Comprehensive
Annual Financial Report

for the fiscal years ended June 30, 2012 and 2011

KCERA
PRUDENT INVESTMENT · QUALITY SERVICE

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

Comprehensive Annual Financial Report

for the fiscal years ended June 30, 2012 and 2011

Issued By

Anne M. Holdren
Executive Director

Sheryl Lawrence
Financial Officer

KCERA

Prudent Investment • Quality Service

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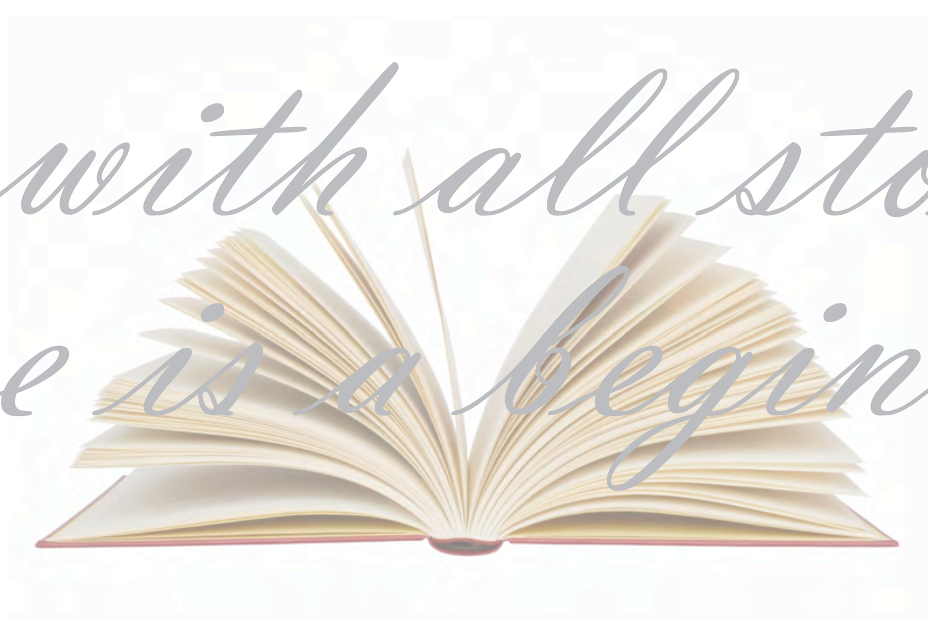
Introductory Section

As with all stories, there is a beginning, middle and end. This year's CAFR begins with a letter from KCERA's director, highlighting some of the key points in the 2011-12 fiscal year, followed by a Board of Retirement trustee roll, KCERA's organizational chart and a list of our professional consultants.

It is a brief introduction to our financial report, but it sets the stage for what is to come. Enjoy our CAFR story!

As with all stories, there is a beginning



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PRUDENT INVESTMENT • QUALITY SERVICE

Anne M. Holdren
Executive Director

Gloria M. Domínguez
Assistant Executive Director

December 12, 2012

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

Dear Board Members:

As Executive Director of the Kern County Employees' Retirement Association (KCERA), I am pleased to present the Comprehensive Annual Financial Report (CAFR) for the fiscal years ended June 30, 2012 and 2011. 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, 2012, KCERA paid retirements to 6,897 members and continued supplemental benefits to 766 retirees or their beneficiaries, assuring 80% purchasing power parity for all KCERA retirees now and for the foreseeable future. The KCERA Plan added 407 service retirees, two non-service-connected disability retirees, six service-connected disability retirees, one nonservice-connected death survivorship benefit, and no service-connected death survivorship benefits in the fiscal year.

KCERA AND ITS SERVICES

KCERA was established on January 1, 1945 to provide retirement allowances and other benefits to all permanent general and safety employees of the County of Kern and of participating special districts. As of June 30, 2012, thirteen districts participated in the retirement plan: Berrenda Mesa Water District, Buttonwillow Recreation and Park District, East Kern Cemetery District, Inyokern Community Services District, Kern County Water Agency, Kern Mosquito and Vector Control District, North of the River Sanitation District, San Joaquin Valley Unified Air Pollution Control District, Shafter Recreation and Park District, West Side Cemetery District, West Side Mosquito and Vector Control District, West Side Recreation and Park District, and the Kern County Superior Court.

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

MAJOR INITIATIVES

Board Adopts New Funding Policy
On May 16, 2012, the KCERA Board approved a proposal by its actuary, The Segal Company, to shorten the amortization period of new liabilities from its current declining term ending in 2035 to a declining 18-year term. Existing unfunded liability will retain its current amortization schedule. The board also approved "smoothing" the remaining deferred investment losses in the Market Stabilization Reserve over the next four years in level amounts.

KCERA Adopts New Statement of Investment Policy
KCERA made adjustments to its investment asset allocation in October 2011, which increased the hedge fund target to 10% and added allocations to emerging market debt and commodities. To reduce costs and increase transparency in hedge funds strategies, KCERA hired consultant Albourne Partners to assist in the board's transition from fund-of-funds to direct hedge fund investments. In addition, KCERA hired two emerging market debt managers, Gramercy and Stone Harbor Investment Partners, with a mandate of $60 million each. Also underway, the Board is actively searching for commodities managers.

Cash Overlay Manager Hired
The KCERA board hired The Clifton Group to provide cash overlay services designed to manage portfolio risk within the fund's existing asset allocation. Clifton previously served as KCERA's cash overlay manager from 2001 to 2009.

Pension Administration System
In the spring of 2012, KCERA's new pension administration system, designed by CPAS Systems, Inc., began entry validation testing of the User Acceptance Testing (UAT) phase of the four-year project. Upon approval of that build, KCERA will enter a six-month UAT followed by parallel testing. Full system implementation is scheduled for mid-2013.

Searches Identify New Hearing Officers, Legal Counselors and Auditor
KCERA issued several requests for proposal (RFP) in the 2011-12 fiscal year. Six hearing officers were hired to assist with disability application appeals. Legal counsel searches resulted in hiring Andrew L. Kjeldgaard, Esq., and Nossaman LLP for fiduciary legal services, and Ice Miller LLP for tax-related legal services. CliftonLarsonAllen, LLP, was selected as the new auditor to audit the fiscal year's financial statements.

Electronic Communications
KCERA successfully transitioned from a printed quarterly member newsletter to an electronic version. In January 2012, *The Retirement Chronicles* was delivered electronically to all subscribers on KCERA's e-distribution list, including opt-in retired and deferred members. KCERA also converted its hard-copy board agenda packets into an electronic format. The Board of Retirement uses iPads to access and review meeting agendas and disability application packets, resulting in annual savings in expenses and staff production time.

Monthly Meeting Pilot Program
In April, the KCERA board approved a one-year pilot program to hold single monthly meetings on the second Wednesday of each month at 8:30 a.m. The change from two monthly meetings to one was initiated because of the efficiency gains from improvements to the disability application review procedures, the reduction of manager presentations at the Board meetings, and a desire to facilitate stronger attendance by Board members.

FUNDING

KCERA's funding objective is to meet long-term benefit obligations through approximately level contributions to the Plan and the accrual and compounding of investment income. As of June 30, 2011, the funded ratio of the Plan was 60.8% using actuarial assets and actuarial liabilities of $2,839,747,000 and $4,672,348,000, respectively. The funded percentage decreased 1.9% from June 30, 2011 due primarily to lower-than-expected actuarial investment returns and actual contributions, and other experience losses.

Pursuant to provisions in the County Employees' Retirement Law of 1937, KCERA engages an independent actuarial consulting firm, The Segal Company, to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the Plan. The last triennial analysis, performed as of June 30, 2011, and certain changes to demographic and economic assumptions were adopted by the Board of Retirement. Under the new assumptions, retirement, mortality and termination assumptions were updated; disability rates were reduced; probability of refunds was slightly increased; and individual salary increases were lowered.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2012 and 2011 has been prepared by KCERA's management, which is responsible for the accuracy, completeness, fair presentation of information, and all disclosures in this report. The report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

KCERA has maintained an internal control system to provide reasonable assurance that assets are properly safeguarded from loss, theft, or misuse and the fair presentation of the financial statements and supporting schedules. Further, it should be recognized there are inherent limitations in the effectiveness of any system of internal controls due to changes in conditions. Moreover, the concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits to be derived. KCERA has established a finance committee for oversight of the financial reporting process and to review the scope and results of independent audits. The independent auditors have unrestricted access to the finance committee to discuss their related findings as to the integrity of the financial reporting and adequacy of internal controls.

KCERA's external auditor, CliftonLarsonAllen, LLP, has conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Board of Retirement. The financial audit ensures that KCERA's financial statements are presented in conformity with accounting principles generally accepted in the United States of America and are free of material misstatements. Their opinion is that KCERA's financial statements present fairly, in all material respects, the Plan Net Assets of KCERA as of June 30, 2012 and 2011 and its Changes in Plan Net Assets for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INVESTMENTS

The Board of Retirement (Board) has exclusive control of all investments of KCERA and is responsible for establishing investment policies, objectives and strategies. The Board is authorized to invest in any form or type of investment deemed "prudent" in the informed opinion of the Board. The members of the Board serve as fiduciaries for the members and beneficiaries of the retirement association and are held to a high standard of care in all transactions.

The Board operates under a standard of care in California commonly known as the "prudent expert rule," which allows the Board to invest or delegate the authority to invest the assets of the Plan when prudent in the informed opinion of the Board. In addition, the rule requires the Board to diversify the investments of the Plan, unless it is clearly prudent not to do so under the circumstances. The Board therefore makes basic policy decisions with respect to the Plan, including, but not limited to, the allocation of assets to various investment classes. The Board delegates much discretion to professional investment advisors to execute investment policy subject only to policy and guidelines provided by the Board.

KCERA's assets are managed exclusively by external, professional investment managers. The KCERA staff monitors the activity of these managers and assists the Board with the development and implementation of investment policies and long-term investment strategies. These policies and guidelines are outlined in KCERA's Statement of Investment Policy, which states the investment philosophy, investment guidelines, performance objectives and asset allocation of the Plan. The Board employs the services of an independent investment consultant, Wurts & Associates, 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 2012, the investments of the Plan realized a gain of 1.0% (net of fees). KCERA's annualized rate of return, net of fees, was 10.9% in the past three years, -0.1% in the past five years, and 6.2% in the past ten years. The investment expenses of the fund are linked to the performance of the investment portfolio and other factors and therefore vary year to year.

PROFESSIONAL SERVICES

The Board retains professional consultants and investment managers to provide professional services essential to the effective and efficient operation of KCERA.

Opinions from the certified public accountant and the actuary for the Plan are included in this report. The consultants and investment managers retained by the Board are listed on page 60 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, 2011. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and well-organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we will again submit it to the GFOA for appraisal.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the KCERA staff. This report is intended to provide complete information as a basis for management decisions, as a means for establishing compliance with legal requirements, and as a means for determining the responsible stewardship of the KCERA fund.

I wish to take this opportunity to thank the members of KCERA for their confidence in KCERA and to express my gratitude to the Board of Retirement for dedicated support of the KCERA administration and the best interests of the beneficiaries of the Plan throughout the fiscal year. I also wish to thank the consultants and staff for their continued commitment to KCERA and their diligent work to ensure the successful administration of the Plan.

Respectfully submitted,

Anne M Holdren

Anne M. Holdren
Executive Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kern County Employees' Retirement Association, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2011

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

President

Executive Director

KCERA

Members of the Board of Retirement

As of June 30, 2012

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

Norman Briggs
Elected by retired members
Present term expires 12/31/2013

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

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

Michael Turnipseed
Appointed by Board of Supervisors
Present term expires 12/31/2013

Phil Franey, Alternate
Elected by retired members
Present term expires 12/31/2013

Jackie Denney, Vice-Chair
County Treasurer-Tax Collector
Ex-Officio Member

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

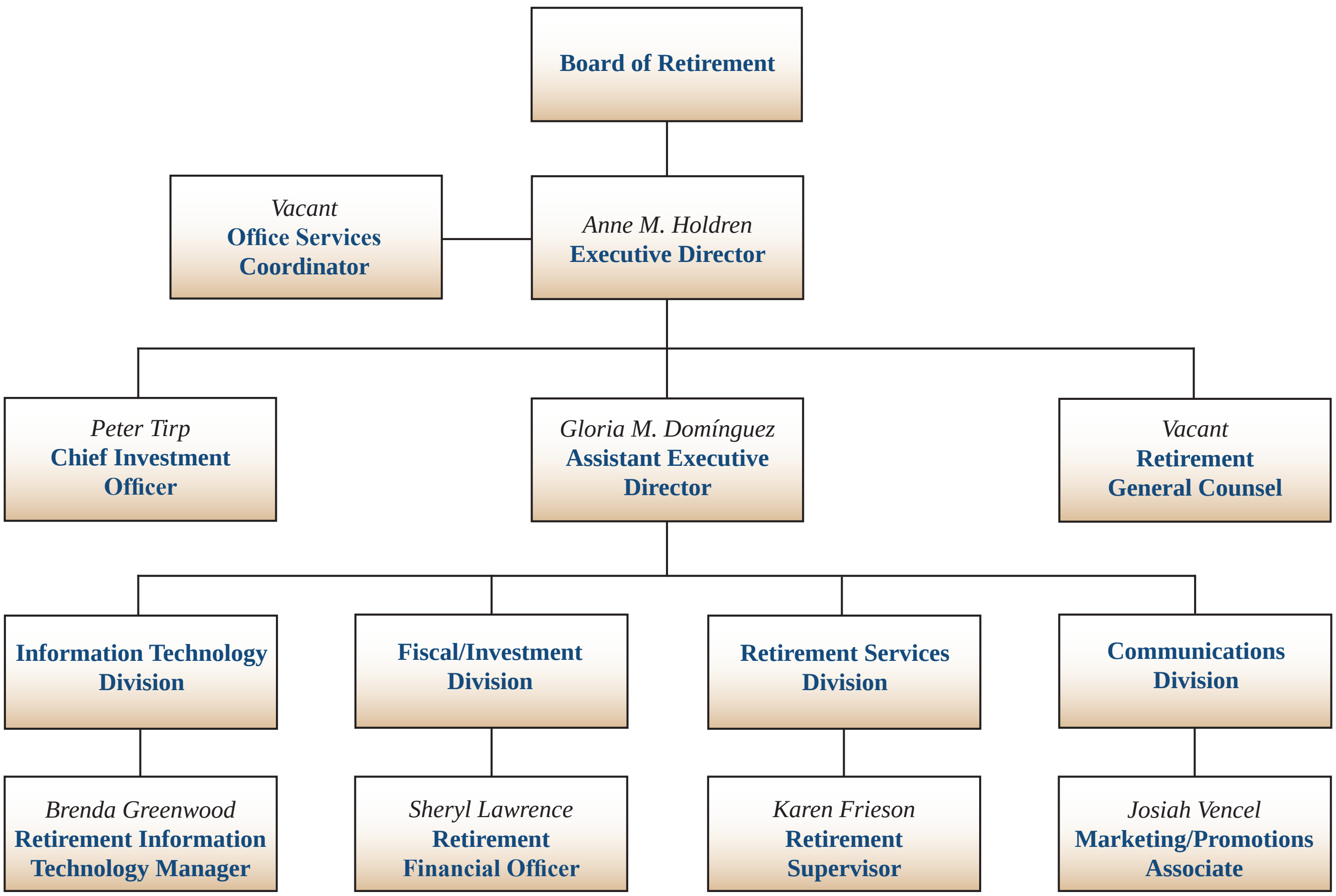
Konrad Moore
Elected by general members
Present term expires 12/31/2013

Zack Scrivner
Appointed by Board of Supervisors
Present term expires 12/31/2013

Bart Camps, Alternate
Elected by safety members
Present term expires 12/31/2012

Organizational Chart

As of June 30, 2012



Note: A list of Investment Professionals is located on page 60 in the Investment Section of this report.

