benefits					
General	11,152	10,660	11,186	12,261	13,579
Safety	8,602	7,565	7,881	8,393	8,979
Total	19,754	18,225	19,067	20,654	22,558
Lump Sum Death Benefits	606	564	862	787	894
Total Benefit Payments	**$ 239,136**	**$ 254,383**	**$ 270,367**	**$ 285,456**	**$ 301,893**
Refunds					
General	2,973	2,762	2,876	2,563	2,718
Safety	521	350	622	719	1,206
Total	3,494	3,112	3,498	3,282	3,924
Total Benefit Expenses	**$ 242,630**	**$ 257,495**	**$ 273,865**	**$ 288,738**	**$ 305,817**

Fiscal Years 2008 – 2012

(In thousands)

	2008	2009	2010	2011	2012
Service Retirement Benefits					
General	$ 71,725	$ 79,546	$ 89,204	$ 101,934	$ 114,742
Safety	39,650	43,311	49,949	55,886	62,207
Total	111,375	122,857	139,153	157,820	176,949
Service-Connected Disability (SCD) Benefits					
General	7,547	7,720	7,906	7,924	7,947
Safety	12,516	13,545	14,230	14,656	15,145
Total	20,063	21,265	22,136	22,580	23,092
Beneficiary Benefits					
General	7,962	8,573	9,072	9,533	10,353
Safety	6,297	6,525	7,222	7,580	8,231
Total	14,259	15,098	16,294	17,113	18,584
Lump Sum Death Benefits	490	640	466	383	433
Total Benefit Payments	**$ 146,187**	**$ 159,860**	**$ 178,049**	**$ 197,896**	**$ 219,058**
Refunds					
General	2,084	2,270	1,998	2,666	2,408
Safety	290	359	319	451	674
Total	2,374	2,629	2,317	3,117	3,082
Total Benefit Expenses	**$ 148,561**	**$ 162,489**	**$ 180,366**	**$ 201,013**	**$ 222,140**

As of June 30, 2017

Amount of Monthly Benefit	Number of Retirants	Type of Retirement 1	2	3	4	5	6	7	8	9
$1-500	453	308	2	0	0	76	12	0	6	49
$501-1,000	922	618	41	4	0	166	19	3	23	48
$1,001-1,500	1,025	693	80	61	0	120	23	0	18	30
$1,501-2,000	883	597	33	110	0	80	14	0	20	29
$2,001-3,000	1,580	1,069	17	257	0	139	6	5	60	27
$3,001-4,000	985	737	6	133	0	76	2	4	17	10
$4,001-5,000	607	524	3	35	0	29	3	0	10	3
$5,001-6,000	438	388	1	31	0	15	0	0	2	1
Over $6,000	1,194	1,056	6	104	0	17	1	0	10	0
Totals	**8,087**	**5,990**	**189**	**735**	**0**	**718**	**80**	**12**	**166**	**197**

Amount of Monthly Benefit	Number of Retirants	Option Selected: Option 1	Option 2	Option 3	Option 4	Unmodified A	Unmodified B	Unmodified C
$1-500	453	13	30	1	0	133	276	0
$501-1,000	922	6	54	2	0	320	538	2
$1,001-1,500	1,025	7	51	4	1	368	568	26
$1,501-2,000	883	6	32	3	0	319	456	67
$2,001-3,000	1,580	13	59	11	3	578	740	176
$3,001-4,000	985	5	42	1	0	431	411	95
$4,001-5,000	607	2	27	3	3	343	204	25
$5,001-6,000	438	1	16	0	2	274	119	26
Over $6,000	1,194	3	42	3	2	844	203	97
Totals	**8,087**	**56**	**353**	**28**	**11**	**3,610**	**3,515**	**514**

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

Fiscal Years Ended June 30, 2008 – 2012

	Years of Retirement Service Credit						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Fiscal Year 2008							
Average Annual Benefit ($)	11,706	10,905	18,743	27,064	45,415	58,275	80,057
Average Monthly Benefit ($)	976	909	1,562	2,255	3,785	4,856	6,671
Average Final Monthly Salary ($)	4,379	3,494	4,126	4,143	5,317	5,577	6,298
Number of Active Retirants	14	24	46	37	35	34	41
Fiscal Year 2009							
Average Annual Benefit ($)	11,268	12,518	22,901	29,561	50,660	61,343	91,167
Average Monthly Benefit ($)	939	1,043	1,908	2,463	4,222	5,112	7,597
Average Final Monthly Salary ($)	8,621	4,246	5,213	4,676	6,251	6,044	7,324
Number of Active Retirants	15	35	54	46	36	68	93
Fiscal Year 2010							
Average Annual Benefit ($)	27,532	17,454	19,573	35,192	43,631	63,723	90,019
Average Monthly Benefit ($)	2,294	1,454	1,631	2,933	3,636	5,310	7,502
Average Final Monthly Salary ($)	5,987	5,609	4,530	5,639	5,477	6,511	7,460
Number of Active Retirants	33	33	69	39	60	77	49
Fiscal Year 2011							
Average Annual Benefit ($)	14,723	12,996	23,295	35,443	43,133	60,433	84,216
Average Monthly Benefit ($)	1,227	1,083	1,941	2,954	3,594	5,036	7,018
Average Final Monthly Salary ($)	5,304	5,031	5,440	5,739	5,465	6,082	7,089
Number of Active Retirants	13	50	76	55	96	95	100
Fiscal Year 2012							
Average Annual Benefit ($)	7,199	14,244	20,203	33,133	44,628	65,633	82,616
Average Monthly Benefit ($)	600	1,187	1,684	2,761	3,719	5,469	6,885
Average Final Monthly Salary ($)	6,555	5,596	4,790	5,564	5,675	6,626	6,991
Number of Active Retirants	15	33	82	50	70	90	79

