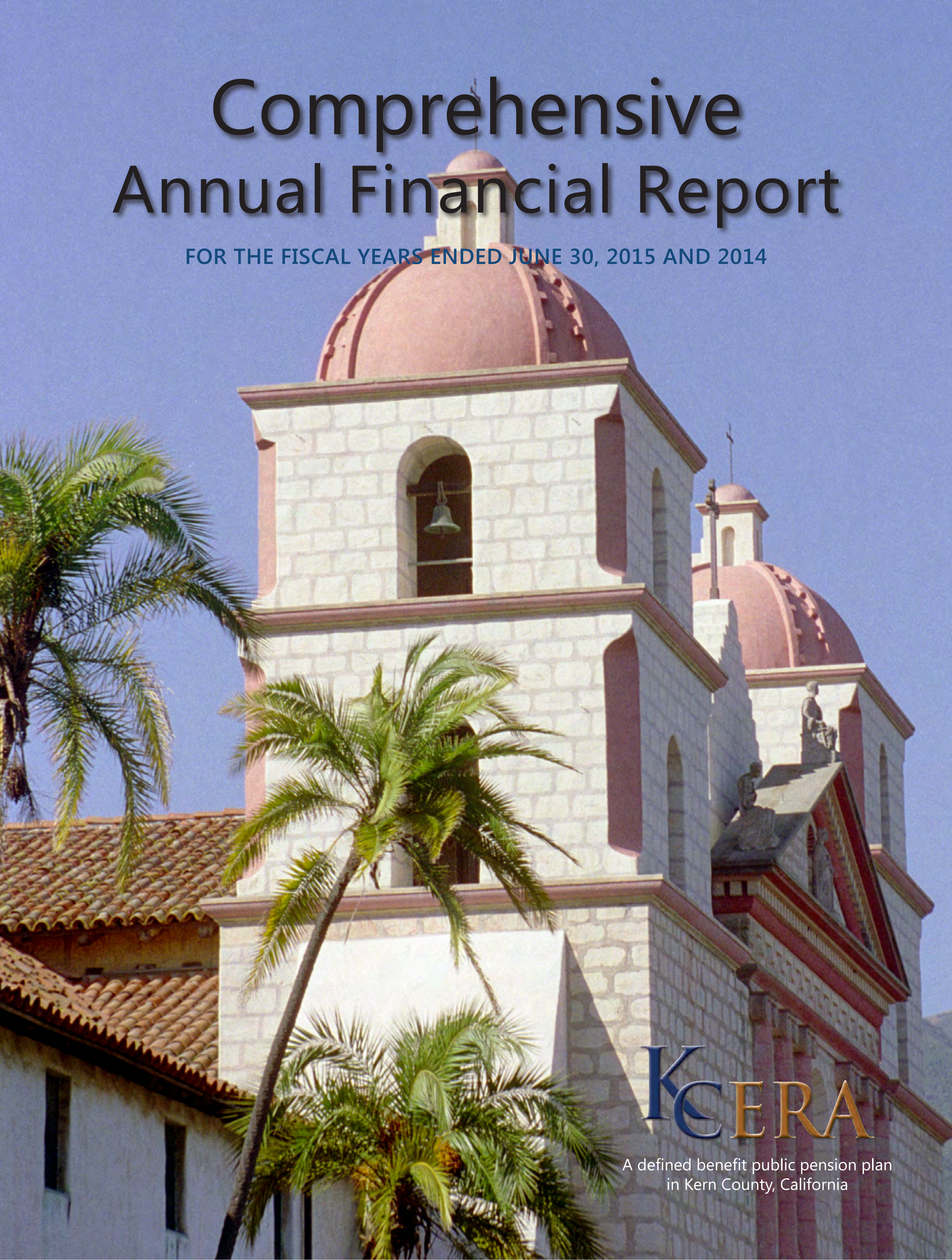
Comprehensive Annual Financial Report

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014



KCERA

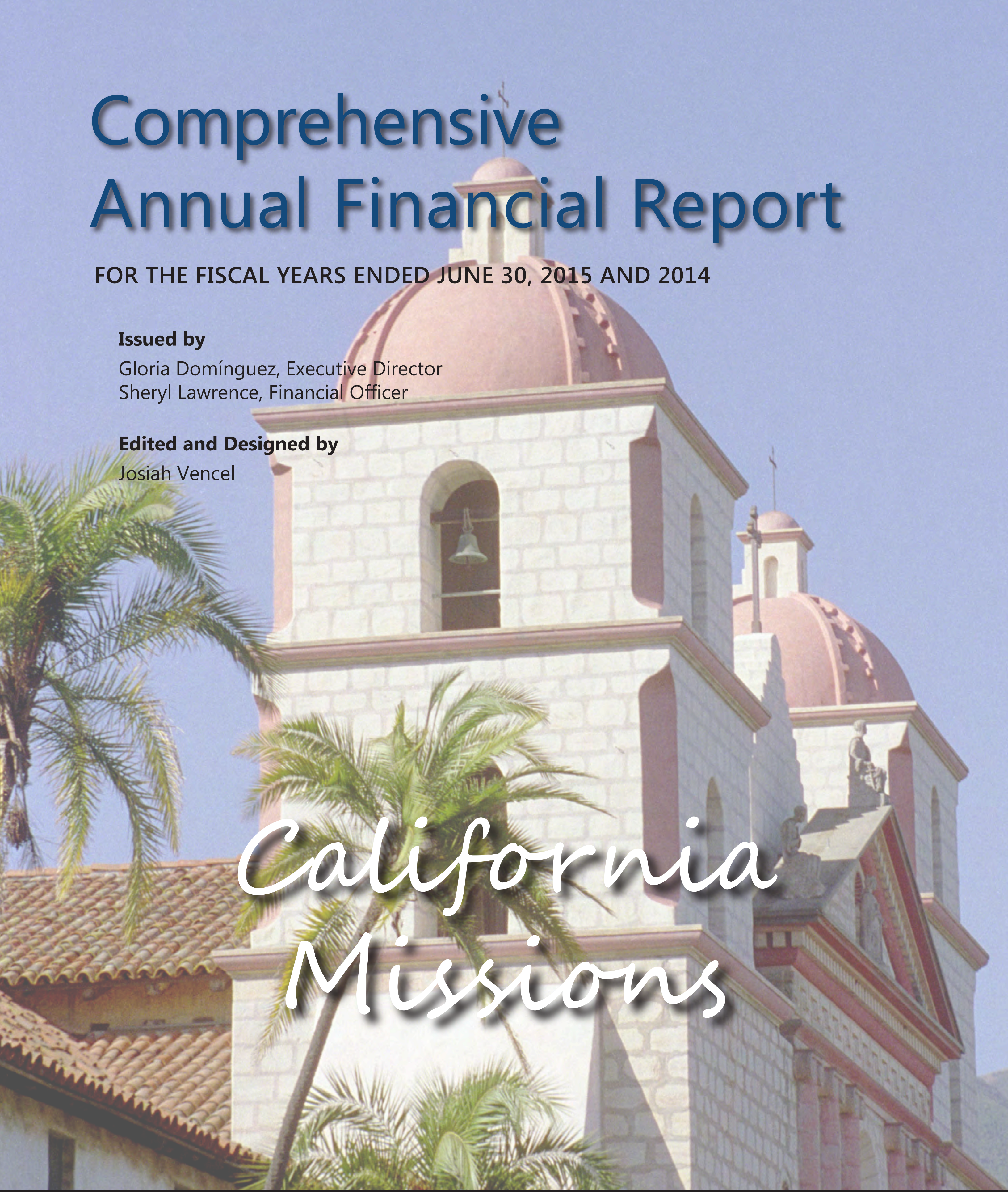
A defined benefit public pension plan
in Kern County, California

Comprehensive Annual Financial Report

FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014

Issued by
Gloria Domínguez, Executive Director
Sheryl Lawrence, Financial Officer

Edited and Designed by
Josiah Vencel



Kern County Employees' Retirement Association
11125 River Run Boulevard / Bakersfield, California 93311 / 661-381-7700 / www.kcera.org

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Mission Santa Clara de Asis

SECTION I

Introductory

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Gloria M. Domínguez
Executive Director

November 24, 2015

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, 2015 and 2014. 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, 2015, KCERA had 9,330 active and deferred-vested members and paid retirement benefits to 7,574 retirees and their beneficiaries.