List of Professional Consultants

As of June 30, 2012

ACTUARY
The Segal Company, Inc.
San Francisco, CA

AUDITOR
CliftonLarsonAllen, LLP
Broomfield, CO

CUSTODIAN
The Northern Trust Company
Chicago, IL

LEGAL

Kern County Counsel
Bakersfield, CA

Foster Pepper, PLLC
Seattle, WA

Hanson Bridgett, LLP
San Francisco, CA

Ice Miller, LLP
Indianapolis, IN

The Law Firm of
Andrew L. Kjeldgaard
San Bernardino, CA

Manatt, Phelps & Phillips, LLP
Los Angeles, CA

Nossaman, LLP
Los Angeles, CA

INVESTMENT CONSULTANT
Wurts & Associates, Inc.
Seattle, WA

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

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

Linea Solutions, Inc.
Los Angeles, CA

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Financial Section

Money makes the world go 'round, or so they say. KCERA is no different, as retirees rely on a solvent fund to faithfully pay their monthly retirement benefits. The Financial Section of this CAFR presents several different perspectives on KCERA's numbers, beginning with a report by our auditor confirming that our financial statements are in good order. Management provides a high-level view and analysis, followed by the heart of this section: the Statement of Plan Net Assets. Next are a series of notes that delve into key elements of our financials, such as reserve accounts and funding status. The section ends with supplemental data relating to actuarial assumptions and business expenses.

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CliftonLarsonAllen

CliftonLarsonAllen LLP
www.cliftonlarsonallen.com

Independent Auditors' Report

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

We have audited the accompanying statement of Plan net assets of the Kern County Employees' Retirement Association (KCERA) as of June 30, 2012 and the related statement of changes in Plan net assets for the year then ended. These financial statements are the responsibility of KCERA's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of KCERA as of June 30, 2011 were audited by other auditors whose report dated November 10, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of KCERA as of June 30, 2012 and the changes in Plan net assets for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2013 on our consideration of the Plan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress and employer contributions on pages 17 through 22 and 44 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 management's discussion and analysis and 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. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory section, investment section, actuarial section and statistical section listed in the table of contents have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

CliftonLarsonAllen LLP

Denver, Colorado
January 18, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents management's discussion and analysis of the Kern County Employees' Retirement Association's (KCERA) financial statements and the significant events and conditions which affected the operations and performance during the years ended June 30, 2012 and 2011. It is presented as a narrative overview and analysis in conjunction with the Executive Director's *Letter of Transmittal* included in the Introductory Section of the Comprehensive Annual Financial Report.

Financial Highlights

- During the fiscal year ended June 30, 2012, KCERA's total fund returned 1.0% (net of fees), a decrease from the prior fiscal year return of 19.2%. Performance of the fund was mostly due to underperformance in the international equity markets. KCERA's net assets increased $4.1 million during the year ended June 30, 2012.

- Member contributions increased by $449 thousand, or 2.4%, due primarily to changes in the demographic profile of the employee group, including the addition of more Tier II general members. Most current employees contribute for the first five years of service. Employer contributions increased by $12.4 million, or 7.0%, due primarily to an overall 7.0% increase in the employer contribution rate.

- Vested pension benefits increased by $20.8 million, or 11.1%, over the prior year. The increase is attributable to a 5.1% increase in retired members and beneficiaries receiving pension benefits and a 5.8% increase in the average monthly benefit, which rose to $2,504 in the fiscal year.

- As of June 30, 2011, the date of the most recent actuarial valuation, the funded ratio for KCERA was 60.8%, compared to the funded ratio of 62.7% as of June 30, 2010. Only a portion of prior year investment losses from 2007 and 2008 have been factored into the June 30, 2011 funded ratio because KCERA uses a five-year asset-smoothing method to determine its actuarial value of assets.

Overview of Basic Financial Statements and Accompanying Information

1) **The Statement of Plan Net Assets** is the basic statement of position for a defined benefit pension plan. This statement presents assets and liabilities account balances at fiscal year end. The difference between assets and liabilities represents the net assets available for future payments to retirees and their beneficiaries. Assets and current liabilities of the Plan reflect full accruals. The statement reflects investments at fair value and accounting liabilities as distinct from actuarial liabilities.

2) **The Statement of Changes in Plan Net Assets** is the basic operating statement for a defined benefit pension plan. Changes in plan net assets are recorded as additions or deductions from the Plan. All additions and deductions are reported on a full accrual basis.

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

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

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

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

The required financial statements and disclosures have been prepared in accordance with accounting principles generally accepted in the United States of America and are in compliance with Governmental Accounting Standards Board (GASB) Statements.

Financial Analysis

Net Assets Held in Trust for Pension Benefits
KCERA provides pension benefits to the employees and their beneficiaries of the County of Kern and other public agencies. KCERA's benefits are funded by member and employer contributions and by investment income. KCERA's net assets held in trust for pension benefits at June 30, 2012 were $2.8 billion, a slight increase of $4.0 million (0.1%) from June 30, 2011. KCERA's net assets held in trust for pension benefits at June 30, 2011 were also $2.8 billion, an increase of approximately $494.5 million (21.5%) from June 30, 2010. Key elements of the increase in net assets are described below and in Tables 1 and 2 on page 20.

Contributions and Investment Income
Additions to plan net assets include member and employer contributions and investment income. Member contributions were approximately $18.7 million, $18.3 million and $17.9 million for the years ended June 30, 2012, 2011 and 2010, respectively. Employer contributions were $189.8 million, $177.4 million and $151.1 million for the years ended June 30, 2012, 2011 and 2010, respectively.

Member contributions increased by $449 thousand (2.5%) in 2012 and increased by $394 thousand (2.2%) in 2011. The increase in member contributions in 2012 was due to changes in the demographic profile of the employee group, including the addition of more Tier II general members. The increase in member contributions in 2011 was attributable to an increase in service purchases as well as more members being required to contribute after attaining five years of service.

Employer contributions increased by approximately $12.4 million (7.0%) in 2012 and increased by approximately $26.3 million (17.4%) in 2011. The increase in employer contributions in 2012 was primarily due to lower-than-expected investment returns, an increase in the UAAL rate due to a lower-than-expected increase in payroll, less-than-expected actual contributions and other experience losses. The increase in employer contributions in 2011 was due to an overall 2.7% increase in the employer contribution rate, mostly attributable to 2007 and 2008 investment losses and inclusion of additional salary information.

Net investment and securities lending income was $21.2 million, $503.6 million and $291.3 million for the years ended June 30, 2012, 2011 and 2010, respectively. The slight increase in 2012 can be attributed to positive performance in fixed income, real estate and private equity. The increase in 2011 can be attributed to strong performance in the equity markets.

For the fiscal years ended June 30, 2012 and 2011, the KCERA portfolio gained 1.0% (net of fees) and 19.2% (net of fees), respectively. More information on KCERA's investment portfolio is contained in the investment section of this report, beginning on page 49.

Benefits, Refunds and Expenses
Deductions to plan net assets include pension benefits, lump sum payments, supplemental benefits, refunds of member contributions, and administrative expenses. The pension benefits (annuity, pension and cost-of-living allowances) were $207.3 million, $186.5 million, and $166.8 million for the years ended June 30, 2012, 2011 and 2010, respectively. Pension benefits increased by approximately $20.8 million (11.1%) in 2012 and $19.6 million (11.8%) in 2011.

Financial Analysis *(cont.)*

Benefits, Refunds and Expenses *(cont.)*
These increases were mainly due to an increase in retired members and beneficiaries receiving pension benefits and an increase in the average monthly benefit, attributable to higher final average compensations. Retired members and beneficiaries increased by 5.1% in 2012 and by 6.4% in 2011. The average monthly benefit for retirees and beneficiaries increased by 5.8% in 2012 and 5.1% in 2011.

KCERA previously adopted California Government Code Section 31618, which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides retirees with 80% purchasing power parity and a $3,000 death benefit, effective January 1, 2007. In addition to pension benefits, the supplemental retirement benefits paid were $11.8 million, $11.4 million and $11.2 million for the years ended June 30, 2012, 2011 and 2010, respectively. Refunds of member contributions were $3.1 million, $3.1 million and $2.3 million for the years ended June 30, 2012, 2011 and 2010, respectively.

KCERA's administrative expenses were $3.5 million, $3.8 million and $3.2 million for the years ended June 30, 2012, 2011 and 2010, respectively.

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

June 2012	June 2011	June 2010
$17.3 million	$15.5 million	$13.9 million
6,897	6,564	6,171

NET ASSETS

(In thousands)

Table 1

	2012	Increase/ (Decrease) Amount	2011	Increase/ (Decrease) Amount	2010
Assets					
Current Assets	$ 137,005	$ 47,375	$ 89,630	$ (104,707)	$ 194,337
Investments	2,771,965	(19,028)	2,790,993	547,527	2,243,466
Securities Lending Collateral	244,430	(23,941)	268,371	30,438	237,933
Capital Assets	4,186	514	3,672	913	2,759
Total Assets	**$ 3,157,586**	**$ 4,920**	**$ 3,152,666**	**$ 474,171**	**$ 2,678,495**
Liabilities					
Current Liabilities	$ 113,132	$ 24,763	$ 88,369	$ (50,759)	$ 139,128
Liabilities for Security Lending	244,430	(23,941)	268,371	30,438	237,933
Total Liabilities	**$ 357,562**	**$ 822**	**$ 356,740**	**$ (20,321)**	**$ 377,061**
Net Assets Held in Trust for Pension Benefits	**$ 2,800,024**	**$ 4,098**	**$ 2,795,926**	**$ 494,492**	**$ 2,301,434**

CHANGES IN NET ASSETS

(In thousands)

Table 2

	2012	Increase/ (Decrease) Amount	2011	Increase/ (Decrease) Amount	2010
Additions					
Member Contributions	$ 18,720	$ 449	$ 18,271	$ 394	$ 17,877
Employer Contributions	189,837	12,393	177,444	26,317	151,127
Net Investment Income (Loss)	21,150	(482,403)	503,553	212,220	291,333
Total Additions	**$ 229,707**	**$ (469,561)**	**$ 699,268**	**$ 238,931**	**$ 460,337**
Deductions					
Pension Benefits	$ 207,250	$ 20,790	$ 186,460	$ 19,624	$ 166,836
Supplemental Retirement Benefits	11,808	372	11,436	223	11,213
Refunds of Member Contributions	3,082	(35)	3,117	800	2,317
Administrative Expenses	3,469	(294)	3,763	556	3,207
Miscellaneous Expenses	0	0	0	(547)	547
Total Deductions	**$ 225,609**	**$ 20,833**	**$ 204,776**	**$ 20,656**	**$ 184,120**
Increase (Decrease) in Net Assets	**$ 4,098**	**$ (490,394)**	**$ 494,492**	**$ 218,275**	**$ 276,217**
Net Assets Held in Trust for for Pension Benefits:					
At Beginning of Year	**$ 2,795,926**	**$ 494,492**	**$ 2,301,434**	**$ 276,217**	**$ 2,025,217**
At End of Year	**$ 2,800,024**	**$ 4,098**	**$ 2,795,926**	**$ 494,492**	**$ 2,301,434**

Reserves

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

Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. Unrealized gains and losses are held in the Market Stabilization Reserve with a portion allocated to all other reserves. KCERA uses a five-year smoothing methodology to recognize unrealized gains and losses. The five-year smoothing is calculated by subtracting the expected return of the actuarial assumed interest rate of 7.75% from the total fund's actual return on net assets. The Market Stabilization Reserve was ($277.3) million, ($161.6) million and ($598.6) million for the years ended June 30, 2012, 2011 and 2010, respectively.

Interest at the actuarial rate of 7.75%, or at the highest rate possible if net earnings are not sufficient to credit the full actuarial rate, is credited semiannually on December 31 and June 30. Interest is credited to all reserves, except a contingency reserve. KCERA credited the reserves 4.4% in fiscal year 2012 and 2.1% in fiscal year 2011. In addition, in fiscal year 2012, 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 assets, the Contingency and Market Stabilization Reserves will turn positive.

KCERA Reserves

(In thousands)	2012	2011	2010
Member Reserve	$ 231,626	$ 225,649	$ 229,783
Employer Reserve	558,963	588,584	676,522
Cost of Living Reserve	789,974	739,198	700,538
Retired Member Reserve	1,324,976	1,228,918	1,110,646
Supplemental Retiree Benefit Reserve	188,137	191,551	198,861
Contingency Reserve	(16,355)	(16,355)	(16,355)
Market Stabilization Reserve	(277,297)	(161,619)	(598,561)
Total	**$ 2,800,024**	**$ 2,795,926**	**$ 2,301,434**

Fiduciary Responsibilities

KCERA's Board of Retirement and management staff are fiduciaries of the pension trust fund. Under the California Pension Protection Act of 1992, the Board of Retirement has plenary authority and fiduciary responsibility for the investment of monies and for the administration of KCERA.

The Board of Retirement has the sole and exclusive fiduciary responsibility over the assets of the Plan. The assets are held for the exclusive purpose of providing benefits to KCERA members and their survivors, as mandated.