Fiscal Years Ended June 30, 2013 – 2017

	Years of Retirement Service Credit						
	0-5	**5-10**	**10-15**	**15-20**	**20-25**	**25-30**	**30+**
Fiscal Year 2013							
Average Annual Benefit ($)	14,391	15,936	20,710	30,643	43,327	61,832	74,463
Average Monthly Benefit ($)	1,199	1,328	1,726	2,554	3,611	5,153	6,205
Average Final Monthly Salary ($)	7,635	5,485	4,969	5,400	5,672	6,396	6,506
Number of Active Retirants	19	31	83	56	69	63	73
Fiscal Year 2014							
Average Annual Benefit ($)	7,966	12,299	19,839	32,711	42,470	67,223	83,821
Average Monthly Benefit ($)	664	1,025	1,653	2,726	3,539	5,602	6,985
Average Final Monthly Salary ($)	9,886	5,580	5,062	5,659	5,829	6,951	7,360
Number of Active Retirants	15	26	67	41	49	69	48
Fiscal Year 2015							
Average Annual Benefit ($)	4,129	13,436	21,759	33,216	41,150	57,113	84,091
Average Monthly Benefit ($)	344	1,120	1,813	2,768	3,429	4,759	7,008
Average Final Monthly Salary ($)	5,732	5,431	5,132	5,641	5,382	6,274	7,380
Number of Active Retirants	6	43	77	43	44	78	57
Fiscal Year 2016							
Average Annual Benefit ($)	7,182	12,904	22,580	32,054	43,045	62,176	73,730
Average Monthly Benefit ($)	598	1,075	1,882	2,671	3,587	5,181	6,144
Average Final Monthly Salary ($)	6,844	5,455	5,782	5,613	5,947	6,746	6,996
Number of Active Retirants	25	41	67	41	45	76	54
Fiscal Year 2017							
Average Annual Benefit ($)	17,071	14,339	23,359	35,405	47,847	62,060	80,518
Average Monthly Benefit ($)	1,423	1,195	1,947	2,950	3,987	5,172	6,710
Average Final Monthly Salary ($)	8,193	6,068	5,887	5,946	6,445	6,558	7,335
Number of Active Retirants	17	43	75	63	67	60	53

Fiscal Years Ended June 30, 2008 – 2012

	2008	2009	2010	2011	2012
County of Kern:					
General Members	6,348	6,254	5,920	5,622	5,632
Safety Members	1,842	1,854	1,765	1,703	1,762
Total	8,190	8,108	7,685	7,325	7,394
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	12	11	10	10
Buttonwillow Recreation and Park District	3	4	5	6	6
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	1	1
Kern County Water Agency	89	76	72	73	71
Kern Mosquito & Vector Control District	19	19	19	18	19
North of the River Sanitation District	10	9	10	10	11
San Joaquin Valley Air Pollution Control District	280	291	292	287	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.	9	8	8	8	7
West Side Recreation and Park District	11	12	12	10	10
Kern County Superior Court	473	472	444	441	443
Total	915	912	882	871	866
Total Active Membership:					
General Members	7,263	7,166	6,802	6,493	6,498
Safety Members	1,842	1,854	1,765	1,703	1,762
Total	**9,105**	**9,020**	**8,567**	**8,196**	**8,260**

Data retrieved from the Plan's database.

Fiscal Years Ended June 30, 2013 – 2017

	2013	2014	2015	2016	2017
County of Kern:					
General Members	5,873	5,833	5,827	5,937	4,720
Safety Members	1,873	1,886	1,847	1,840	1,767
Total	7,746	7,719	7,674	7,777	6,487
Participating Agencies (General Membership):					
Berrenda Mesa Water District	10	10	9	6	6
Buttonwillow Recreation and Park District	6	4	4	4	3
East Kern Cemetery District	1	1	1	2	2
Inyokern Community Services District	1	1	1	1	0
Kern County Hospital Authority	-	-	-	-	1,374
Kern County Water Agency	65	68	67	62	60
Kern Mosquito & Vector Control District	18	18	18	18	18
North of the River Sanitation District	13	12	13	13	13
San Joaquin Valley Air Pollution Control District	281	276	264	269	273
Shafter Recreation and Park District	0	0	0	0	1
West Side Cemetery District	6	6	6	6	6
West Side Mosquito & Vector Control Dist.	7	10	10	9	8
West Side Recreation and Park District	10	11	11	11	9
Kern County Superior Court	353	389	414	457	478
Total	771	806	818	858	2,251
Total General Members	6,644	6,639	6,645	6,795	6,971
Total Safety Members	1,873	1,886	1,847	1,840	1,767
Total Active Membership	**8,517**	**8,525**	**8,492**	**8,635**	**8,738**

Note: The Kern County Hospital Authority came into existence at the start of FY 2016-17 (July 1, 2016).

Data retrieved from the Plan's database.

KCERA

KERN COUNTY
EMPLOYEES
RETIREMENT
ASSOCIATION