KCERA AND ITS SERVICES

KCERA was established on January 1, 1945 to provide retirement allowances and other benefits to all permanent general and safety employees of the County of Kern and of participating special districts. As of June 30, 2015, 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

Lower Assumed Rate of Return
At its July 9, 2014 meeting, the Board of Retirement voted to lower its assumed rate of return from 7.75% to 7.50% following a review of economic assumptions by KCERA's actuary, The Segal Company. The previous change in KCERA's assumption rate occurred in November 2008, when it was reduced from 8.00%.

Death Benefit Increase
At its December 10, 2014 meeting, the Board of Retirement voted to increase KCERA's death benefit from $3,000 to $5,000, effective January 1, 2015. KCERA's death benefit is funded from its Supplemental Retiree Benefit Reserve (SRBR) account, which provides non-vested benefits to KCERA retirees and their beneficiaries.

Website Redesign
In July 2014, KCERA began the process of overhauling its 15-year-old website (www.kcera.org) by hiring a Bakersfield-based web design firm. The overhauled website, which launched in March 2015, incorporated a modern layout, simpler navigation, an expanded site map, additional content and other interactive features.

Back File Conversion Project
KCERA entered the next phase of its back file conversion project: preparing approximately 18,000 member folders for their future conversion to digital format and storage in KCERA's digital imaging system. Throughout the 2014-15 fiscal year, KCERA "cleaned up" its member folders for mass imaging and indexing, a service that will be outsourced to a provider in the next fiscal year. KCERA anticipates completing the back file conversion project by the end of 2015.

Disability Application Process Efficiency Gains
In 2014, KCERA simplified its disability application process to shorten the time required to present application packets to the Staff Disability Application Group (SDAG). Additionally, KCERA hired several new medical advisors to review the packets and issue medical opinions to the Board of Retirement. These efficiency gains considerably reduced the backlog of applications in KCERA's disability pipeline.

Payroll Training for Special Districts
In late 2014, the County of Kern informed KCERA's special districts that within a year, payroll services would no longer be provided by the County. KCERA promptly launched a campaign, which included several payroll trainings and meetings, to educate the districts and their new payroll provider about KCERA's specific payroll requirements.

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, 2014, the funded ratio of the Plan was 60.8% using actuarial assets and actuarial liabilities of $3,342,122,000 and $5,492,440,000, respectively. The funded percentage decreased 0.3% from June 30, 2013 due primarily to changes in actuarial assumptions.

Pursuant to provisions in the County Employees' Retirement Law of 1937, KCERA engages an independent actuarial consulting firm, The Segal Company, to conduct annual actuarial valuations. Every three years, an experience study is performed for the appropriateness of all economic and non-economic assumptions. The economic and non-economic assumptions are updated at the time each triennial valuation is performed. Triennial valuations serve as the basis for changes in member and employer contribution rates necessary to properly fund the Plan. The last triennial analysis was performed as of June 30, 2013.

Certain changes to economic and non-economic assumptions were adopted by the Board on July 9, 2014 for the June 30, 2014 annual actuarial valuation. The assumed rate of return was lowered from 7.75% to 7.50%; retirement and termination assumptions were adjusted; disability incidence rates were lowered; mortality assumption rates were updated; the individual salary increase assumption decreased from 4.00% to 3.75%; and the active member payroll increase assumption decreased from 4.00% to 3.75%.

FINANCIAL INFORMATION

The Comprehensive Annual Financial Report (CAFR) for the fiscal years June 30, 2015 and 2014 was prepared by KCERA's management, which is responsible for the accuracy, completeness, fair presentation of information and all disclosures in this report. The report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB).

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

KCERA's external auditor, CliftonLarsonAllen, LLP, has conducted an audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America, performing such tests and other procedures as they deem necessary to express an opinion in their report to the Board of Retirement. The financial audit ensures that KCERA's financial statements are presented in conformity with accounting principles generally accepted in the United States of America and are free of material misstatements. Their opinion is that KCERA's financial statements present fairly, in all material respects, the Net Position of KCERA as of June 30, 2015 and 2014 and its Changes in Net Position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

INVESTMENTS

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

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

KCERA’s assets are managed exclusively by external, professional investment managers. The KCERA staff monitors the activity of these managers and assists the Board with the development and implementation of investment policies and long-term investment strategies. These policies and guidelines are outlined in KCERA’s Statement of Investment Policy, which states the investment philosophy, investment guidelines, performance objectives and asset allocation of the Plan. The Board employs the services of independent investment consultants Verus Investments and Albourne America to assist the Board in formulating policies, setting goals and manager guidelines, and selecting and monitoring the performance of the money managers.

For fiscal year 2015, the investments of the Plan returned 2.4%* (net of fees). KCERA’s annualized rate of return, net of fees, was 9.2% in the past three years, 9.4% in the past five years, and 5.5% 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 67 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, 2014. The Certificate of Achievement is a prestigious national award recognizing excellence in the preparation of state and local government financial reports.

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

The Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program’s requirements, and we will again submit it to the GFOA for appraisal.

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

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,

Gloria M. Dominguez
Executive Director

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Kern County

Employees' Retirement Association

California

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

June 30, 2014

Jeffrey R. Emer

Executive Director/CEO

Members of the Board of Retirement

As of June 30, 2015

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

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

Bob Jefferson
Elected by General Members
Present term expires 12/31/2016

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

Michael Turnipseed
Appointed by Board of Supervisors
Present term expires 12/31/2016

Phil Franey (Vice-Chairman)
Elected by Retired Members
Present term expires 12/31/2016

Dustin Dodgin
Appointed by Board of Supervisors
Present term expires 12/31/2016

Jordan Kaufman
County Treasurer-Tax Collector
Ex-Officio Member

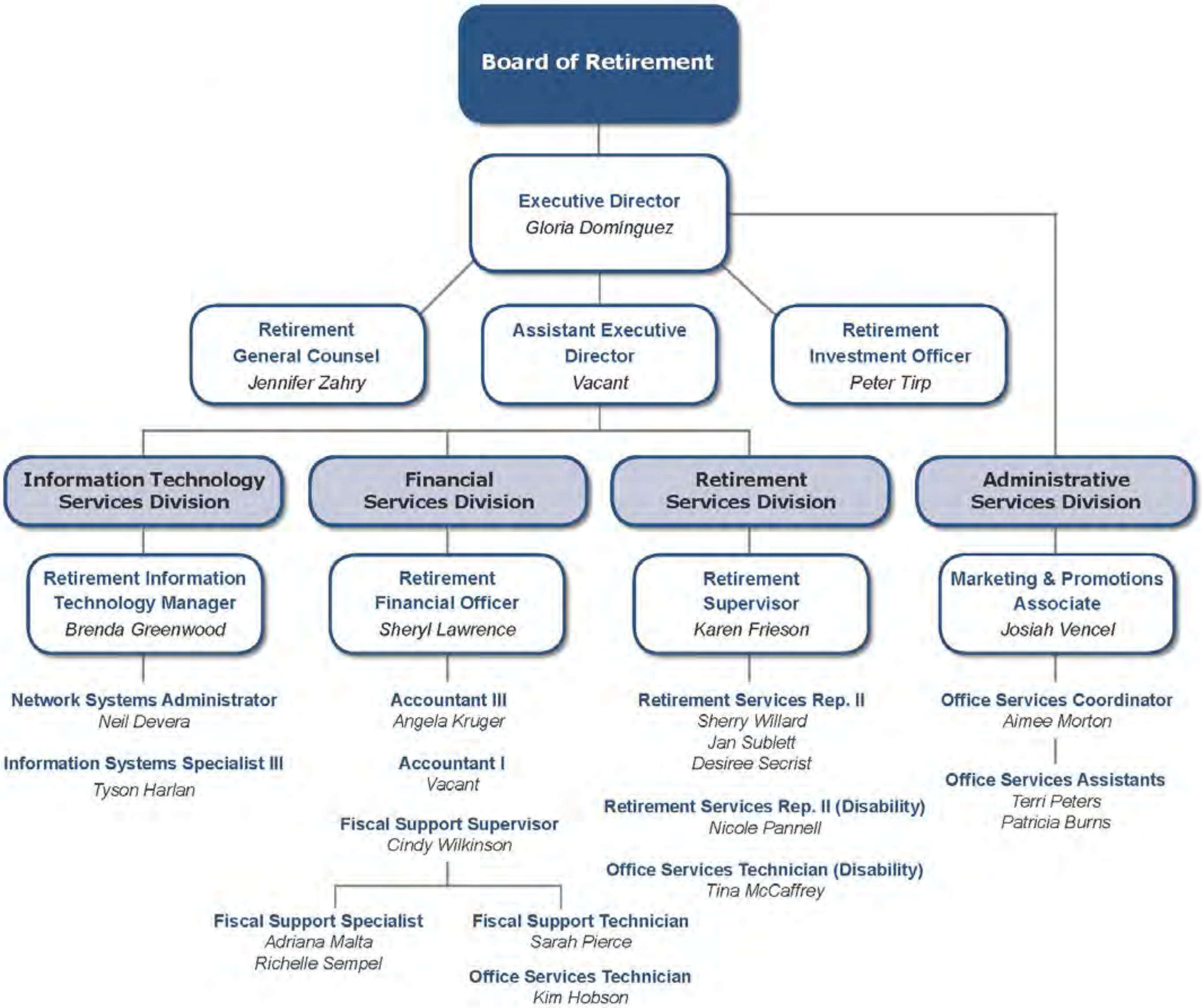
Gayland Smith
Appointed by Board of Supervisors
Present term expires 12/31/2015