Changing Standards

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

Requests for Information

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

Kern County Employees' Retirement Association

STATEMENT OF PLAN NET ASSETS

AS OF JUNE 30, 2012 AND 2011

(In thousands)

	2012	2011
Assets		
Cash and Cash Equivalents	$ 25,722	$ 33,092
Receivables:		
Investments Sold	102,123	48,575
Interest and Dividends	6,478	5,789
Contributions and Other Receivables	2,682	2,174
Total Receivables	111,283	56,538
Investments at Fair Value:		
U.S. Debt Securities and Bonds	830,782	804,492
International Bonds	47,505	46,018
Domestic Equities	851,912	813,294
International Equities	596,786	700,319
Real Estate Investments	79,486	61,489
Alternative Investments	364,793	364,334
Swaps/Options	701	1,047
Collateral Held for Securities Lending	244,430	268,371
Total Investments at Fair Value	3,016,395	3,059,364
Capital Assets:		
Computer Software	4,110	3,541
Equipment/Computers	408	420
Accumulated Depreciation	(332)	(289)
Total Capital Assets	4,186	3,672
Total Assets	3,157,586	3,152,666
Liabilities		
Securities Purchased	110,879	78,700
Collateral Held for Securities Lent	244,430	268,371
Contributions and Other Liabilities	2,253	9,669
Total Liabilities	357,562	356,740
Net Assets Held in Trust for Pension Benefits	**$ 2,800,024**	**$ 2,795,926**

See accompanying notes to the financial statements.

Kern County Employees' Retirement Association

STATEMENT OF CHANGES IN PLAN NET ASSETS

AS OF JUNE 30, 2012 AND 2011

(In thousands)

	2012	2011
Additions		
Contributions:		
Employer	$ 189,837	$ 177,444
Member	18,720	18,271
Total Contributions	208,557	195,715
Investment Income:		
Net Appreciation (Depreciation) in Fair Value of Investments	(13,933)	467,676
Interest	22,176	21,811
Dividends	19,493	17,287
Real Estate Investments	1,759	0
Other Investment Income (Loss)	(1)	3,654
Total Investment Income	29,494	510,428
Less: Investment Expenses	9,045	7,572
Net Investment Income	20,449	502,856
Securities Lending Income:		
Earnings:	716	849
Less: Rebates & Bank Fees	15	152
Net Securities Lending Income	701	697
Total Additions	229,707	699,268
Deductions		
Retirement and Survivor Benefits	207,250	186,460
Supplemental Retirement Benefits	11,808	11,436
Refunds of Member Contributions	3,082	3,117
Administrative Expenses	3,469	3,763
Total Deductions	225,609	204,776
Net Increase	**$ 4,098**	**$ 494,492**
Net Assets Held in Trust for Pension Benefits At Beginning of Year	**$ 2,795,926**	**$ 2,301,434**
Net Assets Held in Trust for Pension Benefits At End of Year	**$ 2,800,024**	**$ 2,795,926**

See accompanying notes to the financial statements.

NOTE 1 – DESCRIPTION OF PLAN

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

As of June 30, 2012, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active employees	6,498	1,762	8,260
Terminated employees – vested	888	145	1,033
Current retirees and beneficiaries	5,185	1,712	6,897
Total	**12,571**	**3,619**	**16,190**

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

Service Retirement Benefit:

- All eligible employees must participate in KCERA. A member may retire after reaching age 50 with 10 years of service. Or, general members may retire with 30 years of service, and safety members may retire with 20 years of service, regardless of age. Members who retire at or after age 50 with 10 or more years of service are entitled to pension benefits for the remainder of their lives. The amount of such monthly benefits is determined as a percentage of their final monthly compensation and is based on age at retirement and the number of years of service. The final monthly compensation is the monthly average of the final 12 months of compensation, or, if the member so elects, any other continuous 12-month period in the member's work history.

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

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

- Pension provisions include deferred allowances whereby a member may terminate employment with the County of Kern or a special district after five or more years of service. If the member does not withdraw his or her accumulated contributions, he or she is entitled to all pension benefits after being vested five years and reaching age 50 with 10 or more years of participation in the retirement system.

- A member who terminates his or her employment with the County of Kern or a special district and within six months enters another retirement system that has a reciprocal agreement with KCERA may elect to leave their contributions on deposit with KCERA and establish reciprocity, regardless of their length of service with KCERA. Reciprocal retirement systems include any other county under the County Employees' Retirement Law of 1937, the California Public Employees' Retirement System (CalPERS) and any other public agency within the State of California that has a reciprocal agreement with CalPERS.

Death Benefit:

Death Before Retirement

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

- If a member is vested and their death is not the result of job-caused injury or disease, their spouse or registered domestic partner will be entitled to receive, for life, a monthly allowance equal to 60% of the retirement allowance in which they would have been entitled to receive if they had retired for nonservice-connected disability on the date of their death. This same choice is given to their minor children under the age of 18 (continuing to age 22 if enrolled full time in an accredited school).

- If a member dies in the performance of duty, their spouse or registered domestic partner receives, for life, a monthly allowance equal to at least 50% of the member's final average salary. This will apply to minor children under the age of 18 (continuing to age 22 if enrolled full time in an accredited school).

Death After Retirement

- If a member dies after retirement, a death benefit of $3,000 is payable to their designated beneficiary or their estate.

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

- If the retirement was for service-connected disability, their spouse, registered domestic partner or minor children will receive a 100% continuance of the member's retirement allowance.

Disability Benefit:

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

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

Cost-of-Living Adjustment:

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

Supplemental Benefit:

- The Board of Retirement and the Board of Supervisors adopted Government Code Section 31618 on April 23, 1984, which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). The SRBR is used only for the benefit of future and current retired members and their beneficiaries. The supplemental benefit is not a guaranteed benefit. The distribution of the SRBR is determined by the Board of Retirement. SRBR currently provides for 80% purchasing power protection and a $3,000 death benefit.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
KCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of Kern. KCERA's annual financial statements are referenced by footnote in the County of Kern's Annual Financial Report.

Basis of Accounting
KCERA follows Governmental Accounting Standards Board (GASB) accounting principles and reporting guidelines. The financial statements are prepared using the accrual basis of accounting and reflect the overall operations of KCERA. Employer and member contributions are recognized in the period in which the contributions are due, and benefits and refunds of prior contributions are recognized when due and payable in accordance with the terms of the Plan.

Administrative Expenses
KCERA's Board of Retirement annually adopts the operating budget for the administration of KCERA. The administrative expenses are charged against the Plan's earnings and are limited to twenty-one hundredths of one percent (0.21%) of the accrued actuarial liability of the Plan. Expenditures for computer software, computer hardware, and computer technology consulting services in support of these computer products are not considered a cost of administration of the Plan.

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

Fair Valuation of Investments

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

Publicly traded stocks	Most recent exchange closing price. International securities reflect currency exchange rates in effect at June 30, 2012 & 2011.
Short-term investments and bonds	Institutional evaluations or priced at par.
OTC securities	Evaluations based on good faith opinion as to what a buyer in the marketplace would pay for a security.
Commingled funds	Net asset value provided by the investment manager.
Alternative investments	Provided by the Fund manager based on the underlying financial statements and performance of the investments.
Private equity real estate investments	Estimated based on the price that would be received to sell an asset in an orderly transaction between marketplace participants at the measurement date. Investments without a public market are valued based on assumptions made and multiple valuation techniques used by the investment manager.

Capital Assets

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

Capitalization Thresholds and Useful Life

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

Income Taxes

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

Management's Estimates

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

NOTE 3 – DEPOSITS AND INVESTMENTS

The Board of Retirement (the Board) has exclusive control of the investments of the retirement fund and, therefore, establishes investment policies and implements investment decisions. The overall objective of KCERA's investment program is to prudently invest assets such as to offset some of the costs of the Plan in providing the retirement benefits required by the CERL. KCERA is governed by the California Government Code Sections 31594 and 31595, which provide for prudent person governance of the Plan.

Deposits

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

A summary of cash, deposits and short-term investments as of June 30, 2012 and 2011 consists of:

(In thousands)

Held by	2012	2011
County of Kern	$ 5,629	$ 1,364
The Northern Trust Co.	20,093	31,728
Total	**$ 25,722**	**$ 33,092**

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, 2012, KCERA had $912 thousand in deposits held at The Northern Trust Company that were uninsured and uncollateralized.

Investments

Investments of the Plan are reported at fair value. The Board of Retirement maintains a formal Statement of Investment Policy, which addresses guidelines for the investment process. In fulfilling its responsibilities, the Board of Retirement has contracted with investment managers and a master global custodian. Manager contracts include specific guidelines regarding the KCERA investments under management. For the year ended June 30, 2012, The Northern Trust Company is the global custodian for the majority of the investments of the Plan.

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

Investments *(cont.)*

Credit Risk
Credit risk is the risk that an issuer or other counterparty to a debt investment will not fulfill its obligations. The KCERA's 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, 2012, KCERA's assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations, as follows:

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

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

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

Investments *(cont.)*

Custodial Credit Risk - Investments
Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Plan will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. KCERA does not have a formal policy for limiting custodial credit risk. As of June 30, 2012, there were no investment securities exposed to custodial credit risk.

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

Interest Rate Risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KCERA's investment policy requires active managers, with the exception of high yield, to be within 20% of their benchmark. The overall fund duration is expected to be within 20% of the Fund's benchmark duration. At June 30, 2012, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

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

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

Investments *(cont.)*

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

KCERA's investment policy permits a 22% allocation to non-U.S. equities. Non-U.S. bonds may constitute up to 20% of an active core manager's portfolio. Allocations to non-U.S. bonds must be hedged back into U.S. dollars at least 100% to avoid the negative impact of currency volatility.

The following direct holdings represent KCERA's foreign currency risk exposure as of June 30, 2012:

(In thousands)

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

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

Highly Sensitive Investments
KCERA utilizes investments that are highly sensitive to interest rate changes in its fixed income, separately managed investment accounts. Highly sensitive investments include mortgage-backed securities, asset-backed securities, and collateralized mortgage obligations. Mortgage-backed securities, collateralized mortgage obligations, and asset-backed securities are created from pools of mortgages or other assets (receivables).

Such securities are subject to credit and interest rate risks, including uncollectible mortgages or receivables backing a security, home mortgages that are prepaid at the option of the homeowner, and the duration and maturity of the issues.

Fair Value (In thousands)

	June 30, 2012	June 30, 2011
Mortgage-Backed Securities	$ 147,937	$ 95,744
Asset-Backed Securities	12,970	11,507
Collateralized Mortgage Obligation Securities	13,400	14,558
Total	**$ 174,307**	**$ 121,809**

NOTE 4 – SECURITIES LENDING

Under provisions of state statutes, the KCERA Board of Retirement permits KCERA to participate in a securities lending program, whereby securities are transferred to independent broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities plus a fee in the future. KCERA's custodian, The Northern Trust Company, is the agent for its securities lending program. The Northern Trust Company is authorized to lend U.S. government obligations, U.S. bonds and equities, and international bonds and equities that are being held in custody to various borrowers, such as banks and brokers. All securities loans can be terminated on demand by either the lender or the borrower.

U.S. securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. Non-U.S. securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest. Marking to market is performed every business day subject to de minimis rules of change in value, and the borrower is required to deliver additional collateral when necessary so that the total collateral held by the agent will at least equal the market value of the borrowed securities. Collateral received may include cash, irrevocable letters of credit, or securities which are direct obligations or guaranteed by the U.S. government. Cash collateral is invested in a short-term investment pool, or may be invested separately in "term loans," in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

At June 30, 2012, KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% plus accrued interest. At June 30, 2012 and 2011, the securities lending transactions collateralized by cash had a fair value of $241,377,920 and $262,726,507, respectively, and a collateral value of $244,429,873 and $268,371,315, respectively. At June 30, 2012 and 2011, the securities lending transactions collateralized by securities or letters of credit had a fair value of $705,289 and $327,600, respectively, and a collateral value of $718,046 and $333,996, respectively, which was not reported as assets and liabilities in the accompanying Statement of Plan Net Assets.

NOTE 4 – SECURITIES LENDING *(cont.)*

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

(In thousands)

Security Type	Fair Value of Loaned Securities Securitized by Cash	Cash Collateral	Fair Value of Loaned Securities Securitized by Non-Cash	Non-Cash Collateral
Global Equities	$ 21,163	$ 21,689	$ 446	$ 457
U.S. Corporate Fixed	47,894	48,466	30	31
U.S. Equities	98,195	98,838	229	230
U.S. Government Fixed	74,126	75,437	-	-
Total	**$ 241,378**	**$ 244,430**	**$ 705**	**$ 718**

NOTE 5 – DERIVATIVES

Description of and Authority for Derivative Investments

KCERA invests in derivative financial investments (derivative instruments) as authorized by the Board of Retirement. Investment managers may use derivatives where guidelines permit. A derivative instrument is defined as a contract that derives its value, usefulness and marketability from an underlying instrument that represents a direct ownership of an asset or a direct obligation of an issuer. Derivative instruments include, but are not limited to, futures, options, forward contracts and interest rate or commodity swap transactions. All derivatives are considered investments by KCERA.

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

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

Futures

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

NOTE 5 – DERIVATIVES *(cont.)*

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

Options

Options are used to manage risk exposures in certain accounts as a result of asset allocation requirements or unusual flows of cash to or from such accounts. Purchased put/call options are reported as assets with cost equal to the premium amount paid at inception, and written put/call options are reported as liabilities with cost equal to the premium received at inception. During the term of the option contracts, options are revalued at the end of each reporting period. Unrealized gains and losses are reported as the difference between the premium (cost) and the current market value. At expiration, sale, or exercise, options are removed from record and realized gains and losses are generally recognized. Because of the nature of options transactions, notional values are not included in the Investment Derivatives Summary table on page 36.

Swaps

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

Forward Exchange Contracts

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

Summary of Investment Derivatives

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

As of June 30, 2012, KCERA has the following instruments outstanding (see Summary table on page 36), 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 5 – DERIVATIVES *(cont.)*

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, 2012, in addition to a summary of KCERA's derivatives as of June 30, 2012, are as follows:

Investment Derivatives Summary and Summary of Credit Ratings

(In thousands)

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

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, 2012, KCERA had the following investment derivative interest rate risks:

(In thousands)

Derivative Investment Type	Notional Value	Fair Value	< 3 Months	3 to 6 Months	6 to 12 Months	1 to 5 Years	5 to 10 Years	10+ Years
Futures	$ (39,984)	$ -	$ (38,007)	$ -	$ 11,688	$ (13,665)	$ -	$ -
Options	-	(207)	263	8	(478)	-	-	-
Swaps	-	1,694	(3)	3	-	847	(12)	859
Forward Exchange Contracts	-	61	(27)	10	-	-	-	78
Rights/Warrants, Equity Contracts	-	13	-	-	-	13	-	-
Total	**$ (39,984)**	**$ 1,561**	**$ (37,774)**	**$ 21**	**$ 11,210**	**$ (12,805)**	**$ (12)**	**$ 937**

NOTE 5 – DERIVATIVES *(cont.)*

Investment Derivative Foreign Currency Risk
Foreign currency risk is the risk that changes in currency exchange rates will adversely affect the fair value of an investment. At June 30, 2012, KCERA had the derivative foreign currency exposures listed in the table below.

(In thousands)

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

NOTE 6 – CONTRIBUTIONS

Eligible County of Kern employees and their beneficiaries are entitled to pension, disability, and survivors' benefits under the provisions of the CERL with the establishment of KCERA on January 1, 1945. As a condition of participation under the provisions of the CERL, members are required to pay a percentage of their salaries, depending upon their age at date of entry in the Plan, membership type and benefit tier.

The funding objective of the KCERA Board of Retirement is to provide sufficient assets to permit the payment of all regular benefits promised under KCERA and to minimize the volatility of contribution rates (for the participating employers and members) from year to year as a percentage of covered payroll. There are three sources of funding for KCERA retirement benefits: employer contributions, member contributions, and investment earnings of KCERA.

Employer Contributions
Each year, an actuarial valuation is performed for the purpose of determining the funded position of the retirement plan and the employer contributions that are necessary to pay benefits accruing to KCERA members not otherwise funded by member contributions or investment earnings. For fiscal year 2012, the employer contribution rates are actuarially determined by using the Entry Age Funding method, approved by the Board of Retirement and adopted by the Board of Supervisors. Employer contribution rates are made up of two parts:

1. The Normal Cost: the cost of the portion of the benefit that is allocated to the current year.

2. The payment to amortize the Unfunded Actuarial Accrued Liability (UAAL). The UAAL is the excess of the Plan's accrued liability over its assets. In fiscal year 2012, the UAAL is amortized over 25.5 years.

NOTE 6 – CONTRIBUTIONS *(cont.)*

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

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

As a result of prior negotiations, some members receive an employer "pick up" of their contributions. General members hired prior to Memoranda of Understanding (MOU)-specified dates in 2004 or 2005 are eligible to receive the "five-year stop" upon attaining five years of service. Safety members hired before MOU-specified dates in 2007 are eligible to receive the five-year stop upon attaining five years of service, except for the following bargaining units. Effective January 1, 2010, probation managers hired prior to April 7, 2004 who have not attained five years of service will pay 100% of employee contributions until attaining ten years of service. Effective January 1, 2010 to July 13, 2012, probation officers hired prior to September 18, 2007 who have not attained five years of service will pay 100% of employee contributions until attaining seven years of service. Effective July 14, 2012, employee contributions stopped for all probation officers who were hired prior to September 18, 2007 and had attained five years of service. Effective July 14, 2012, all probation officers and supervisors no longer received the 2% "longevity pay" after 30 years of service. Effective June 5, 2010, all firefighters eligible for the five-year stop will contribute a flat 1% of pensionable earnings.

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

Contribution Rates

Member Classification	Integrated Employee Rates	Employer Rates
General Members Tier I	6.34% - 11.25%	34.98%
General Members Tier II	4.51% - 8.60%	34.98%
General Members – Courts Tier I	6.34% - 11.25%	34.83%
General Members – Courts Tier II	4.51% - 8.60%	34.83%
Safety Members Tier I	11.14% - 17.42%	51.30%
Safety Members Tier II	6.96% - 11.66%	51.30%
Safety Members – Firefighters, Probation and Detention Officer Lieutenants Tier I (flat rate)	12.30%	51.30%
Safety Members – Firefighters, Probation and Detention Officer Lieutenants Tier II (flat rate)	8.56%	51.30%
Special Districts (electing MOU)	6.34% - 11.25%	35.87%
Special Districts (not electing MOU)	6.34% - 11.25%	34.28%
Special Districts (full pickup)	6.34% - 11.25%	36.36%
Special Districts ("3% at 60" prospectively only)	6.34% - 11.25%	32.96%
Special Districts (adopted Tier II)	4.51% - 8.60%	33.06%

NOTE 6 – CONTRIBUTIONS *(cont.)*

Contribution Rates *(cont.)*
San Joaquin Valley Air Pollution Control District employees, excluding management and confidential, paid 100% of employee contributions from December 17, 2011 to May 18, 2012. Effective May 19, 2012, they reverted to paying 50% rates.

Employees of the Kern County Superior Court were required to pay an additional 2.5% contribution of base salary until March 12, 2011, when the rate increased to 3.0%. On September 24, 2011, the rate increased to 3.5%. Finally, employees in special districts not electing the 1997 MOU pay 50% of the full rates for the first 30 years of service, regardless of hire date.

The table on page 38 summarizes the required contribution rates in effect on June 30, 2012. Member (i.e., "employee") contribution rates range from youngest to oldest age at date of entry. Employer contribution rates are expressed as a percentage of covered payroll.

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

Total contributions made during fiscal years 2012 and 2011, respectively, amounted to approximately $208.5 million and $195.7 million, of which $189.8 million and $177.4 million were contributed by employers, and $18.7 million and $18.3 million were contributed by members.

Cost-of-Living Adjustment
On April 1, 1973, an annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted. The 2% COLA was funded entirely from the unreserved fund balance until February 5, 1983. After this date and prior to fiscal year 2003, funding the 2% COLA was included in the employers' contributions. In fiscal year 2002, the County of Kern activated Government Code Section 31617, which provides that COLAs shall be funded first from excess earnings, to the extent of such excess, and thereafter from employer contributions. In fiscal year 2011, the Plan had no excess earnings; $0 was reserved to fund the employer COLA contributions in fiscal year 2012.

Effective April 1, 2002, provisions of a court settlement agreement granted a permanent increase of a 0.5% cost-of-living adjustment to retirees and their beneficiaries. The cost of the 0.5% COLA increase was initially funded with a $64.7 million allocation from funds held in the Supplemental Retiree Benefit Reserve. The remaining SRBR funds of this allocation on June 30, 2012 were $71.3 million.

Supplemental Retirement Benefits
A supplemental benefits program currently provides enhancement to benefits payable to retirees and their beneficiaries in order to bring all eligible recipients up to 80% of dollar purchasing power as of their retirement date. A $3,000 death benefit is also provided. The program is contingently funded from regular interest and one-half of "excess" earnings (i.e., earnings greater than the assumed actuarial rate of interest).

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS

Member and employer contributions are allocated to various legally required reserve accounts based on actuarial determinations. Member, employer, and retired members' reserves are fully funded. KCERA maintains the following reserve and designation accounts:

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

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

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

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF PLAN ASSETS *(cont.)*

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, 2012, -0.6% of the Plan's net assets were in contingencies, according to the Board of Retirement's Interest Credit Policy.

Balances in these reserve accounts and designations of net assets available for pension and other benefits at June 30, 2012 and 2011 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

(In thousands)

Reserve Account	2012	2011
Members' Deposit Reserve – General	$ 157,028	$ 152,735
Members' Deposit Reserve – Safety	58,618	58,013
Members' Deposit Reserve – Special District	15,980	14,901
Employers' Advance Reserve – General	299,534	319,563
Employers' Advance Reserve – Safety	236,412	245,314
Employers' Advance Reserve – Special District	23,017	23,707
Cost-of-Living Reserve – General	444,810	413,942
Cost-of-Living Reserve – Safety	317,882	301,006
Cost-of-Living Reserve – Special District	27,282	24,250
Retired Members' Reserve – General	847,825	776,241
Retired Members' Reserve – Safety	477,151	452,677
Supplemental Retiree Benefit Reserve (SRBR)	116,814	117,798
SRBR allocated for 0.5% COLA	71,323	73,753
Contingency Reserve	(16,355)	(16,355)
Total reserves at five-year smoothed market actuarial valuation	**$ 3,077,321**	**$ 2,957,545**
Market Stabilization Reserve*	(277,297)	(161,619)
Total net assets held in trust for pension benefits	**$ 2,800,024**	**$ 2,795,926**

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

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Capital Commitments

As of June 30, 2012, KCERA's Board committed $355 million to nine private equity fund-of-funds managed by Pantheon Ventures, Inc. ($167.5 million) and Abbott Capital Management, LLC ($187.5 million). Private equity investments have a long life cycle involving commitment, draw-downs, maturation, and stock distribution. For each fund, effective exposure reaches maximum at about four to six years and the effective allocation over the life cycle generally does not exceed 65% of the total commitment. As of June 30, 2012, KCERA's net contributions to the private equity funds were $199.4 million, with a market value of $211.9 million.

As of June 30, 2012, KCERA's Board committed $140 million to two Fidelity Real Estate Growth (FREG) commingled funds managed by Long Wharf Real Estate Partners, LLC. In this relationship, the general partner draws down invested capital from all limited partners, when necessary, to fund investments. The FREG funds can directly invest in property or indirectly invest in property through private companies or partnerships. As of June 30, 2012, KCERA's net contributions to the two FREG funds were $98.5 million, with a market value of $74.6 million.

NOTE 9 – RELATED PARTY TRANSACTIONS

Office Lease

KCERA, as the sole shareholder, formed a title holding corporation, KCERA Property, Inc. (KPI) for the purpose of accommodating the administrative offices of the Plan. In October 2010, KCERA entered into its Build to Suit Lease agreement with KPI to occupy 14,348 square feet. KCERA is required to pay a monthly rate of $1.75 per square foot as well as taxes, insurance and operating costs as defined in the agreement. The base rent shall be subject to an automatic 10.4% increase beginning on the fifth anniversary of the commencement date and on each fifth year anniversary date thereafter during the lease term. The sum of payments due for fiscal year ended June 30, 2012 is $301,308 for base rent and $4,143 for insurance and assessment fees. KCERA's base rent and other costs are abated from KPI's rental income.

NOTE 10 – FUNDED STATUS AND FUNDING PROGRESS

KCERA's funded status as of June 30, 2011, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) (3) – (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Annual Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
06/30/11	$2,839,747	$4,672,348	$1,832,601	60.8%	$539,836	339.5%

(Dollars in thousands)

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

Additional information as of the latest actuarial valuation dated June 30, 2011 is as follows:

Valuation date:	June 30, 2011
Actuarial assumptions:	
Investment rate of return:	7.75% per year
Projected salary increases (individual):	Rates varying by service
Projected salary increases (total payroll):	4.00% per year
Includes inflation at:	3.25% per annum
Annual increase in system benefits cap:	Contingent upon CPI with a 2.5% maximum*
Actuarial cost method:	Entry age actuarial cost method. Under the principles of this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percentage of the individual's projected compensation between entry age and assumed maximum retirement age.

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

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

Amortization method:	Level percent of payroll, closed, for total unfunded actuarial accrued liability (UAAL) (4% payroll growth assumed)
Remaining amortization period:	24.5 years as of the June 30, 2011 valuation
Asset valuation method:	The Actuarial Value of Assets is determined by recognizing investment earnings greater than (or less than) the assumed investment return over 10 six-month interest-crediting periods limited by a 50%/150% corridor around market value. For valuation purposes, the Actuarial Value of Assets is reduced by the value of the non-valuation reserves, such as the Supplemental Retiree Benefit Reserve and the Contingency Reserve.

NOTE 11 – SUBSEQUENT EVENTS

On September 12, 2012, Governor Jerry Brown signed into law the California Public Employees' Pension Reform Act (PEPRA) of 2013, formerly known as AB 340. The law will take effect on January 1, 2013 and require significant changes to the KCERA benefit plan.

For current active members, the benefit formulas and limits on calculating compensation earnable do not apply. However, to ensure there is no pension spiking, the Act has clarified what is excluded from compensation earnable and added a test that the Plan must perform and procedures it must adopt. The Board of Retirement will establish an administrative policy and procedures to monitor final average compensation for spiking, and will adopt a resolution listing compensation earnable items. Beginning on January 1, 2018, a county or district may require members to pay 50% of the normal cost of benefits.

For new members of the Plan hired on or after January 1, 2013, an employer must adopt a new defined benefit formula for both general and safety members, unless that employer has a benefit formula in place that is lower than the formula described in PEPRA. In addition, final average salary will be measured over a three-year period. The Board of Retirement will adopt a resolution specifying which pensionable compensation items are includable in final average salary. Members must pay at least 50% of the normal cost, but if a contract between the employer and its employees is in effect on January 1, 2013, this provision would not apply until the expiration of the contract.

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

Due to PEPRA's complexity and broad scope, KCERA's fiduciary counsel must review and interpret the various provisions of the law before KCERA can implement the required changes.

SCHEDULE OF FUNDING PROGRESS (NET OF SRBR AND $3,000 DEATH BENEFITS)

(In thousands)

Actuarial Valuation Date*	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (UAAL) (3) - (2)	Funded Ratio (2) / (3)	Annual Covered Payroll	UAAL as % of Annual Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
06/30/11	$ 2,839,747	$ 4,672,348	$ 1,832,601	60.8%	$ 539,836	339.5%
06/30/10	$ 2,794,644	$ 4,457,038	$ 1,662,394	62.7%	$ 559,380	297.2%
06/30/09	$ 2,780,215	$ 4,205,200	$ 1,424,985	66.1%	$ 559,872	254.5%
06/30/08	$ 2,654,305	$ 3,671,460	$ 1,017,155	72.3%	$ 482,879	210.6%
12/31/07	$ 2,589,817	$ 3,355,755	$ 765,938	77.2%	$ 453,412	168.9%
12/31/06	$ 2,352,028	$ 3,109,038	$ 757,010	75.7%	$ 417,351	181.4%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30,	Annual Required Contributions (In thousands)	Percentage Contributed
2012	$ 189,837	100%
2011	$ 177,444	100%
2010	$ 151,127	100%
2009	$ 138,815	100%
2008	$ 137,264	100%
2007	$ 128,135	100%

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

SIGNIFICANT FACTORS AFFECTING TRENDS IN ACTUARIAL INFORMATION

Demographics

The number of active members included in the valuation decreased by 4.4% from 8,567 in 2010 to 8,187 in 2011. Retired member counts and average retirement benefit amounts continue to increase steadily. For 2011, there were 6,570 retired members and beneficiaries with an average benefit of $2,584 per month. This represents a 6.5% increase in count and a 6.0% increase in the average monthly benefit.

Plan Changes

The "1.62% at age 65" formula found in CERL 31676.01, known as General Tier II, became effective for new employees hired by the Berrenda Mesa Water District on or after January 12, 2010 and by the Superior Courts on or after March 12, 2011. Also, the additional Courts Tier I member rate increased from 2.5% to 3.0% of base salary on March 12, 2011, then to 3.5% of base salary on September 24, 2011, then to 4.0% of base salary on October 6, 2012.