No photo available

John DeMario (Alternate)
Elected by Retired Members
Present term expires 12/31/2016

Organizational Chart

As of June 30, 2015



Professional Consultants

As of June 30, 2015

ACTUARY
The Segal Company, Inc.
San Francisco, CA

AUDITOR
CliftonLarsonAllen, LLP
Broomfield, CO

CUSTODIAN
The Northern Trust Company
Chicago, IL

INVESTMENT CONSULTANTS
Verus Investments
Seattle, WA

Albourne America LLC
San Francisco, CA

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

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

Deutsche Bank
New York, NY

LEGAL
Foley & Lardner, LLP
Boston, MA

Hanson Bridgett, LLP
San Francisco, CA

Ice Miller, LLP
Indianapolis, IN

Nossaman, LLP
Los Angeles, CA

Reed Smith, LLP
San Francisco, CA

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SECTION II

Financial

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CliftonLarsonAllen

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements
We have audited the accompanying financial statements of the Kern County Employees' Retirement Association, which comprise the Statements of Net Position as of June 30, 2015 and 2014, and the related Statements of Changes in Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

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

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position the Kern County Employees' Retirement Association as of June 30, 2015 and 2014, and the respective changes in net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of changes in net pension liability, contributions and money-weighted rate of returns as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of the Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Kern County Employees' Retirement Association's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Denver, Colorado
November 24, 2015

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, 2015 and 2014. 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

- KCERA's net position increased by $49 million during the fiscal year ended June 30, 2015, a 1.4% increase from the last fiscal year. The increase was principally due to modest growth in the financial markets along with proceeds from private real estate investments.
- Member contributions increased by $4.5 million, or 17.5%, mainly as a result of scheduled member contribution rate changes. Employer contributions decreased by $4.9 million, or -2.2%, due primarily to a lower-than-expected increase in total payroll and a slightly lower contribution rate. The average employer contribution rate decreased from 42.67% of payroll for fiscal year 2013/14 to 42.00% for fiscal year 2014/15.
- The total fund's investment performance fell short of the actuarial assumed rate of return for the fiscal year. The investment portfolio reported a total return of 2.4% (net of fees) versus the actuarial assumed rate of return of 7.5% for the fiscal year ended June 30, 2015. However, the total fund realized a return higher than the total fund's policy return of 1.3%. Outperformance was mainly driven by the real estate and hedge fund allocations.
- Vested pension benefits increased by $15.7 million, or 6.5%, over the prior year. The increase is attributable to a 2.9% increase in retired members and beneficiaries receiving pension benefits and a 3.5% increase in the average monthly benefit, which rose to $2,829 in the fiscal year.
- As of June 30, 2014, the date of the most recent actuarial valuation, the funded ratio for KCERA was 60.8% compared to the funded ratio of 61.1% as of June 30, 2013. The decrease in the ratio is mainly due to lowering the assumed rate of return from 7.75% to 7.50%.

Overview of Basic Financial Statements and Accompanying Information

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

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

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

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

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

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

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

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

Financial Analysis

Fiduciary Net Position Restricted for Pension Benefits

KCERA provides pension benefits to the employees and their beneficiaries of the County of Kern and other public agencies. KCERA's benefits are funded by member and employer contributions and by investment income. KCERA's net position–restricted for pension benefits at June 30, 2015 was $3.6 billion, an increase of $49.0 million, or 1.4%, from June 30, 2014. KCERA's net position-restricted for pension benefits at June 30, 2014 was $3.6 billion, an increase of $471.3 million, or 15.2%, from June 30, 2013. Key elements of the increase in net position are described below and in Tables 1 and 2 on page 20.

Contributions and Investment Income

Additions to net position include member and employer contributions and investment income. Member contributions were approximately $30.3 million, $25.8 million and $20.3 million for the years ended June 30, 2015, 2014 and 2013, respectively. Employer contributions were $215.5 million, $220.4 million and $211.7 million for the years ended June 30, 2015, 2014 and 2013, respectively.

Member contributions increased by $4.5 million (17.5%) in 2015 and increased by $5.5 million (27.2%) in 2014. The increase in member contributions in 2015 and 2014 was mainly the result of scheduled member contribution rate increases and changes in the demographics of the tiers.

Employer contributions decreased by approximately $4.9 million (-2.2%) in 2015 and increased by approximately $8.7 million (4.1%) in 2014. The decrease in employer contributions was primarily due to a lower-than-expected increase in total payroll.

Net investment and securities lending income was $81.9 million, $487.5 million and $319.3 million for the years ended June 30, 2015, 2014 and 2013, respectively. The modest increase in 2015 can be attributed to domestic equity and real estate returns. The increase in 2014 can be attributed to strong returns in the equities markets.

For the fiscal years ended June 30, 2015, 2014 and 2013, the KCERA portfolio gained 2.4% (net of fees), 15.0% (net of fees) and 10.4% (net of fees), respectively. More information on KCERA's investment portfolio is contained in the investment section of this report.

Benefits, Refunds and Expenses

Deductions to plan net position include pension benefits, lump sum payments, supplemental benefits, refunds of member contributions, and administrative expenses. The pension benefits (annuity, pension and cost-of-living allowances) were $257.2 million, $241.5 million, $226.6 million for the years ended June 30, 2015, 2014 and 2013, respectively. Pension benefits increased by approximately $15.6 million (6.5%) in 2015 and $14.9 million (6.6%) in 2014.

Financial Analysis *(cont.)*

Benefits, Refunds and Expenses *(cont.)*
These increases were mainly due to a consistently growing population of retired members and beneficiaries receiving pension benefits and an increase in the average monthly benefit, attributable to higher final average compensations. Retired members and beneficiaries increased by 2.9% in 2015 and by 2.9% in 2014. The average monthly benefit for retirees and beneficiaries increased by 3.5% in 2015 and 3.5% in 2014.

KCERA previously adopted California Government Code Section 31618, which provides for the establishment of the Supplemental Retiree Benefit Reserve (SRBR). SRBR currently provides retirees with 80% purchasing power parity and a $5,000 death benefit, effective January 1, 2015. In addition to pension benefits, the supplemental retirement benefits paid were $13.2 million, $12.9 million and $12.5 million for the years ended June 30, 2015, 2014 and 2013, respectively. Refunds of member contributions were $3.5 million, $3.1 million and $3.5 million for the years ended June 30, 2015, 2014 and 2013, respectively.

KCERA's administrative expenses were $4.9 million, $4.9 million and $3.8 million for the years ended June 30, 2015, 2014 and 2013, respectively.