Adjustment for Delay in Contribution Rate Implementation

KCERA eliminated the method of adjusting employer contribution rates for the one-year delay between the valuation date and the date the rates become effective.

Actuarial Assumptions

As a result of the Investigation of Experience for the period from July 1, 2008 through June 30, 2011, changes were made in KCERA's assumptions, as follows:

Retirement Rates: General and Safety members were assumed to retire at slightly younger ages overall.

Mortality Rates: Pre- and post-retirement rates for non-disabled General and Safety members were decreased for males and increased for females. Rates were increased overall for disabled General and Safety members.

Termination Rates: Rates were decreased overall for General members and increased overall for Safety members. There were small increases in the proportion of members assumed to elect a refund of member contributions at termination.

Disability Incidence Rates: Rates decreased overall for General and Safety members.

Individual Salary Increases: The promotional and merit increase assumption was changed. Overall salary increases are slightly lower for General and Safety members.

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Personnel Services:		
Salaries & Wages	$ 1,356,722	$ 1,242,241
Employee Benefits	923,554	788,359
Total Personnel Services	2,280,276	2,030,600
Professional Services:		
Legal Counsel	234,615	226,977
Audit	27,987	27,182
Medical/Hearing Officers	116,224	102,714
Other Professional Services	123,417	119,557
Total Professional Services	502,243	476,430
Communication:		
Postage	16,967	30,432
Printing	5,215	7,193
Telephone/Internet	16,822	17,358
Education & Professional Development	29,513	34,312
Marketing & Promotions	11,074	22,104
Total Communication	79,591	111,399
Operating Expenses:		
Equipment Leases	17,250	21,265
Building Lease	-	26,000
Office Expense	24,385	22,820
Insurance	107,961	112,381
Equipment Maintenance	26,221	12,322
Memberships	7,170	6,633
Special Departmental Expense	4,265	33,856
Other Services	63,970	35,780
Pension Disbursement Fees	100,000	100,000
Utilities & Maintenance	41,122	32,098
Information Technology	130,240	100,503
Projects	28,908	576,167
Depreciation	55,392	64,542
Total Operating Expenses	606,884	1,144,367
Total Administrative Expenses	**$ 3,468,994**	**$ 3,762,796**

See accompanying independent auditor's report.

SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
Investment Manager Fees:		
Equity	$ 4,095,598	$ 3,812,067
Fixed Income	1,560,070	1,363,160
Real Estate	530,518	528,743
Total Investment Manager Fees	6,186,186	5,703,970
Other Investment Expenses:		
Custodian	365,625	392,292
Actuarial Consultant	143,735	121,179
Investment Consultant	389,444	297,322
Legal Fees	1,935,620	999,861
Due Diligence	9,812	8,610
Real Estate	14,255	48,844
Total Other Investment Expenses	2,858,491	1,868,108
Total Fees and Other Investment Expenses	9,044,677	7,572,078
Security Lending Rebates and Bank Fees	14,749	151,693
Total Investment Expenses	**$ 9,059,426**	**$ 7,723,771**

See accompanying independent auditor's report.

SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

		Commission / Fee	
Individual or Firm	**Nature of Service**	**2012**	**2011**
Brown Armstrong Accountancy Corporation	External Auditors	$ 27,987	$ 27,182
Cortex Applied Research, Inc.	Policy Consultants	43,636	51,642
Linea Solutions, Inc.	Oversight Project Manager for Pension Admin System	115,641	273,717
Milliman, Inc.	Actuarial Services	1,048	33,794
The Segal Company	Actuarial Services	45,458	-
Kern County Counsel	Legal Counsel	189,952	181,291
Hanson Bridgett	Legal Counsel	14,126	34,186
Manatt, Phelps & Phillips, LLP	Legal Counsel	14,689	31,686
Andrew L. Kjeldgaard, Attorney at Law	Legal Counsel	15,849	14,045
Professional Administrative System	Personnel Consultants	-	9,456
Total Payments to Consultants		**$ 468,385**	**$ 656,999**

(These payments were made to outside consultants other than investment professionals. A Schedule of Investment Fees is presented on pages 63 and 64 in the Investment Section.)

See accompanying independent auditor's report.

Investment Section

Positive investment returns keep the fund growing, which is needed to pay for an ever-increasing retiree payroll. The Board of Retirement hires managers to grow the fund using diverse investment strategies. The Investment Section of this CAFR opens with a letter from KCERA's investment consultant, policy information and a few performance charts. Next are directories of our investment team and largest investment holdings. The final pages of this section show KCERA's assets under management by asset type and investment fees paid in the last two fiscal years.

Positive investment returns keep the fund

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

November 8, 2012

Ms. Anne Holdren
Executive Director
Kern County Employees' Retirement Association
1115 Truxtun Avenue, Suite 100
Bakersfield, CA 93301

Dear Ms. Holdren:

Wurts & Associates, Inc. is pleased to have had the opportunity to serve the Kern County Employees' Retirement Association since July of last year and to provide this investment review for the year ending June 30, 2012.

Wurts & Associates, independently calculated the Fund's fiscal year performance results using data on market valuations and transactions provided by the Fund's custodian bank, the Northern Trust Company. For the fiscal year ended June 30, 2011, the KCERA's retirement fund had an investment gain of 1.4% (gross of fees) and 1.0% (net of fees) and ended the year with total assets of approximately $2.8 billion.

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

<u>Capital Markets Review</u>

The most recent fiscal year saw numerous swings between unbridled optimism and bottomless despair as investors' views on the prospects of the global economy vacillated between imminent recovery and Armageddon. Despite this volatility, in our considered opinion the outlook has not changed that much over the past year.

But what a difference a quarter makes in the minds of investors. In the first quarter of calendar 2012, global equity markets rallied more than 10% as positive news about job growth in the U.S., short-term solutions to Europe's debt crisis, and expansionary policy by the world's central banks raised hopes that economic growth would be greater than previously expected. Then, in the second quarter markets sold off on expectations of global growth slowing to rates not seen since 2009. The S&P 500 dropped from 1410 to 1275 before rallying to finish the quarter at 1362, European equities fell 8.7%, and emerging market equities declined 8.8%.

U.S economic growth appeared to be losing momentum, due in part to a persistent recession in Europe and slowing growth in the emerging markets, raising the prospect of additional quantitative easing (which arrived in September). In the U.S., optimism that a "virtuous cycle" was taking hold has faded. First quarter job growth of more than 200,000 a month fell to less than 100,000 a month in the second quarter. It appears firms are delaying hiring plans over concerns of decreasing demand and possible recession in 2013. Job openings, which had risen monthly for more than a year, actually fell in May from 3.7 million to 3.4 million. Surveys reveal businesses and governments have cut their hiring plans for three primary reasons: (1) uncertainty about future U.S. tax and spending policy ("the fiscal cliff"); (2) a lack of demand as export growth slows and consumers continue to de-lever; and (3) continued pressure on state and local government budgets.

This gloomy outlook can be tempered somewhat by more recent market activity and economic data. Recent positive economic data from the quarter ending September 30 include: significant improvement in U.S. manufacturing activity; continued increasing auto sales; rising U.S. home prices, which jumped 4.6% in August, their biggest year-over-year increase in six years; and higher consumer confidence, which increased in September to its highest level in four months.

Asset Allocation

At fiscal year end, the KCERA had made significant progress implementing the strategic asset allocation approved by the Board in October of last year.

ASSET CLASS	**Target Allocation**	**Year-end Allocation**
Domestic Equity	**23%**	**25.6%**
International Equity	**22%**	**20.9%**
Fixed Income	**29%**	**31.5%**
Real Estate	**5%**	**8.1%**
Hedge Funds	**10%**	**5.5%**
Private Equity	**5%**	**7.7%**
Commodities	**6%**	**0.0%**
Cash	**0%**	**0.7%**

Completed steps include:

- Restructuring the fixed income allocation to reduce the passively managed index mandate in favor of active management;
- Completion of due diligence on Emerging Market debt, which was funded shortly following fiscal year-end; and
- Approval of transitioning from a fund-of-funds structure in the hedge fund allocation to a direct investment program, which will significantly reduce investment management fees.

Remaining steps include:

- Completion of due diligence and funding of the direct hedge fund program ;
- Completion of due diligence and funding of the Commodities allocation;
- Evaluation of and appropriate action regarding the Real Estate allocation; and
- Evaluation of and appropriate action regarding the Private Equity allocation.

Investment Performance

The total fund's investment performance did not meet its actuarial assumed rate of return for the fiscal year as lackluster domestic equity returns and even worse international equity returns were partially offset by stronger fixed income and real estate returns. Investment highlights for the fiscal year include:

- The KCERA's total fund returned 1.0% for the fiscal year, versus the policy return of 1.3%. Underperformance by active managers in domestic and international equity was mostly offset by active management in fixed income and minor favorable asset allocation variances.

- KCERA's Domestic Equity composite returned 3.2% versus a return of 3.8% for the benchmark Russell 3000 Index. Modest outperformance by the Plan's large cap managers was more than offset by underperformance in the small cap space.

- International Equity similarly underperformed but against much less favorable benchmark performance. The composite returned -15.1%, 100 basis points less than the MSCI All County World Index ex U.S., which lost 14.1% for the year ending June 30, 2011. The biggest detractor from performance was Cap Guardian, the Emerging Markets Manager, which earned -21.7% for through fiscal year end.

- KCERA's Fixed Income composite, which includes a broad selection of domestic and international bonds, earned 8.2% and outperformed the Barclays Credit Aggregate Bond Index by 70 basis points. Outperformance by PIMCO, one of the Plan's two core+ managers, along with a dedicated allocation to Treasury Inflation Protected Securities contributed to relative performance.

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

- The hedge fund allocation significantly underperformed its collective benchmark of T-bills + 400 basis points. Market (or beta) exposures in the underlying managers' portfolios overwhelmed any benefits attributable to security selection. The two hedge fund-of-fund managers, Blackstone and K2, earned -0.8% and -0.2%, respectively.

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

Sincerely,

Scott J. Whalen
Executive Vice President, Senior Consultant

INSTITUTIONAL INVESTMENT CONSULTANTS
SEATTLE | LOS ANGELES

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

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

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

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

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

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

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

ASSET ALLOCATION

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

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

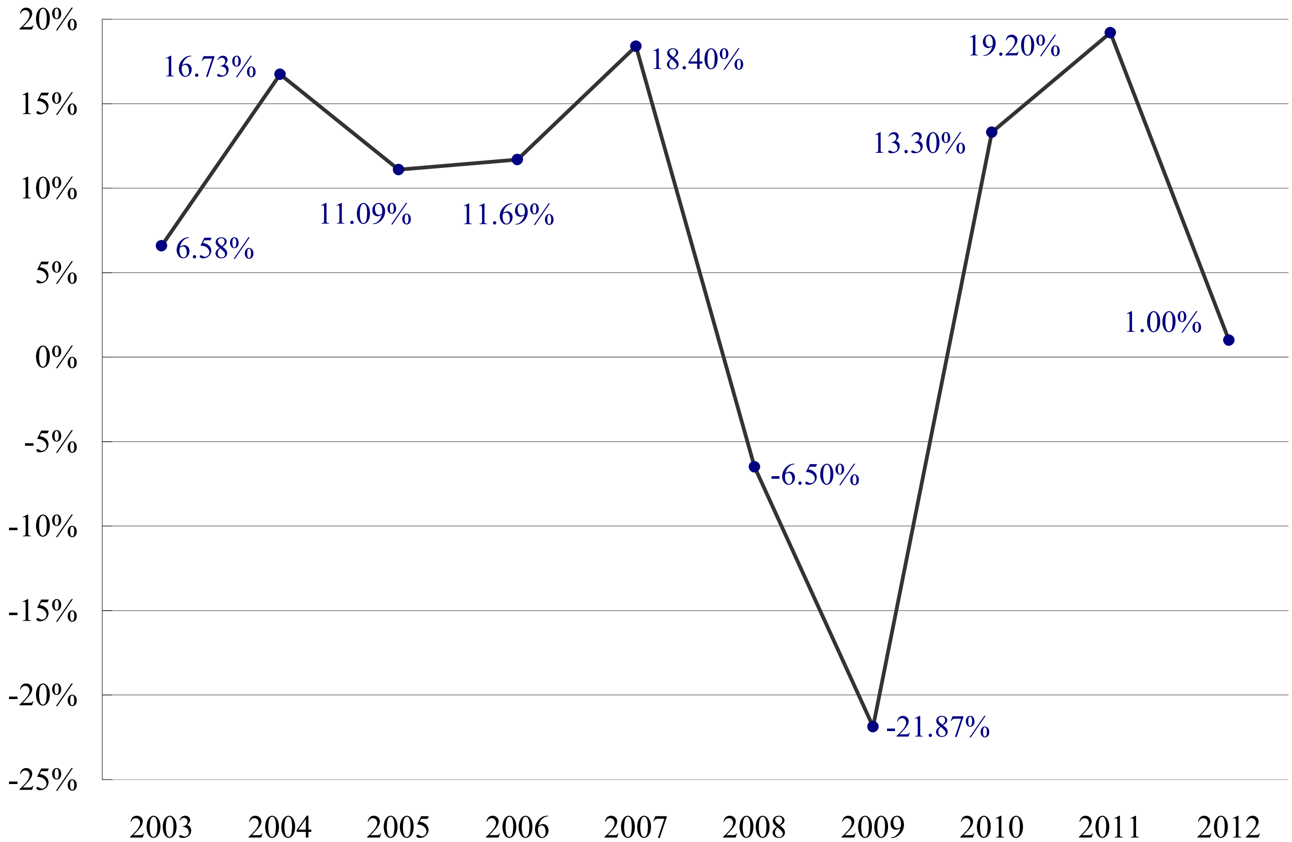
The Board of Retirement adopted the current asset allocation policy in October 2011. The target asset allocation and the actual asset allocation at June 30, 2012 are as follows:

			Target Ranges	
Asset Class	**Actual**	**Target**	**Minimum**	**Maximum**
Domestic Equities	25.7%	23.0%	8.0%	38.0%
International Equities	21.1%	22.0%	7.0%	37.0%
Fixed Income	31.6%	29.0%	14.0%	44.0%
Real Estate	5.4%	5.0%	0.0%	10.0%
Private Equities	7.6%	5.0%	0.0%	10.0%
Hedge Funds	5.5%	10.0%	0.0%	15.0%
Commodities	0.0%	6.0%	0.0%	8.0%
Opportunistic	2.7%	0.0%		
Cash	0.4%	0.0%		
Total	**100.0%**	**100.0%**		