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

June 2015	June 2014	June 2013
$21.4 million	$20.1 million	$18.9 million
7,574	7,362	7,153

FIDUCIARY NET POSITION
(In thousands)

Table 1

	2015	Increase (Decrease) Amount	2014	Increase (Decrease) Amount	2013
Assets					
Current Assets	$ 221,532	$ 56,500	$ 165,032	$ (21,806)	$ 186,838
Investments	3,621,010	125,847	3,495,163	469,122	3,026,041
Securities Lending Collateral	73,126	(156,978)	230,104	(91,268)	321,372
Capital Assets	5,182	(367)	5,549	(194)	5,743
Total Assets	**$ 3,920,850**	**$ 25,002**	**$ 3,895,848**	**$ 355,854**	**$ 3,539,994**
Liabilities					
Current Liabilities	$ 222,631	$ 132,999	$ 89,632	$ (24,220)	$ 113,852
Liabilities for Security Lending	73,126	(156,978)	230,104	(91,268)	321,372
Total Liabilities	**$ 295,757**	**$ (23,979)**	**$ 319,736**	**$ (115,488)**	**$ 435,224**
Fiduciary Net Position – Restricted for Pension Benefits	**$ 3,625,093**	**$ 48,981**	**$ 3,576,112**	**$ 471,342**	**$ 3,104,770**

CHANGES IN FIDUCIARY NET POSITION
(In thousands)

Table 2

	2015	Increase (Decrease) Amount	2014	Increase (Decrease) Amount	2013
Additions					
Member Contributions	$ 30,325	$ 4,515	$ 25,810	$ 5,527	$ 20,283
Employer Contributions	215,477	(4,916)	220,393	8,716	211,677
Net Investment Income (Loss)	81,930	(405,564)	487,494	168,230	319,264
Total Additions	**$ 327,732**	**$ (405,965)**	**$ 733,697**	**$ 182,473**	**$ 551,224**
Deductions					
Pension Benefits	$ 257,153	$ 15,651	$ 241,502	$ 14,892	$ 226,610
Supplemental Retirement Benefits	13,214	333	12,881	355	12,526
Refunds of Member Contributions	3,498	386	3,112	(382)	3,494
Administrative Expenses	4,886	26	4,860	1,012	3,848
Total Deductions	**$ 278,751**	**$ 16,396**	**$ 262,355**	**$ 15,877**	**$ 246,478**
Increase (Decrease) in Net Position	**$ 48,981**	**$ (422,361)**	**$ 471,342**	**$ 166,596**	**$ 304,746**
Fiduciary Net Position – Restricted for Pension Benefits					
At Beginning of Year	**$ 3,576,112**	**$ 471,342**	**$ 3,104,770**	**$ 304,746**	**$ 2,800,024**
At End of Year	**$ 3,625,093**	**$ 48,981**	**$ 3,576,112**	**$ 471,342**	**$ 3,104,770**

Reserves

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

Investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses 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 7.5% from the total fund's actual return on net position. The Market Stabilization Reserve was ($26.0) million, $114.3 million and ($133.0) million for the years ended June 30, 2015, 2014 and 2013, respectively.

Interest at the actuarial rate of 7.5%, or at the highest rate possible if net earnings are not sufficient to credit the full actuarial rate, is credited semiannually on December 31 and June 30. Interest is credited to all reserves, except a contingency reserve. KCERA credited the reserves 6.09% in fiscal year 2015 and 7.01% in fiscal year 2014. In addition, in fiscal year 2015, no funds were credited to reduce the negative contingency reserve, in accordance with the Board of Retirement's Interest Crediting Policy. As investment returns improve, resulting in positive changes in net position, the Contingency and Market Stabilization Reserves will turn positive.

KCERA Reserves

(In thousands)	2015	2014	2013
Member Reserve	$ 295,448	$ 268,826	$ 244,832
Employer Reserve	680,206	634,009	592,004
Cost of Living Reserve	1,014,755	937,416	853,891
Retired Member Reserve	1,493,040	1,452,024	1,377,683
Supplemental Retiree Benefit Reserve	183,959	185,867	185,728
Contingency Reserve	(16,355)	(16,355)	(16,355)
Market Stabilization Reserve	(25,960)	114,325	(133,013)
Total	**$ 3,625,093**	**$ 3,576,112**	**$ 3,104,770**

Fiduciary Responsibilities

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

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

Requests for Information

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

STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2015 AND 2014

(In thousands)

	2015	2014
Assets		
Cash and Cash Equivalents	$ 68,304	$ 85,777
Receivables:		
Investments Sold	$ 143,182	$ 69,006
Interest and Dividends	7,675	7,818
Contributions and Other Receivables	2,371	2,431
Total Receivables	153,228	79,255
Investments at Fair Value:		
Domestic Debt Securities and Bonds	$ 785,881	$ 738,703
International Bonds	212,788	219,514
Domestic Equities	956,246	929,291
International Equities	846,186	862,137
Real Estate Investments	173,676	139,869
Alternative Investments	493,235	463,358
Commodities	150,771	142,228
Swaps/Options	2,227	63
Collateral Held for Securities Lending	73,126	230,104
Total Investments at Fair Value	3,694,136	3,725,267
Capital Assets:		
Computer Software	$ 6,298	$ 6,085
Equipment/Computers	542	467
Accumulated Depreciation	(1,658)	(1,003)
Total Capital Assets	5,182	5,549
Total Assets	$ 3,920,850	$ 3,895,848
Liabilities		
Securities Purchased	$ 213,072	$ 86,907
Collateral Held for Securities Lent	73,126	230,104
Contributions and Other Liabilities	9,559	2,725
Total Liabilities	295,757	319,736
Fiduciary Net Position – Restricted for Pension Benefits	**$ 3,625,093**	**$ 3,576,112**

See accompanying notes to the financial statements.

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEARS ENDED JUNE 30, 2015 AND 2014

(In thousands)

	2015	2014
Additions		
Contributions:		
Employer	$ 215,477	$ 220,393
Member	30,325	25,810
Total Contributions	245,802	246,203
Investment Income:		
Net Appreciation (Depreciation)		
in Fair Value of Investments	$ 35,069	$ 440,650
Interest	28,342	27,836
Dividends	19,240	20,132
Real Estate Investments	22,525	6,130
Other Investment Income (Loss)	0	107
Total Investment Income	105,176	494,855
Less: Investment Expenses	23,891	8,472
Net Investment Income	81,285	486,383
Securities Lending Income:		
Earnings:	$ 588	$ 946
Less: Rebates & Bank Fees	(57)	(165)
Net Securities Lending Income	645	1,111
Total Additions	$ 327,732	$ 733,697
Deductions		
Retirement and Survivor Benefits	$ 257,153	$ 241,502
Supplemental Retirement Benefits	13,214	12,881
Refunds of Member Contributions	3,498	3,112
Administrative Expenses	4,886	4,860
Total Deductions	278,751	262,355
Net Increase	**$ 48,981**	**$ 471,342**
Fiduciary Net Position – Restricted for Pension Benefits At Beginning of Year	**$ 3,576,112**	**$ 3,104,770**
Fiduciary Net Position – Restricted for Pension Benefits At End of Year	**$ 3,625,093**	**$ 3,576,112**

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, 2015, employee membership data related to the pension plan was as follows:

	General	Safety	Total
Active Members:			
Vested	4,382	1,389	5,771
Non-Vested	2,263	458	2,721
Total Active Members	**6,645**	**1,847**	**8,492**
Terminated – Deferred Vested	742	96	838
Retirees and Beneficiaries	5,748	1,826	7,574
Total Members	**13,135**	**3,769**	**16,904**

Benefit Provisions

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

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

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

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

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

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

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

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

The maximum amount of compensation earnable that can be taken into account for 2015 for members with membership dates on or after July 1, 1996 but before January 1, 2013 is $265,000. For General Tier III members who joined on or after January 1, 2013, the maximum pensionable compensation that can be taken into account for 2015 is $117,020 for those enrolled in Social Security. These limits are adjusted on an annual basis. Members are exempt from paying member contributions and employers are exempt from paying employer contributions on compensation in excess of the annual cap.

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

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

Death Benefit:

<u>Death Before Retirement</u>

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

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

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

<u>Death After Retirement</u>

If a member dies after retirement, a death benefit of $5,000 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 benefit.

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

Death After Retirement *(cont.)*

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 benefit.

Disability Benefit:

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

Cost-of-Living Adjustment:

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

Supplemental 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 $5,000 death benefit, effective January 1, 2015.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity
KCERA, with its own governing board, is an independent governmental entity separate and distinct from the County of Kern.

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

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

Administrative Expenses
KCERA's Board of Retirement annually adopts the operating budget for the administration of KCERA. Costs of administering the Plan are charged against the Plan's earnings. KCERA's administration budget is calculated pursuant to Government Code Section 31580.2(a), which provides that the administrative expenses incurred in any year may not exceed the greater of either (1) twenty-one hundredths of 1 percent (.21%) of the actuarial accrued liability of the system or (2) two million dollars ($2,000,000), as adjusted annually by the amount of the annual cost-of-living adjustment computed in accordance with Article 16.5. Government Code Section 31580.2(b) provides that expenditures for computer software, hardware, and computer technology consulting services in support of the computer products shall not be considered a cost of administration expenses in the calculation.

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

Cash Equivalents

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

Fair Valuation of Investments

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

Publicly traded stocks	Most recent exchange closing price. International securities reflect currency exchange rates in effect at June 30, 2015 & 2014.
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.

Risks and Uncertainties

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

Capital Assets

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

Capitalization Thresholds and Useful Life

Capital Asset 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

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

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

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

Reclassification
Certain reclassifications have been made to the fiscal year 2015 amounts for financial statement presentation. Management fees that are separable from funds' net asset values are reported as investment expenses in fiscal year 2015. In prior fiscal years, the expenses were included in the net appreciation (depreciation) in fair value of investments. Such reclassification had no material effect on fiduciary net position as reported.

GASB Pronouncements
In June 2012, GASB issued Statement No. 68 (GASB 68), *Accounting and Financial Reporting for Pensions—An Amendment of GASB Statement No. 27*, and in November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date—An Amendment of GASB Statement No. 68*. These statements are effective for state and local governmental employers that sponsor or contribute to pension plans for fiscal years beginning after June 15, 2014. Several elements required by GASB 68 are defined in GASB 67 and will be calculated by KCERA's external actuaries. Information needed by KCERA's participating employers to implement these statements beginning in 2015 is compiled in separate audited schedules of employer allocations and pension amounts, including related notes to those schedules. The schedule of pension amounts by employer includes net pension liability, pension expense and deferred inflows/outflows as defined in GASB 68.

In January 2013, GASB issued Statement No. 69 (GASB 69), *Government Combinations and Disposals of Government Operations*, applying to all state and local governmental entities. GASB 69 establishes accounting and financial reporting standards for mergers, acquisitions and transfers of operations (i.e., government combinations). This statement also provides guidance on how to determine the gain or loss on a disposal of government operations. The requirements of GASB 69 should be applied prospectively and are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013. Since KCERA did not incur this type of activity during the year, this statement has no impact on this report.

NOTE 3 – DEPOSITS AND INVESTMENTS

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

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

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

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

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

KCERA's policy in regard to the allocation of invested assets is established and may be amended by the Board. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The following was the Board's adopted asset allocation as of June 30, 2015:

Asset Class	Target
Domestic Equity	23.0%
International Equity	22.0%
Fixed Income	29.0%
Real Estate	5.0%
Private Equity	5.0%
Hedge Funds	10.0%
Commodities	6.0%

For the year ended June 30, 2015, the annual money-weighted rate of return on pension plan investments, net of pension investment expenses, was 3.0%. For the year ended June 30, 2014, it was 15.5%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposits

Cash and cash equivalents are carried at cost plus accrued interest, which approximates fair value. All cash and cash equivalents are held as follows: by the County of Kern as part of Kern County's treasury pool, by Wells Fargo Bank as cash for benefit payments, and by 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.

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

A summary of cash, deposits and short-term investments as of June 30, 2015 & 2014 consists of:

(In thousands)

Held by	2015	2014
County of Kern	$ 4,617	$ 4,617
Wells Fargo	563	1,279
Northern Trust	63,124	79,881
Total	**$ 68,304**	**$ 85,777**

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, 2015, KCERA had $2.42 million in deposits held at The Northern Trust Company that were uninsured and uncollateralized.

Investments
Investments of the Plan are reported at fair value. In fulfilling its responsibilities, the Board of Retirement has contracted with investment managers and a master global custodian. For the year ended June 30, 2015, The Northern Trust Company is the global custodian for the majority of the investments of the Plan.

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

At June 30, 2015 and 2014, KCERA's assets consisted of securities with credit quality ratings issued by nationally recognized statistical rating organizations, as shown on the next page.

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

Standard & Poor's (S&P) Credit Quality by Investment Type
As of June 30, 2015
(In thousands)

	S&P Credit Quality							
Type of Investment	**AAA**	**AA**	**A**	**BBB-B**	**CCC-C**	**D-NR**	**Agency**	**Total**
Asset-Backed Securities	$ 4,186	$ 2,014	$ 2,522	$ 2,519	$ 2,870	$ 2,586	$ 120	**$ 16,817**
Bank Loans	-	-	-	6,791	463	1,779	-	**$ 9,033**
Commercial Mortgage-Backed Securities	12,484	809	299	3,835	92	6,940	-	**$ 24,459**
Corporate Bonds	-	9,251	32,547	198,576	23,232	9,817	-	**$ 273,423**
Corporate Convertible Bonds	-	-	-	54	-	279	-	**$ 333**
Government Agencies	-	3,654	-	871	-	-	600	**$ 5,125**
Government Bonds	-	335	15,445	21,024	444	19,471	-	**$ 56,719**
Government Mortgage-Backed Securities	-	-	256	-	-	635	98,552	**$ 99,443**
Government-Issued Commercial Mortgage-Backed Securities	-	-	-	-	-	-	1,251	**$ 1,251**
Municipal / Provincial Bonds	710	1,873	1,517	-	-	-	-	**$ 4,100**
Non-Government-Backed C.M.O.s	718	1,048	3,519	1,264	2,352	7,645	-	**$ 16,546**
Collective / Commingled Funds	-	241,324	3,684	22,602	-	68,088	32,050	**$ 367,748**
Total	**$ 18,098**	**$ 260,308**	**$ 59,789**	**$ 257,536**	**$ 29,453**	**$ 117,240**	**$ 132,573**	**$ 874,997**
U.S. Treasuries & Notes								**$ 123,672**
Total Fixed Income								**$ 998,669**

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

Standard & Poor's (S&P) Credit Quality by Investment Type
As of June 30, 2014
(In thousands)

	S&P Credit Quality							
Type of Investment	**AAA**	**AA**	**A**	**BBB-B**	**CCC-C**	**D-NR**	**Agency**	**Total**
Asset-Backed Securities	$ 2,225	$ 3,883	$ 1,386	$ 2,631	$ 2,567	$ 1,946	$ -	**$ 14,638**
Bank Loans	-	-	-	7,552	761	1,889	-	**$ 10,202**
Commercial Mortgage-Backed Securities	13,659	772	424	3,578	378	2,377	-	**$ 21,188**
Corporate Bonds	239	6,603	38,782	179,000	28,003	21,533	-	**$ 274,160**
Corporate Convertible Bonds	-	-	-	29	-	260	-	**$ 289**
Government Agencies	-	2,979	-	961	-	-	587	**$ 4,527**
Government Bonds	-	1,865	14,488	30,771	552	9,833	-	**$ 57,509**
Government Mortgage-Backed Securities	-	-	435	-	-	681	75,661	**$ 76,777**
Government-Issued Commercial Mortgage-Backed Securities	-	-	-	-	-	246	1,757	**$ 2,003**
Index-Linked Government Bonds	-	-	-	799	-	-	-	**$ 799**
Municipal / Provincial Bonds	726	2,918	1,508	-	-	-	-	**$ 5,152**
Non-Government-Backed C.M.O.s	822	1,021	4,025	2,164	4,961	4,757	-	**$ 17,750**
Collective / Commingled Funds	4,280	272,083	-	15,782	-	75,316	32,628	**$ 400,089**
Total	**$ 21,951**	**$ 292,124**	**$ 61,048**	**$ 243,267**	**$ 37,222**	**$ 118,838**	**$ 110,633**	**$ 885,083**
U.S. Treasuries & Notes								**$ 73,134**
Total Fixed Income								**$ 958,217**

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, 2015, there were no investment securities exposed to custodial credit risk.

Concentration of Credit Risk

The KCERA investment policy limits exposure to any single investment manager or product. The maximum allocation to a single active manager is up to 30% of the aggregate market value of the Fund. The maximum allocation to a single active management product is 12%. This limitation applies to any non-index investment vehicle. With the exception of any sovereign entity (both U.S. and non-U.S.) U.S. agency-backed and U.S. agency-issued mortgages, portfolios may not invest more than 5% per investment grade issuer. Securities of a single non-investment grade issuer should not represent more than 2% of the market value of the portfolio. KCERA's investment portfolio contained no investments in any one single investment grade issuer greater than 5% of plan net position as of June 30, 2015 and 2014 (other than the exceptions listed above).