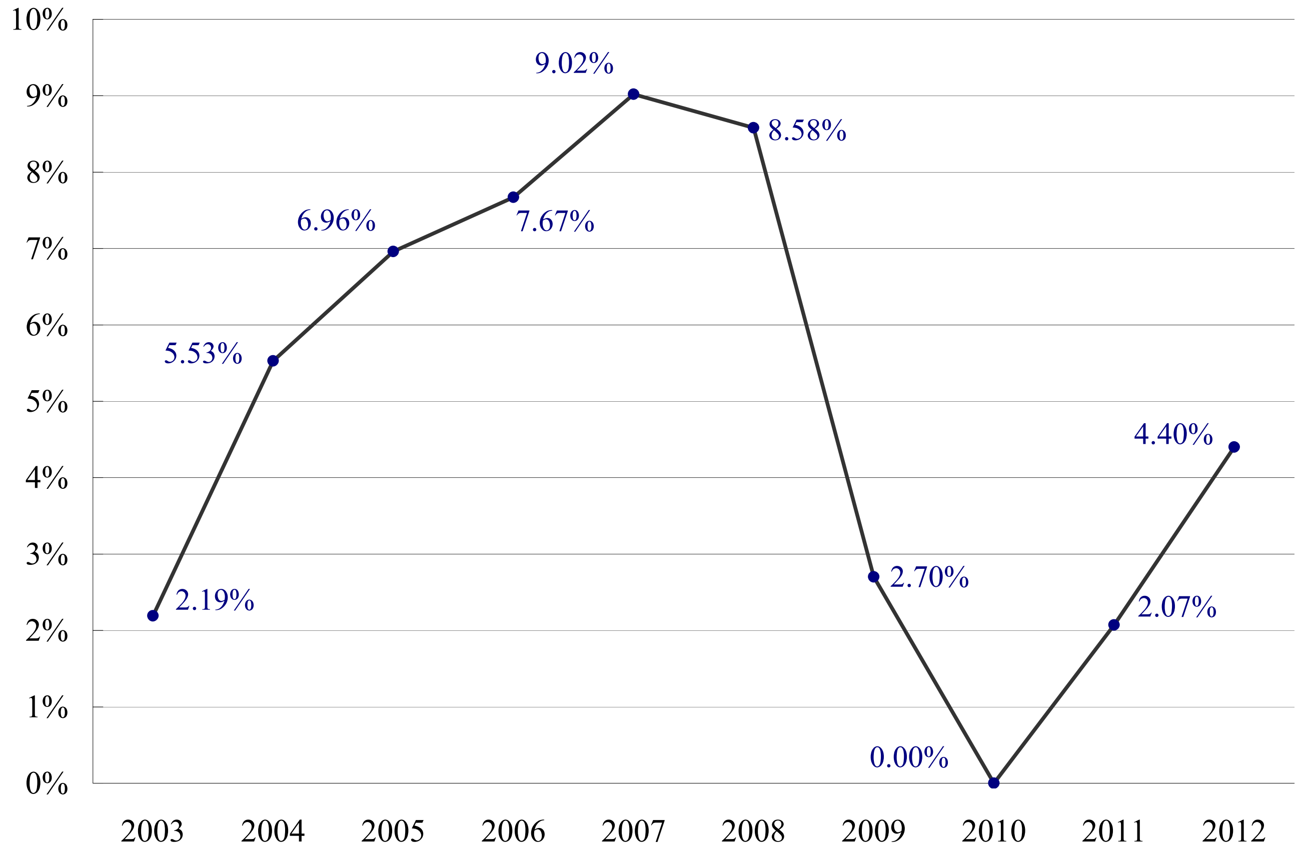
INVESTMENT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2012

Type of Investment	Fair Value (In thousands)	% of Total Fair Value
Domestic Equities		
Large Cap Index Fund	$ 214,650	7.67%
Large Core	245,765	8.79%
Large Cap	134,644	4.81%
Small Cap Growth	62,552	2.24%
Small Cap Value	63,288	2.26%
Total Domestic Equities	720,899	25.77%
International Equities		
EAFE Securities	400,707	14.33%
Small Cap Core	75,480	2.70%
Emerging Markets	113,287	4.05%
Total International Equities	589,474	21.08%
Fixed Income		
Fixed Income Index Fund	160,101	5.72%
Fixed Income Core Plus	451,267	16.13%
TIPS Index Fund	152,230	5.44%
High Yield	119,497	4.27%
Total Fixed Income	883,095	31.57%
Real Estate		
U.S. REITs	122,137	4.37%
Global REITs	24,707	0.88%
Property	5,082	0.18%
Total Real Asset Return	151,926	5.43%
Alternative Investments		
Private Equities	211,901	7.58%
Hedge Funds	152,892	5.47%
Total Alternative Investments	364,793	13.04%
Opportunistic	74,609	2.67%
Cash & Cash Equivalents	12,058	0.43%
Assets in Liquidation	44	0.00%
Total Investments	**$ 2,796,898**	**100.00%**
Reconciliation		
KCERA Capital Assets	4,186	
KCERA Receivables / Payables	(1,060)	
KCERA Net Assets Held in Trust for Pension Benefits	**$ 2,800,024**	

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



HISTORY OF INVESTMENT EARNINGS
FIVE-YEAR SMOOTHED ASSET VALUATION
FOR PERIODS ENDED JUNE 30



KCERA uses the five-year smoothed spread gain valuation method to allocate investment earnings greater than (or less than) the assumed investment return (actuarial assumption rate minus actual rate). The reserve account balances reflect the five-year smoothed asset valuation method for actuarial purposes. In accordance with KCERA's Interest Crediting Policy, when investment returns would result in a negative five-year smoothed rate, KCERA sets the smoothed rate at 0.00% and credits the Contingency Reserve with the negative balance.

INVESTMENT RESULTS
RETURNS FOR PERIODS ENDED JUNE 30

	Current Year	Annualized 3-Year	Annualized 5-Year	Annualized 10-Year
Total Fund:	1.0	10.9	-0.1	6.2
Benchmark: Policy Index*	1.3	11.7	2.5	7.0
Domestic Equities:	3.2	17.3	0.2	5.8
Benchmark: Russell 3000 Index	3.8	16.7	0.4	5.8
International Equities:	-15.1	7.3	-5.1	6.5
Benchmark: MSCI ACWI ex-US	-14.1	7.4	-4.2	7.2
Fixed Income:	8.2	12.2	6.7	N/A
Benchmark: Barclays Aggregate Index	7.5	6.9	6.8	N/A
Real Estate:	10.3	N/A	N/A	N/A
Benchmark: NCREIF Property Index	12.0	N/A	N/A	N/A
Alternative Investment / Hedge Fund:	0.2	4.0	-0.3	N/A
Benchmark: 90-Day T-Bills + 400 bps	4.1	4.1	5.0	N/A
Private Equities:**	9.6	8.4	4.2	4.5
Benchmark: Russell 3000 + 300 bps	10.5	27.8	5.3	7.8
Cash:	0.5	0.8	1.7	N/A
Benchmark: 90-Day T-Bills	0.1	0.1	0.8	N/A
Opportunistic	12.1	N/A	N/A	N/A
Benchmark: Russell 3000 + 300 bps	7.0	N/A	N/A	N/A

* Total Fund: 23.0% Russell 3000
22.0% MSCI ACWI ex-U.S.
29.0% Barclays Aggregate
5.0% NCREIF Property
6.0% DJ UBS Commodities
10.0% 90-Day T-Bills + 400 bps
5.0% Russell 3000 + 300 bps

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

INVESTMENT PROFESSIONALS
AS OF JUNE 30, 2012

INVESTMENT MANAGERS

Domestic Equity

Columbia Management Investment Advisors, LLC
(Boston, MA)

Fisher Asset Management, LLC
(Woodside, CA)

Mellon Capital Management Corporation
(San Francisco, CA)

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

PanAgora Asset Management, Inc.
(Boston, MA)

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

International Equity

BlackRock Institutional Trust Company
(San Francisco, CA)

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

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

Pyramis Global Advisors Trust Company
(Boston, MA)

Real Estate

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

Opportunistic

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

INVESTMENT MANAGERS (cont.)

Fixed Income

Mellon Capital Management Corporation
(San Francisco, CA)

Neuberger Berman Fixed Income, LLC
(Chicago, IL)

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

Western Asset Management Company
(Pasadena, CA)

Alternative Investment

Abbott Capital Management, LLC
(New York, NY)

Blackstone Alternative Asset Management Associates, LLC
(New York, NY)

K2 Advisors, LLC
(Stamford, CT)

Pantheon Ventures, Inc.
(San Francisco, CA)

CONSULTANT

Wurts & Associates, Inc.
(Seattle, WA)

ACTUARY

The Segal Company, Inc.
(San Francisco, CA)

CUSTODIAN

The Northern Trust Company
(Chicago, IL)

LARGEST STOCK DIRECT HOLDINGS (BY MARKET VALUE) AS OF JUNE 30, 2012

Shares	Stocks	Market Value
18,218	Apple	$ 10,639,312
85,928	Exxon Mobile	$ 7,352,859
198,514	Microsoft	$ 6,072,543
159,180	Royal Dutch Shell	$ 5,374,406
47,656	Chevron	$ 5,027,708
1,524,257	Vodafone Group	$ 4,285,367
48,258	Philip Morris	$ 4,210,993
69,362	Nestle	$ 4,144,132
139,279	Oracle	$ 4,136,586
460,697	HSBC Holdings	$ 4,071,341

LARGEST BOND DIRECT HOLDINGS (BY MARKET VALUE) AS OF JUNE 30, 2012

Par	Bonds	Market Value
38,100,000	U.S. Treasury Notes 2% due 02-15-2022	$ 39,382,903
13,300,000	U.S. Treasury Zero CPN 1.75% due 05-15-2022	$ 13,408,063
12,400,000	U.S. Treasury Notes 0.875% due 01-31-2017 Reg	$ 12,507,533
10,340,000	U.S. Treasury 1.25% due 04-30-2019	$ 10,454,712
9,000,000	FNMA Single Family Mortgage 4.5% 30 Years Settles Aug	$ 9,646,875
7,094,717	FNMA Pool 4% 11-01-2040 BEO	$ 7,562,897
7,000,000	FNMA Single Family Mortgage 4% 30 Years Settles Aug	$ 7,436,408
6,760,000	U.S. Treasury Bonds 3.125% due 11-15-2041	$ 7,267,000
6,000,000	FNMA Single Family Mortgage 3% 15 Years Settles July	$ 6,285,936
4,800,000	U.S. Treasury Notes Index Linked 0.125% due 01-15-2022 Reg	$ 5,161,763

A complete list of portfolio holdings is available upon request.

ASSETS UNDER MANAGEMENT
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(In thousands)

Asset Classes	2012	2011
Domestic Equity	$ 716,940	$ 695,100
International Equity	584,238	686,367
Fixed Income	880,950	853,127
Real Estate	150,421	135,458
Hedge Fund	152,892	154,393
Private Equity	211,901	209,941
Opportunistic	74,609	56,591
Investments at Fair Value	2,771,951	2,790,977
Cash & Short-Term Investments	25,722	33,092
Investments Sold / Purchased	(8,756)	(30,126)
Investment Income & Other Liabilities	7,967	6,906
Liquidation Assets	14	17
Total Assets Under Management	**$ 2,796,898**	**$ 2,800,866**
KCERA Capital Assets	4,186	3,672
KCERA Receivables / Payables	(1,060)	(8,612)
Net Assets Held in Trust for Pension Benefits	**$ 2,800,024**	**$ 2,795,926**

SCHEDULE OF INVESTMENT FEES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

(Not in thousands)

Investment Managers' Fees*	2012	2011
U.S. Equity Managers:		
AXA Rosenberg	$ 0	$ 74,444
BlackRock	0	111,192
Columbia	332,272	0
Fisher Investments	486,285	244,506
Mellon Capital Management	51,361	25,911
PanAgora	892,089	35,524
State Street Global Advisors	0	59,828
T. Rowe Price	398,117	184,598
Total U.S. Equity Managers	2,160,123	736,003
Non-U.S. Equity Managers:		
Pyramis - Large and Small Cap	973,659	710,830
BlackRock	250,821	1,238,133
JP Morgan Investment Management	710,995	1,127,101
Total Non-U.S. Equity Managers	1,935,475	3,076,064
High Yield Managers:		
Goldman Sachs Asset Management	0	216,064
Neuberger Berman	269,859	123,679
Western Asset Management	117,058	129,524
Total High Yield Managers	386,917	469,267
Fixed Income Managers:		
Goldman Sachs Asset Management	0	144,495
Mellon - Fixed Income and TIPS	99,499	24,788
PIMCO	680,038	282,726
Western Asset Managment	393,616	441,884
Total Global Fixed Income Managers	1,173,153	893,893
Real Asset Return Managers:		
State Street Global Advisors TIPS	0	25,424
LaSalle - Domestic and Global	530,518	480,967
Mellon Capital Management	0	22,352
Total Real Asset Return Managers	530,518	528,743
Total Investment Managers' Fees	**$ 6,186,186**	**$ 5,703,970**

** Includes fees paid directly to investment managers.*

(Schedule of Investment Fees continued on next page)

SCHEDULE OF INVESTMENT FEES *(cont.)*

Investment Consultant Fees	2012	2011
Custodial Fees		
The Northern Trust Company	$ 365,625	$ 392,292
Actuarial Fees		
Milliman, Inc.	(27,415)	121,179
The Segal Company	171,150	0
Consultants		
Alliance	0	31,875
Albourne	14,444	0
Brown Armstrong	20,000	0
Glass, Lewis & Co.	25,000	39,210
Wilshire Associates, Inc.	0	200,000
Wurts & Associates	330,000	0
Cortex Applied Research	0	23,957
Other	0	2,280
Legal Fees		
Kern County Counsel	30,975	25,251
Manatt, Phelps & Phillips	406,054	846,749
Foster Pepper PLLC	842,572	125,846
Kjeldgaard, Andrew L.	4,174	2,015
Nossaman LLP	62,639	0
Insight Consulting LLP	483,504	0
Hemming Morse, LLP	73,323	0
Other	32,379	0
Due Diligence		
Trustees / KCERA Management	9,812	8,610
Security Lending Fees		
The Northern Trust Company	14,749	151,693
Real Estate Expenses		
KCERA Property Inc.	14,255	48,844
Total Investment Fees	**$ 9,059,426**	**$ 7,723,771**

Actuarial Section

There is a well-known saying about making assumptions, but this practice is absolutely necessary when determining the costs of a pension plan. Because much of KCERA's liability will be accrued in the future, it is critical to match economic and demographic assumptions about the future as close as possible to reality. The Actuarial Section of this CAFR begins with a letter from our actuary and a summary of key assumptions. The following pages include charts that detail assumptions related to salary increases and terminations. Next are several historical charts that show the growth of retiree payroll, assets and liabilities, and financial experience. The section ends with a summary of KCERA's plan provisions.