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. KCERA's investment policy requires active managers to be within 20% of their benchmark. The overall fund duration is expected to be within 20% of the Fund's benchmark duration. At June 30, 2015 and 2014, the segmented time distribution of the fixed income portfolio, by investment type, was as follows:

As of June 30, 2015

		Investment Maturities (in years) as of June 30, 2015				
Investment Type	**Fair Value (in thousands)**	**Less Than 1**	**1-5**	**6-10**	**More Than 10**	**Maturity Not Determined**
Asset-Backed Securities	$ 16,817	$ -	$ 1,335	$ 1,404	$ 14,078	$ -
Bank Loans	9,033	860	7,026	1,147	-	-
Commercial Mortgage-Backed	24,459	-	252	-	24,207	-
Corporate Bonds	273,423	5,382	118,294	100,074	49,522	151
Corporate Convertible Bonds	333	-	279	-	54	-
Government Agencies	5,125	-	2,820	600	1,705	-
Government Bonds	146,975	2,768	27,484	65,017	51,706	-
Government Mortgage-Backed	99,443	-	85	1,015	53,008	45,335
Government-Issued Commercial Mortgage-Backed	1,251	-	153	807	291	-
Index-Linked Government Bonds	33,416	1,244	-	17,548	14,624	-
Municipal / Provincial Bonds	4,100	710	186	-	3,204	-
Non-Government-Backed C.M.O.s	16,546	-	-	1,560	14,986	-
Collective / Commingled Funds	367,748	-	-	-	-	367,748
Total	**$ 998,669**	**$ 10,964**	**$ 157,914**	**$ 189,172**	**$ 227,385**	**$ 413,234**

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

Investments *(cont.)*

As of June 30, 2014

Investment Type	Fair Value (in thousands)	Investment Maturities (in years) as of June 30, 2014 Less Than 1	1-5	6-10	More Than 10	Maturity Not Determined
Asset-Backed Securities	$ 14,638	$ -	$ 828	$ 882	$ 12,928	$ -
Bank Loans	10,202	-	7,276	2,926	-	-
Commercial Mortgage-Backed	21,188	-	-	243	20,945	-
Corporate Bonds	274,160	2,826	119,646	118,487	33,201	-
Corporate Convertible Bonds	289	-	289	-	-	-
Government Agencies	4,527	-	2,723	-	1,804	-
Government Bonds	119,387	2,542	31,580	61,254	24,011	-
Government Mortgage-Backed	76,777	-	485	968	55,133	20,191
Government-Issued Commercial Mortgage-Backed	2,003	-	150	231	1,622	-
Index-Linked Government Bonds	12,055	1,663	-	8,884	1,508	-
Municipal / Provincial Bonds	5,152	-	913	-	4,239	-
Non-Government-Backed C.M.O.s	17,750	-	-	-	17,750	-
Collective / Commingled Funds	400,089	-	-	-	-	400,089
Total	**$ 958,217**	**$ 7,031**	**$ 163,890**	**$ 193,875**	**$ 173,141**	**$ 420,280**

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

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

The direct holdings shown on the following page represent KCERA's foreign currency risk exposure as of June 30, 2015 and 2014.

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

As of June 30, 2015 (In thousands, USD)

	Foreign Currency	Fair Value ($)
Cash	Australian Dollar	$ 17
	Canadian Dollar	5
	Danish Krone	7
	Euro	897
	British Pound Sterling	79
	Hungarian Forint	40
	Japanese Yen	203
	Mexican Peso	448
	Malaysian Ringgit	1,471
Equities	Australian Dollar	10,679
	Canadian Dollar	10,221
	Swiss Franc	42,211
	Danish Krone	2,353
	Euro	92,863
	British Pound Sterling	77,754
	Hong Kong Dollar	24,925
	Indonesian Rupiah	895
	New Israeli Shekel	406
	Japanese Yen	69,045
	South Korean Won	5,705
	Norwegian Krone	809
	Swedish Krona	3,391
	Singapore Dollar	1,596
	South African Rand	2,023
Fixed Income	Australian Dollar	290
	Brazilian Real	4,347
	Chilean Peso	335
	Colombian Peso	463
	Euro	8,713
	Hungarian Forint	1,426
	Mexican Peso	11,249
	Malaysian Ringgit	1,892
	Peruvian Nuevo Sol	1,842
	Polish Zloty	1,706
	Russian Ruble	1,189
	Turkish Lira	2,311
	South African Rand	2,517
Swaps / Options	Euro	(48)
	British Pound Sterling	(13)
	Mexican Peso	8
Total Foreign Cash & Investments		**$ 386,270**

As of June 30, 2014 (In thousands, USD)

	Foreign Currency	Fair Value ($)
Cash	Australian Dollar	$ 230
	Canadian Dollar	7
	Danish Krone	36
	Euro	772
	British Pound Sterling	172
	Hong Kong Dollar	30
	Hungarian Forint	50
	Japanese Yen	562
	Mexican Peso	115
	Swedish Krona	51
	Singapore Dollar	4
Equities	Australian Dollar	12,464
	Canadian Dollar	10,893
	Swiss Franc	39,578
	Danish Krone	2,513
	Euro	100,779
	British Pound Sterling	75,989
	Hong Kong Dollar	25,923
	Indonesian Rupiah	1,035
	New Israeli Shekel	885
	Japanese Yen	66,487
	South Korean Won	6,897
	Mexican Peso	23
	Norwegian Krone	2,181
	Swedish Krona	5,791
	Singapore Dollar	1,292
Fixed Income	Australian Dollar	375
	Brazilian Real	7,189
	Chilean Peso	950
	Colombian Peso	650
	Euro	8,310
	British Pound Sterling	178
	Hungarian Forint	887
	Mexican Peso	9,011
	Malaysian Ringgit	1,626
	Peruvian Nuevo Sol	4,296
	Polish Zloty	1,369
	Russian Ruble	4,193
	Turkish Lira	1,851
	South African Rand	2,858
Swaps / Options	Euro	(76)
	British Pound Sterling	(69)
	Japanese Yen	(120)
	Mexican Peso	187
Total Foreign Cash & Investments		**$ 398,424**

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, 2015	June 30, 2014
Mortgage-Backed Securities	$ 125,154	$ 99,969
Asset-Backed Securities	16,818	14,638
Collateralized Mortgage Obligation Securities	16,546	17,750
Total	**$ 158,518**	**$ 132,357**

NOTE 4 – SECURITIES LENDING

Under provisions of state statutes, the Board of Retirement permits KCERA to participate in a securities lending program, whereby securities are transferred to independent broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities plus a fee in the future. KCERA utilized two lending agents during fiscal year 2015: its custodian, The Northern Trust Company, from July 2014 to January 2015, and Deutsche Bank from February 2015 to June 2015. Deutsche Bank is a third-party lending agent for KCERA.

Both agents were authorized to lend U.S. government obligations, U.S. bonds and equities, and international bonds and equities that are being held in custody to various borrowers, such as banks and brokers. Securities are lent for cash collateral. All securities loans can be terminated on demand by either KCERA or the borrower.

U.S. securities are loaned versus collateral valued at 102% of the 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. Deutsche Bank invests cash collateral in repurchase agreements on an overnight and term basis collateralized by readily liquid and marketable securities at 102% or greater.

At June 30, 2015, KCERA had no credit risk exposure to borrowers due to the nature of the program's collateralization of loans at 102% or 105% plus accrued interest.

NOTE 4 – SECURITIES LENDING *(cont.)*

The tables below show the balances relating to securities lending transactions at June 30, 2015 and 2014.

As of June 30, 2015 (In thousands)

Security Type	Fair Value of Loaned Securities Securitized by Cash	Cash Collateral
Equities	$ 38,926	$ 39,869
Corporate Bonds	18,132	18,586
Government Bonds	14,457	14,671
Total	**$ 71,515**	**$ 73,126**

As of June 30, 2014 (In thousands)

Security Type	Fair Value of Loaned Securities Securitized by Cash	Cash Collateral
Equities	$ 104,704	$ 108,068
Corporate Bonds	53,262	54,539
Government Bonds	65,982	67,497
Total	**$ 223,948**	**$ 230,104**

NOTE 5 – DERIVATIVES

Description of and Authority for Derivative Investments

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

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

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

NOTE 5 – DERIVATIVES *(cont.)*

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

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

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

Options
Options are used to manage risk exposures in certain accounts as a result of asset allocation requirements or unusual flows of cash to or from such accounts. Purchased put/call options are reported as assets with cost equal to the premium amount paid at inception, and written put/call options are reported as liabilities with cost equal to the premium received at inception. During the term of the option contracts, options are revalued at the end of each reporting period. Unrealized gains and losses are reported as the difference between the premium (cost) and the current market value. At expiration, sale, or exercise, options are removed from record and realized gains and losses are generally recognized. Because of the nature of options transactions, notional values are not included in the Investment Derivatives Summary table on page 39.

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

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

NOTE 5 – DERIVATIVES *(cont.)*

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

As of June 30, 2015 and 2014, KCERA has the following instruments outstanding (see Summary table below), with an objective to earn a rate of return consistent with KCERA's investment policies. Notional values listed on the Summary table that are positive (assets) or negative (liabilities) are aggregated for similar derivative types.

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

KCERA's derivative investment policy states that for non-exchange-traded derivative instruments, counterparty credit status shall be of the highest caliber with care taken to avoid credit guarantees extended through to parties less credit-worthy than the primary counterparty to the transaction. Counterparty exposure is limited to firms with a short-term rating of A1/P1 or with a long-term credit rating of AA or better. Single counterparty exposure should be limited to 10% of the value of the fund.

A summary of counterparty credit ratings relating to non-exchange-traded derivatives in asset positions as of June 30, 2015, in addition to a summary of KCERA's derivatives as of June 30, 2015 and 2014, are as follows:

Investment Derivatives Summary and Summary of Credit Ratings

As of June 30, 2015 (In thousands)

				S&P Credit Rating				
Investment Derivative Type	**Changes in Fair Value Gain/(Loss)**	**Fair Value**	**Notional Value**	**AA**	**A**	**BBB**	**Exchange Traded**	**Not Available**
Futures	$ (711)	$ -	$(245,499)	$ -	$ -	$ -	$ -	$ -
Options	1,037	(212)	(2)	(3)	(56)	(19)	(136)	-
Swaps	(1,002)	1,344	-	-	197	(3)	-	21
Foreign Exchange Contracts	1,966	(255)	-	-	-	-	-	(255)
Rights/Warrants Equity Contracts	51	-	-	-	-	-	-	-
Total Value	**$ 1,341**	**$ 877**	**$(245,501)**					
Total Subject to Credit Risk				**$ (3)**	**$ 141**	**$ (22)**	**$ (136)**	**$ (234)**

As of June 30, 2014 (In thousands)

				S&P Credit Rating			
Investment Derivative Type	**Changes in Fair Value Gain/(Loss)**	**Fair Value**	**Notional Value**	**AA**	**A**	**Exchange Traded**	**Not Available**
Futures	$ (251)	$ -	$ 68,839	$ -	$ -	$ -	$ -
Options	517	(118)	(18)	-	(77)	(41)	-
Swaps	(538)	527	-	201	657	-	184
Foreign Exchange Contracts	(619)	(50)	-	-	-	-	59
Rights/Warrants Equity Contracts	(112)	284	-	-	-	-	285
Total Value	**$ (1,003)**	**$ 643**	**$ 68,821**				
Total Subject to Credit Risk				**$ 201**	**$ 580**	**$ (41)**	**$ 528**

NOTE 5 – DERIVATIVES *(cont.)*

Investment Derivative Interest Rate Risk
Interest rate risk is the risk that changes in interest will adversely affect the fair value of an investment. KCERA measures derivative interest rate risk using duration. At June 30, 2015 and 2014, KCERA had the following investment derivative interest rate risks:

As of June 30, 2015
(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	$(245,499)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Options	(2)	(212)	(196)	(16)	-	-	-	-
Swaps	-	1,344	-	-	3	168	230	943
Forward Exchange Contracts	-	(255)	(318)	3	60	-	-	-
Rights/Warrants Equity Contracts	-	-	-	-	-	-	-	-
Total	**$(245,501)**	**$ 877**	**$ (514)**	**$ (13)**	**$ 63**	**$ 168**	**$ 230**	**$ 943**

As of June 30, 2014
(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	$ 68,839	$ -	$ 16,393	$ (5,318)	$ -	$ 57,764	$ -	$ -
Options	(18)	(118)	(86)	(45)	-	(5)	-	-
Swaps	-	527	1	-	4	198	85	239
Forward Exchange Contracts	-	(50)	(27)	(23)	-	-	-	-
Rights/Warrants Equity Contracts	-	284	4	-	-	280	-	-
Total	**$ 68,821**	**$ 643**	**$ 16,285**	**$ (5,386)**	**$ 4**	**$ 58,237**	**$ 85**	**$ 239**

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, 2015 and 2014, KCERA had the derivative foreign currency exposures listed in the table below.

As of June 30, 2015
(In thousands)

	Foreign Currency	Fair Value (USD)
Foreign Exchange Contracts	Australian Dollar	$ 34
	Brazilian Real	(100)
	Canadian Dollar	(108)
	Danish Krone	(15)
	Euro	(15,926)
	Indian Rupee	779
	Japanese Yen	(5,865)
	Mexican Peso	(102)
	Russian Ruble	(1,802)
Options	Euro	(48)
Swaps	British Pound Sterling	(13)
	Mexican Peso	8
Total Foreign Derivatives		**$ (23,158)**

As of June 30, 2014
(In thousands)

	Foreign Currency	Fair Value (USD)
Foreign Exchange Contracts	Australian Dollar	$ (90)
	Brazilian Real	(1,994)
	Canadian Dollar	(461)
	Euro	(3,391)
	Hungarian Forint	(50)
	Japanese Yen	(1,482)
	Mexican Peso	(1,131)
Options	Euro	(11)
Swaps	Euro	(65)
	British Pound Sterling	(69)
	Japanese Yen	(120)
	Mexican Peso	187
Total Foreign Derivatives		**$ (8,677)**

NOTE 6 – CONTRIBUTIONS

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

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

Total contributions made during fiscal years 2015 and 2014, respectively, amounted to approximately $245.8 million and $246.2 million, of which $215.5 million and $220.4 million were contributed by employers, and $30.3 million and $25.8 million were contributed by members.

Employer Contributions
Each year, an actuarial valuation is performed for the purpose of determining the funded position of the retirement plan and the employer contributions that are necessary to pay benefits accruing to KCERA members not otherwise funded by member contributions or investment earnings. The employer contribution rates are actuarially determined by using the Entry Age Normal Actuarial Cost method. The Plan's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. Contribution rates determined in each actuarial valuation (as of June 30) apply to the fiscal year beginning 12 months after the valuation date. Employer rates for fiscal year 2015 ranged from 31.50% to 56.28% of covered payroll, with a combined average of 42.00% for all employers.

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

Cost-of-Living Adjustment
On April 1, 1973, an annual cost-of-living adjustment (COLA) of up to 2% for all retirees and continuance beneficiaries was adopted. The 2% COLA was funded entirely from the unreserved fund balance until February 5, 1983. After this date and prior to fiscal year 2003, funding of the 2% COLA was included in the employers' contributions. In fiscal year 2002, the County of Kern activated Government Code Section 31617, which provides that COLAs shall be funded first from excess earnings, to the extent of such excess, and thereafter from employer contributions. In fiscal year 2014, the Plan had no excess earnings; $0 was reserved to fund the employer COLA contributions in fiscal year 2015.

NOTE 6 – CONTRIBUTIONS *(cont.)*

Member Contributions
Member contributions are made through payroll deductions on a pre-tax basis, per IRS Code Section 414(h)(2). Member contribution rates for fiscal year 2015 ranged from 4.25% to 17.50% and were applied to the member's base pay plus compensable special pay; they were calculated based on the member's KCERA entry age and actuarially calculated benefits. Members are required to contribute depending on the member's tier, employer and bargaining unit. For certain safety bargaining units, a flat member contribution rate is applied. New members (PEPRA) hired on or after January 1, 2013 pay a flat member contribution rate: 50% of normal cost plus COLA.