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SEGAL

THE SEGAL COMPANY
100 Montgomery Street Suite 500 San Francisco, CA 94104-4308
T 415.263.8200 F 415.263.8290 www.segalco.com

November 5, 2012

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

Re: Kern County Employees' Retirement Association

Dear Members of the Board:

The Segal Company (Segal) prepared the June 30, 2011 actuarial valuation of the Kern County Employees' Retirement Association (KCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No 25.

As part of the June 30, 2011 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 Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL).

The UAAL is amortized as a level percentage of payroll over a 24.5-year period. Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period. The progress being made towards meeting the funding objective through June 30, 2011 is illustrated in the Schedule of Funding Progress.

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

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

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

In the June 30, 2011 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) decreased from 62.7% to 60.8%. The employer's rate has increased from 38.98% of payroll to 42.78% of payroll, while the employee's rate has increased from 3.02% of payroll to 3.19% of payroll.

Under the asset smoothing method, the total unrecognized investment losses are $162 million as of June 30, 2011. 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 $162 million represent 6% of the market value of assets as of June 30, 2011. Unless offset by future investment gains or other favorable experience, the recognition of the $162 million market losses is expected to have an impact on the Association's future funded percentage and contribution rate requirements. This potential impact may be illustrated as follows:

- If the deferred losses were recognized immediately in the valuation value of assets, the funded percentage would decrease from 60.8% to 57.3%.

- If the deferred losses were recognized immediately in the valuation value of assets, the aggregate employer rate would increase from 42.78% to about 44.75% of payroll.

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

Sincerely,

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

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

ST/kek
Enclosures

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

Economic Assumptions

Interest Rate:	7.75% per year
Salary Increases - Individual:	Rates vary by service, as shown in Table 1 on page 72.
Salary Increases - Total Payroll:	4.00% per year
Inflation Assumption:	3.25% per year

Actuarial Methods

Funding Method:

Entry Age Funding Method, with costs allocated as a level percent of salary.

Actuarial Cost Method:

Entry Age Actuarial Cost Method, the actuarial present value of the projected benefits of each member is allocated as a level percentage of the member's projected compensation between entry age and assumed exit (until maximum retirement age).

Amortization Period:

The actuarial present value of benefits expected to be paid in the future is the Normal Cost. The difference between the Normal Cost and the actuarial present value of all future benefits for contributing members, former contributing members and their survivors is the Actuarial Accrued Liability (AAL). The sum of all AAL and the actuarial value of the assets is the Unfunded Actuarial Accrued Liability (UAAL).

The UAAL is amortized over 24.5 years, as of June 30, 2011. Beginning July 1, 2009, any liability attributable to golden handshakes is paid by one of two methods, as elected by the employer:

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

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

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

Demographic Assumptions

Post-Retirement Mortality:

A) General Members and Safety Members:	RP-2000 Combined Healthy Mortality Table. Rates set back two years for males and one year for females.
B) Beneficiaries:	Rates are the same as a General service retiree of the opposite sex.
C) Disability Retirement:	RP-2000 Combined Healthy Mortality Table. Rates set forward six years for General members and one year for Safety members.
Proportion of Members with Spouse or Partner at Retirement:	75% of male active members and 55% of female active employees are assumed to have a spouse or qualified domestic partner eligible for the 60% continuance at retirement. Wives are assumed to be three years younger than their husbands.
Rate of Termination of Employment:	Rates vary by years of service, as shown in Table 2 on page 73.
Reciprocal Agency:	For current active members, the probability of joining a reciprocal agency immediately after terminating is 55% for General members and 60% for Safety members.
Deferred Retirement Age for Vested Termination:	Age 57 for General members. Age 53 for Safety members.

Note: The above methods and assumptions were selected by the actuary as being appropriate for the Plan and were used in the latest actuarial valuation dated June 30, 2011. The most recently updated Summary of Actuarial Assumptions and Methods was adopted by the Board of Retirement on December 9, 2011.

ASSUMED RATE OF SALARY INCREASE

Table 1

Annual Increase in Salary (before wage inflation*)

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

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

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
Table 2

(In percentages)

Age Nearest	Ordinary Death	Disability*	Service Retirement	
General Members - Male			*Tier I*	*Tier II*
20	0.03	0.02	0.00	0.00
30	0.04	0.05	0.00	0.00
40	0.19	0.18	0.00	0.00
50	0.53	0.36	6.00	3.00
60	1.79	0.40	22.00	13.00
General Members - Female			*Tier I*	*Tier II*
20	0.02	0.02	0.00	0.00
30	0.02	0.05	0.00	0.00
40	0.06	0.18	0.00	0.00
50	0.16	0.36	6.00	3.00
60	0.44	0.40	22.00	13.00
Safety Members - Male				
20	0.03	0.05	0.00	
30	0.04	0.21	0.00	
40	0.10	0.60	0.00	
50	0.19	1.64	16.00	
60	0.53	4.40	25.00	
Safety Members - Female				
20	0.02	0.05	0.00	
30	0.02	0.21	0.00	
40	0.06	0.60	0.00	
50	0.16	1.64	16.00	
60	0.44	4.40	25.00	

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

(In percentages)

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

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date*	Plan Type	Members	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/04	General	6,389	$ 287,264,645	$ 44,962	7.2%
	Safety	1,597	$ 89,841,674	$ 56,257	9.9%
	Total	**7,986**	**$ 377,106,319**	**$ 47,221**	**7.7%**
12/31/05	General	6,552	$ 300,821,384	$ 45,913	2.1%
	Safety	1,643	$ 92,679,367	$ 56,409	0.3%
	Total	**8,195**	**$ 393,500,751**	**$ 48,017**	**1.7%**
12/31/06	General	6,862	$ 320,078,067	$ 46,645	1.6%
	Safety	1,685	$ 100,355,950	$ 59,558	5.6%
	Total	**8,547**	**$ 420,434,017**	**$ 49,191**	**2.4%**
12/31/07	General	7,127	$ 345,308,360	$ 48,451	3.9%
	Safety	1,801	$ 111,418,703	$ 61,865	3.9%
	Total	**8,928**	**$ 456,727,063**	**$ 51,157**	**4.0%**
06/30/08	General	7,216	$ 369,093,653	$ 51,149	5.6%
	Safety	1,841	$ 117,947,008	$ 64,067	3.6%
	Total	**9,057**	**$ 487,040,661**	**$ 53,775**	**5.1%**
06/30/09**	General	7,166	$ 423,075,334	$ 59,039	15.4%
	Safety	1,854	$ 141,829,138	$ 76,499	19.4%
	Total	**9,020**	**$ 564,904,472**	**$ 62,628**	**16.5%**
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%**

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

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

SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM PAYROLL

Plan Year**	At Beginning of Year	Added During Year	Removed During Year	At End of Year	Annual Allowance Added	Annual Allowance Removed	Retiree Payroll Ending	% Increase in Retiree Allowance	Average Annual Allowance*
2006	5,132	408	185	5,355	$15,910,761	$2,446,976	$127,812,860	11.8%	$23,868
2007	5,355	374	177	5,552	$13,845,079	$2,524,520	$139,133,420	8.9%	$25,060
2008	5,552	196	97	5,651	$ 5,039,591	$1,610,546	$145,783,557	4.8%	$25,798
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

** Excludes SRBR amounts.*

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

SOLVENCY TEST

(Dollars in thousands)

	Aggregate Accrued Liabilities					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date*	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Actuarial Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/06	$ 197,507	$ 1,629,003	$ 1,282,527	$ 3,109,037	$ 2,352,028	100%	100%	41%
12/31/07	$ 215,281	$ 1,773,557	$ 1,366,917	$ 3,355,755	$ 2,589,817	100%	100%	44%
06/30/08	$ 222,418	$ 1,913,946	$ 1,535,096	$ 3,671,460	$ 2,654,316	100%	100%	34%
06/30/09	$ 232,426	$ 2,159,371	$ 1,813,403	$ 4,205,200	$ 2,780,215	100%	100%	21%
06/30/10	$ 229,784	$ 2,380,826	$ 1,846,429	$ 4,457,038	$ 2,794,644	100%	100%	10%
06/30/11	$ 225,649	$ 2,680,161	$ 1,766,538	$ 4,672,348	$ 2,839,747	100%	98%	0%

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

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(In thousands)

	Gain (or Loss) for Year – UAAL		
	June 30, 2011	**June 30, 2010**	**June 30, 2009**
Investment Performance Greater (Less) than Expected	$ (172,663)	$ (216,000)	$ (113,000)
New Entrants into System (Greater) Less than Expected	-	(1,500)	(3,100)
Individual Salary Increases (Greater) Less than Expected	77,879	16,600	(50,900)
Additional Salary Information Provided*	-	-	(193,800)
Cost-of-Living Adjustment (Greater) Less than Expected	-	12,200	-
Demographic Changes Greater (Less) than Expected	(83,260)	8,400	(35,700)
Change in Benefits	-	-	-
Change in Assumptions/Methodology	34,866	-	(600)
Plan Changes	228	-	-
Composite Gain (or Loss) During Year	**$ (142,950)**	**$ (180,300)**	**$ (397,100)**

** Special pays were included with pensionable earnings for the first time in the June 30, 2009 valuation.*

SUMMARY OF MAJOR PLAN PROVISIONS

Benefit Sections 31676.01, 31676.1, 31676.14, 31676.17, 31664, and 31664.1 of the 1937 Act.

Briefly summarized below are the major provisions of the County Employees' Retirement Law of 1937, as adopted by the County of Kern and Special Districts.

Membership

Membership is automatic upon appointment to a permanent position of 50% or more of the regular standard hours required. Retirement entry date is the first day of the first full bi-weekly payroll period following the date of employment.

Final Average Salary

Final average salary is defined as the highest pensionable pay in one year, including base salary and other pay elements includible as a result of the "Ventura" decision.

Vesting

Members are considered vested in the Plan after obtaining five years of retirement service credit.

Member Contribution Rates

The basic contribution is computed on the member's base pay plus compensable special pay, with the contribution rate being determined by the member's entry age into the System, the classification of the member, the Plan's economic assumptions and the member's life expectancy at the retirement age specified in the County Employees' Retirement Law of 1937.

The normal rates of contribution are such as to provide, for each year of service, an average annuity at age 55 of 1.0% of final compensation for General Tier I members, an average annuity at age 60 of 0.833% of final compensation for General Tier II members, and an average annuity at age 50 of 1.5% of final compensation for Safety members, according to the tables adopted by the Board of Supervisors, for each year of service rendered after entering the Plan.

Member contributions made through payroll deductions are made on a pre-tax basis, per IRS Code Section 414(h)(2). Interest is credited to contributions semiannually on June 30 and December 31 in accordance with the County Employees' Retirement Law of 1937, Article 5.5.

Withdrawal Benefits

If a member resigns, his or her contributions plus interest will be refunded. Members with less than five years of service may elect to leave contributions on deposit and receive interest. Any vested member may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

Service Retirement Benefits

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

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

Berrenda Mesa Water District and Inyokern Community Services District still have Government Code Section 31676.14 for service prior to January 1, 2005. Tier II generally applies to most KCERA general members hired by the County or Kern on or after October 27, 2007, or hired by the following special districts: North of the River Sanitation District on or after October 29, 2007; Kern County Water Agency on or after January 1, 2010; Berrenda Mesa Water District on or after January 12, 2010; or the Kern County Superior Courts on or after March 12, 2011.

Safety members with at least 10 years of retirement service credit who are age 50 or older, or with 20 years of retirement service credit regardless of age, are eligible for service retirement. Safety Tier I is 3.0% of final compensation for each year of service at age 50, multiplied by Government Code Section 31664.1 factors.

SUMMARY OF MAJOR PLAN PROVISIONS *(cont.)*

Service Retirement Benefits *(cont.)*
For members integrated with Social Security, benefits based on $350 of monthly final average salary are reduced by one-third.

Disability Benefit
Members with five years of retirement service credit, regardless of age, are eligible for nonservice-connected disability. The benefit is at least 20% to a maximum of 40% of the member's final average monthly compensation for life.

If the disability is service connected, there is no minimum retirement service credit requirement. The member may retire with a benefit of 50% of his or her final average salary.

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

If a member dies while eligible for service retirement or nonservice-connected disability, the spouse, registered domestic partner or minor children receives 60% of the allowance that the member would have received for retirement on the day of his or her death.

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

Death Benefit (After Retirement)
A death benefit of $3,000 is payable to the designated beneficiary or estate.

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

If the retirement was for service-connected disability, the member's spouse, registered domestic partner or minor children will receive a 100% continuance of the retirement allowance.

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

SUMMARY OF MAJOR PLAN PROVISIONS *(cont.)*

Supplemental Retiree Benefit Reserve (SRBR) Benefits

The Board of Retirement adopted California Government Code Section 31618 on April 23, 1984, which provides for the establishment of the SRBR.

The SRBR shall be used only for the benefit of retired members and beneficiaries. The distribution of the SRBR shall be determined by the Board of Retirement. The SRBR-approved benefits include all Tier 1, Tier 2 and death benefits as well as Tier 3 benefits approved through the June 30, 2011 Actuarial Valuation.

Eligibility

Tier 1:	Member on or before July 1, 1994.
Tier 2:	Pensioners with at least five years of credited service, and their surviving beneficiaries, whose benefits have reduced by 20% in purchasing power since retirement.
Tier 3:	Pensioners and their surviving beneficiaries whose benefits have reduced by 20% in purchasing power since retirement.

Benefits

Tier 1:	$35.50 monthly, not subject to cost-of-living adjustments.
Tier 2:	$1.372 times years of service, per month, for members who retired prior to 1985, granted July 1, 1994. $5.470 times years of service, per month, for members who retired prior to 1985, granted July 1, 1996. $10.276 times years of service, per month, for members who retired prior to 1981, granted July 1, 1997.
Tier 3:	Additional benefits to maintain 80% purchasing power protection.
Death Benefit:	A one-time payment of $3,000 to a member's beneficiary.
0.5% COLA	$64.7 million allocation of funds to initially pay for a 0.5% cost-of-living allowance, arisen from a litigation judgment entered on January 24, 2002.

Funding

Crediting of interest and the allocation of undistributed earnings, the amount that remains after net earnings have been used to credit interest to the Plan's reserves.

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Statistical Section

Statistics condense experience into numbers.
They make historical analysis simple and provide a proven way to assess progress. KCERA's relevant numbers relate to people and payments. In the Statistical Section of this CAFR, you will find charts showing changes in KCERA's plan net assets and retiree payments over the last 10 years. Next are schedules of benefit types and amounts. Closing the section is a historical chart of KCERA employers and their employee tallies.

The story of KCERA's last fiscal year, as condensed in this CAFR, has come to an end. But another story will be told next year . . . and for many, many years to come.

Statistics condense experience into numbers

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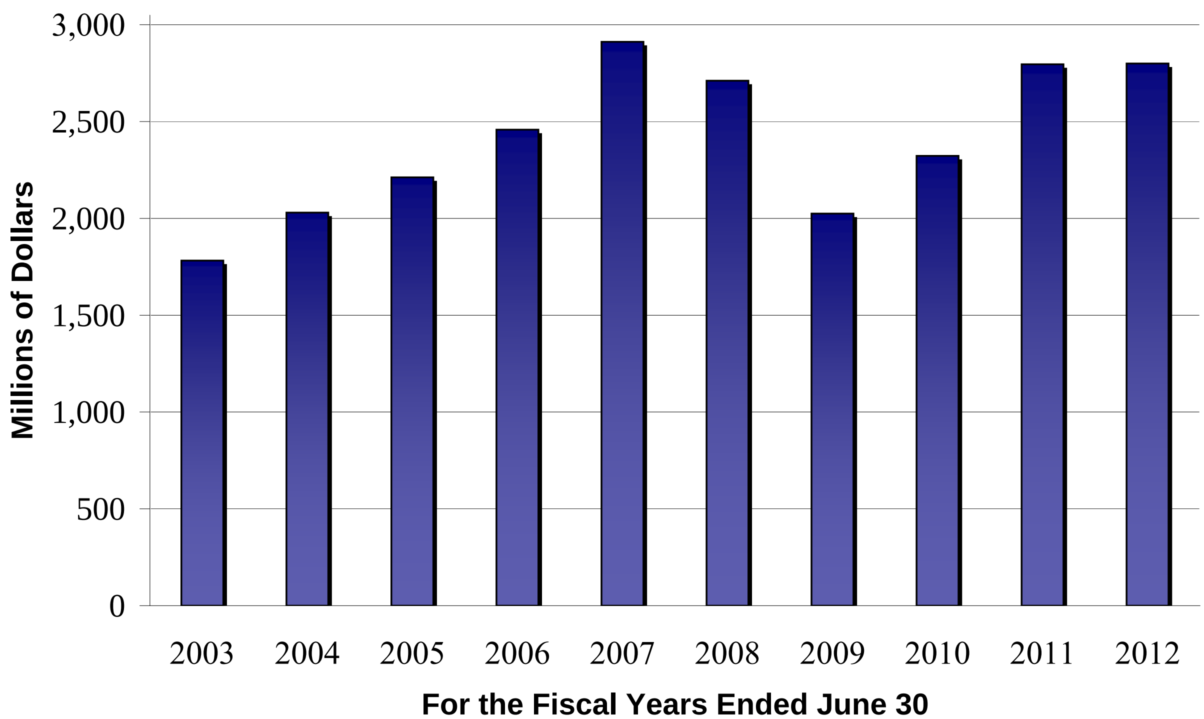
STATISTICAL SECTION OVERVIEW

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

KCERA Net Asset Value



SCHEDULE OF CHANGES IN PLAN NET ASSETS
LAST 10 FISCAL YEARS

(In thousands)

	2003	2004	2005	2006	2007
Additions					
Employer Contributions	$ 343,339*	$ 48,760	$ 60,268	$ 100,734	$ 128,134
Member Contributions	12,749	10,451	10,351	11,775	12,634
Net Investment Income (Loss)	87,935	296,074	224,442	259,760	453,363
Total Additions	**$ 444,023**	**$ 355,285**	**$ 295,061**	**$ 372,269**	**$ 594,131**
Deductions					
Total Benefit Expenses**	$ 94,302	$ 104,960	$ 111,006	$ 123,765	$ 137,078
Administrative Expenses	2,167	2,552	2,501	2,519	3,030
Miscellaneous	780	-	3	-	1
Total Deductions	**$ 97,249**	**$ 107,512**	**$ 113,510**	**$ 126,284**	**$ 140,109**
Change in Plan Net Assets	**$ 346,774**	**$ 247,773**	**$ 181,551**	**$ 245,985**	**$ 454,022**

	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 Plan Net Assets	**$ (201,169)**	**$ (685,891)**	**$ 276,217**	**$ 494,492**	**$ 4,098**

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

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

SCHEDULE OF BENEFIT EXPENSES BY TYPE
FOR FISCAL YEARS 2008-2012

(In thousands)

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

SCHEDULE OF BENEFIT EXPENSES BY TYPE *(cont.)*
FOR FISCAL YEARS 2003-2007

(In thousands)

	2007	2006	2005	2004	2003
Service Retirement Benefits					
General	$ 65,324	$ 58,529	$ 50,436	$ 44,539	$ 41,497
Safety	37,075	33,334	29,594	26,029	22,616
Total	102,399	91,863	80,030	70,568	64,113
Disability Benefits					
General	7,209	6,846	6,295	6,381	5,684
Safety	11,609	10,771	10,051	9,035	8,187
Total	18,818	17,617	16,346	15,416	13,871
Beneficiary Benefits					
General	7,452	6,991	6,671	6,109	5,724
Safety	5,575	5,109	4,904	4,386	3,901
Total	13,027	12,100	11,575	10,495	9,625
Retroactive Payments					
General	-	2	347	2,730	2,097
Safety	-	-	517	3,454	2,775
Total	-	2	864	6,184	4,872
Lump Sum Death Benefits	320	244	259	382	220
Total Benefit Payments	**$ 134,564**	**$ 121,826**	**$ 109,074**	**$ 103,045**	**$ 92,701**
Refunds					
General	2,206	1,770	1,794	1,834	1,503
Safety	308	169	138	81	98
Total	2,514	1,939	1,932	1,915	1,601
Total Benefit Expenses	**$ 137,078**	**$ 123,765**	**$ 111,006**	**$ 104,960**	**$ 94,302**

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
AS OF JUNE 30, 2012

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
$1-500	395	76	1	0	183	68	14	0	20	33
501-1,000	868	294	47	13	277	126	34	6	42	29
1,001-1,500	937	415	81	81	189	78	29	1	39	24
1,501-2,000	791	415	36	126	92	62	10	4	31	15
2,001-3,000	1,375	752	18	313	71	111	9	16	60	25
3,001-4,000	826	557	6	148	32	45	2	6	19	11
4,001-5,000	554	416	1	88	23	16	0	0	8	2
5,001-6,000	307	275	1	21	5	3	0	1	1	0
Over $6,000	844	823	4	3	4	7	1	0	1	1
Totals	**6,897**	**4,023**	**195**	**793**	**876**	**516**	**99**	**34**	**221**	**140**

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified		
						A	B	C
$1-500	395	8	12	0	0	143	232	0
501-1,000	868	4	29	1	0	315	513	6
1,001-1,500	937	7	38	3	0	351	498	40
1,501-2,000	791	9	28	1	0	282	388	83
2,001-3,000	1,375	9	31	5	1	489	628	212
3,001-4,000	826	5	33	1	0	346	309	132
4,001-5,000	554	1	21	2	1	306	146	77
5,001-6,000	307	1	13	0	1	213	59	20
Over $6,000	844	2	28	2	1	677	131	3
Totals	**6,897**	**46**	**233**	**15**	**4**	**3,122**	**2,904**	**573**

Type of Retirement

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

Option Selected

Option 1 – Beneficiary receives lump sum of member's unused contributions
Option 2 – Beneficiary receives 100% of member's reduced monthly allowance
Option 3 – Beneficiary receives 50% of member's reduced monthly allowance
Option 4 – More than one beneficiary receives 100% of member's reduced monthly allowance

A – Unmodified 60% continuance
B – Unmodified no continuance
C – Unmodified 100% continuance

SCHEDULE OF AVERAGE BENEFIT PAYMENT AMOUNTS BY YEAR OF RETIREMENT AS OF FISCAL YEARS ENDED JUNE 30

	Years of Retirement Service Credit						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Fiscal Year 2003							
Average Annual Benefit	$ 9,129	$ 12,054	$ 17,167	$ 23,763	$ 31,232	$ 51,105	$ 67,568
Average Monthly Benefit	$ 761	$ 1,005	$ 1,431	$ 1,980	$ 2,603	$ 4,259	$ 5,631
Average Final Monthly Salary	$ 4,750	$ 3,641	$ 3,717	$ 3,905	$ 4,623	$ 6,093	$ 5,615
Number of Active Retirants	8	28	41	29	29	36	48
Fiscal Year 2004							
Average Annual Benefit	$ 12,437	$ 13,012	$ 16,268	$ 28,056	$ 36,823	$ 56,428	$ 73,137
Average Monthly Benefit	$ 1,036	$ 1,084	$ 1,356	$ 2,338	$ 3,069	$ 4,702	$ 6,095
Average Final Monthly Salary	$ 5,326	$ 3,670	$ 3,679	$ 4,208	$ 5,293	$ 5,885	$ 6,962
Number of Active Retirants	13	22	40	28	28	41	42
Fiscal Year 2005							
Average Annual Benefit	$ 10,755	$ 16,487	$ 19,770	$ 27,505	$ 33,828	$ 56,052	$ 67,780
Average Monthly Benefit	$ 896	$ 1,374	$ 1,648	$ 2,292	$ 2,819	$ 4,671	$ 5,648
Average Final Monthly Salary	$ 4,810	$ 4,232	$ 4,043	$ 4,154	$ 4,297	$ 6,656	$ 5,529
Number of Active Retirants	15	28	62	47	55	63	102
Fiscal Year 2006							
Average Annual Benefit	$ 10,752	$ 15,036	$ 20,943	$ 26,442	$ 36,836	$ 56,216	$ 66,010
Average Monthly Benefit	$ 896	$ 1,253	$ 1,745	$ 2,203	$ 3,070	$ 4,685	$ 5,501
Average Final Monthly Salary	$ 5,242	$ 4,633	$ 4,312	$ 4,235	$ 4,959	$ 5,821	$ 5,421
Number of Active Retirants	15	21	54	55	46	64	82
Fiscal Year 2007							
Average Annual Benefit	$ 9,496	$ 13,599	$ 19,305	$ 29,190	$ 37,285	$ 48,947	$ 66,736
Average Monthly Benefit	$ 791	$ 1,133	$ 1,609	$ 2,433	$ 3,107	$ 4,079	$ 5,561
Average Final Monthly Salary	$ 5,429	$ 4,369	$ 4,541	$ 4,818	$ 4,840	$ 5,100	$ 6,407
Number of Active Retirants	16	39	45	50	46	65	54

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

	Years of Retirement Service Credit						
	0-5	5-10	10-15	15-20	20-25	25-30	30+
Fiscal Year 2008							
Average Annual Benefit	$ 8,399	$ 10,378	$ 17,875	$ 24,954	$ 42,264	$ 53,168	$ 73,644
Average Monthly Benefit	$ 700	$ 865	$ 1,490	$ 2,080	$ 3,522	$ 4,431	$ 6,137
Average Final Monthly Salary	$ 4,606	$ 3,468	$ 4,132	$ 4,123	$ 5,443	$ 5,821	$ 6,590
Number of Active Retirants	12	25	55	40	37	38	42
Fiscal Year 2009							
Average Annual Benefit	$ 5,975	$ 11,481	$ 20,373	$ 27,187	$ 47,313	$ 57,316	$ 85,389
Average Monthly Benefit	$ 498	$ 957	$ 1,698	$ 2,266	$ 3,943	$ 4,776	$ 7,116
Average Final Monthly Salary	$ 9,785	$ 4,271	$ 5,016	$ 4,752	$ 6,535	$ 6,727	$ 8,184
Number of Active Retirants	12	34	61	49	40	69	95
Fiscal Year 2010							
Average Annual Benefit	$ 7,587	$ 15,792	$ 18,476	$ 32,041	$ 38,898	$ 58,502	$ 80,554
Average Monthly Benefit	$ 632	$ 1,316	$ 1,540	$ 2,670	$ 3,242	$ 4,875	$ 6,713
Average Final Monthly Salary	$ 7,660	$ 5,610	$ 4,719	$ 5,601	$ 5,254	$ 6,413	$ 7,453
Number of Active Retirants	15	34	75	47	69	83	54
Fiscal Year 2011							
Average Annual Benefit	$ 6,592	$ 12,552	$ 21,504	$ 33,168	$ 39,525	$ 56,107	$ 78,368
Average Monthly Benefit	$ 549	$ 1,046	$ 1,792	$ 2,764	$ 3,294	$ 4,676	$ 6,531
Average Final Monthly Salary	$ 6,700	$ 5,142	$ 5,460	$ 5,774	$ 5,456	$ 6,194	$ 7,144
Number of Active Retirants	9	53	77	52	99	102	101
Fiscal Year 2012							
Average Annual Benefit	$ 6,675	$ 13,734	$ 19,630	$ 31,378	$ 42,570	$ 62,240	$ 77,845
Average Monthly Benefit	$ 556	$ 1,145	$ 1,636	$ 2,615	$ 3,547	$ 5,187	$ 6,487
Average Final Monthly Salary	$ 6,900	$ 5,533	$ 4,851	$ 5,556	$ 5,724	$ 6,602	$ 6,961
Number of Active Retirants	14	34	75	48	73	91	80

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

	2003	2004	2005	2006	2007
County of Kern:					
General Members	6,006	6,011	6,029	6,222	6,537
Safety Members	1,609	1,609	1,632	1,646	1,738
Total	7,615	7,620	7,661	7,868	8,275
Participating Agencies (General Membership):					
Berrenda Mesa Water District	12	12	14	14	12
Buttonwillow Recreation and Park District	3	3	3	3	3
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	2	2
Kern County Water Agency	66	70	68	67	72
Kern Mosquito & Vector Control District	20	18	19	19	19
North of the River Sanitation District	7	8	7	8	9
San Joaquin Valley Unified Air Pollution Control District	237	250	253	267	272
Shafter Recreation and Park District	0	1	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito & Vector Control Dist.	8	8	8	8	8
West Side Recreation and Park District	12	11	10	11	11
Kern County Superior Court	-	-	-	-	-
Total	374	390	391	406	415
Total Active Membership:					
General Members	6,380	6,401	6,420	6,628	6,952
Safety Members	1,609	1,609	1,632	1,646	1,738
Total	**7,989**	**8,010**	**8,052**	**8,274**	**8,690**

Data retrieved from the Plan's database.

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

	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 Unified 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**

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

The End

KCERA

PRUDENT INVESTMENT • QUALITY SERVICE

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