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

As a result of the 1997 Memoranda of Understanding (MOU), some members received an employer "pick up" of their contributions. General members hired after MOU-specified dates in 2004 or 2005 and safety members hired after MOU-specified dates in 2007 are now required to pay 100% of the employees' retirement benefit contributions, without the employer paying any part of the employees' contributions. Effective in 2014, non-contributing County general and safety members are now required to pay one-third of their employee contributions. Employees of the Kern County Superior Court were required to pay an additional 2.5% contribution of base salary until March 12, 2011, when the rate increased to 3.0%. On September 24, 2011, the rate increased to 3.5%. On October 6, 2012, the rate increased to 4.0%. Finally, employees in special districts not electing the 1997 MOU pay 50% of their full rates.

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

NOTE 7 – RESERVE ACCOUNTS AND DESIGNATIONS OF NET POSITION

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

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

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

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

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

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

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

Contingency Reserve – excess income to supplement deficient earnings. The contingency reserve satisfies the Government Code Section 31616 requirement for KCERA to reserve at least 1% of assets, up to a maximum of 3% of assets. At fiscal year ended June 30, 2015, -0.45% of the Plan's net position were in contingencies, according to the Board of Retirement's Interest Credit Policy.

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

Balances in these reserve accounts and designations of net position available for pension and other benefits at June 30, 2015 and 2014 (under the five-year smoothed market asset valuation method for actuarial valuation purposes) are as follows:

(In thousands)

Reserve Account	2015	2014
Members' Deposit Reserve – General	$ 194,641	$ 180,029
Members' Deposit Reserve – Safety	81,180	70,495
Members' Deposit Reserve – Special District	19,627	18,302
Employers' Advance Reserve – General	325,739	319,023
Employers' Advance Reserve – Safety	318,064	283,826
Employers' Advance Reserve – Special District	36,403	31,160
Cost-of-Living Reserve – General	572,232	528,573
Cost-of-Living Reserve – Safety	403,015	373,547
Cost-of-Living Reserve – Special District	39,509	35,296
Retired Members' Reserve – General	1,011,762	962,265
Retired Members' Reserve – Safety	481,277	489,760
Supplemental Retiree Benefit Reserve (SRBR)	121,267	119,665
SRBR allocated for 0.5% COLA	62,692	66,201
Contingency Reserve	(16,355)	(16,355)
Total reserves at five-year smoothed market actuarial valuation	**$ 3,651,053**	**$ 3,461,787**
Market Stabilization Reserve*	(25,960)	114,325
Total Fiduciary Net Position – Restricted for Pension Benefits	**$ 3,625,093**	**$ 3,576,112**

** 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, 2015, KCERA's Board committed $332.5 million to eight private equity fund-of-funds managed by Pantheon Ventures, Inc. ($167.5 million) and Abbott Capital Management, LLC ($165.0 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, 2015, fair value of commitments totaled $192.2 million.

As of June 30, 2015, 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, 2015, fair value of commitments totaled $25.1 million.

In fiscal year 2013, KCERA's Board approved funding new direct hedge fund managers. As of June 30, 2015, KCERA funded $297.1 million to thirteen hedge funds managers. To reach a target allocation of 10% of the total portfolio over the coming years, KCERA will be hiring additional direct hedge fund managers.

NOTE 9 – RELATED PARTY TRANSACTIONS

Office Lease

KCERA, as the sole shareholder, formed a title holding corporation, KCERA Property, Inc. (KPI) for the purpose of accommodating the administrative offices of the Plan. In October 2010, KCERA entered into its Build to Suit Lease agreement with KPI to occupy 14,348 square feet. KCERA is required to pay a monthly rate of $1.75 per square foot as well as taxes, insurance and operating costs as defined in the agreement. The base rent shall be subject to an automatic 10.4% increase beginning on the fifth anniversary of the commencement date and on each fifth year anniversary date thereafter during the lease term. The sum of payments due for fiscal year ended June 30, 2015 is $301,308 for base rent and $10,011 for insurance and assessment fees. KCERA's base rent and other costs are abated from KPI's rental income.

NOTE 10 – NET PENSION LIABILITY

The components of the net pension liability are as follows:

	June 30, 2015	June 30, 2014
Total Pension Liability	$ 5,828,191,122	$ 5,645,345,607
Plan Fiduciary Net Position	(3,625,093,183)	(3,576,111,526)
Net Pension Liability	**$ 2,203,097,939**	**$ 2,069,234,081**
Plan Fiduciary Net Position as Percentage of Total Pension Liability	62.20%	63.35%

The Plan's Fiduciary Net Position includes assets held for the Supplemental Retire Benefit Reserve (SRBR). A split of the Total Pension Liability (TPL), Plan's Fiduciary Net Position (FNP) and Net Pension Liability (NPL) by the regular benefits (non-SRBR) and the SRBR benefits as of June 30, 2015 is shown in the table below.

	Regular Benefits (Non-SRBR)	SRBR Benefits	Total KCERA
Total Pension Liability	$ 5,760,253,390	$ 67,937,732	$ 5,828,191,122
Plan Fiduciary Net Position	$ 3,503,826,007	$ 121,267,176	$ 3,625,093,183
Net Pension Liability	$ 2,256,427,383	$ (53,329,444)	$ 2,203,097,939

The net pension liability was measured as of June 30, 2015 and 2014. Plan fiduciary net position (plan assets) was valued as of the measurement date while the total pension liability was determined based upon rolling forward the total pension liability from actuarial valuations as of June 30, 2014 and 2013, respectively.

Plan provisions. The plan provisions used in the measurement of the net pension liability are the same as those used in the KCERA actuarial valuation as of June 30, 2015 and June 30, 2014, respectively. The TPL and the Plan's Fiduciary Net Position include liabilities and assets held for the Supplemental Retiree Benefit Reserve (SRBR).

Actuarial assumptions and methods. The total pension liabilities as of June 30, 2015 and June 30, 2014 were determined by actuarial valuations as of June 30, 2014 and June 30, 2013, respectively. The actuarial assumptions used were based on the results of an experience study for the period from July 1, 2010 through June 30, 2013. They are the same assumptions used in the June 30, 2015 funding valuation for KCERA. The following actuarial assumptions were applied to all periods included in the measurement:

NOTE 10 – NET PENSION LIABILITY *(cont.)*

Inflation:	3.25%
Salary Increases:	General: 4.25% to 9.25%. Safety: 4.25% to 11.75%. Varies by service, including inflation.
Investment Rate of Return:	7.50%, net of pension plan investment expenses, including inflation.
Administrative Expenses:	0.90% of payroll allocated to both the employer and member based on the components of the total average contribution rate (before expenses) for the employer and member.
Other Assumptions:	See analysis of actuarial experience from July 1, 2010 - June 30, 2013.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expenses and inflation) are developed for each major asset class. This data is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and projected arithmetic real rates of return for each major asset class, after deducting inflation but before investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized below:

	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	19%	5.92%
Small/Mid-Cap U.S. Equity	4%	6.49%
Developed International Equity	18%	6.90%
Emerging Markets Equity	4%	8.34%
Core Bonds	18%	0.73%
High Yield Bonds	4%	2.67%
Emerging Market Debt	4%	4.00%
TIPS	3%	0.35%
Real Estate	5%	4.96%
Commodities	6%	4.35%
Hedge Funds	10%	4.30%
Private Equity	5%	8.10%
Total	**100%**	

NOTE 10 – NET PENSION LIABILITY *(cont.)*

Discount rate: The discount rate used to measure the total pension liability was 7.50% as of June 30, 2015 and June 30, 2014. The projection of cash flows used to determine the discount rates assumed member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates.

For this purpose, only employee and employer contributions intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability as of both June 30, 2015 and June 30, 2014.

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

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability as of June 30, 2015 and June 30, 2014, calculated using a discount rate of 7.50%, and what the net pension liability would be if it were calculated using a discount rate that is one point lower (6.50%) or one point higher (8.50%) than the current rate:

	1% Decrease (6.50%)	**Current Rate (7.50%)**	**1% Increase (8.50%)**
Net Pension Liability as of June 30, 2015	$ 2,961,388,125	$ 2,203,097,939	$ 1,575,839,487
Net Pension Liability as of June 30, 2014	$ 2,810,415,650	$ 2,069,234,081	$ 1,456,723,591

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Total Pension Liability:		
Service Cost	$ 125,160,810	$ 125,117,810
Interest	415,820,074	400,558,398
Change of Benefit Terms	5,035,737	-
Differences between Expected and Actual Experience	(89,306,426)	(57,033,870)
Changes of Assumptions	-	205,039,279
Benefit Payments, including Refunds	(273,864,680)	(257,495,061)
Net Change in Total Pension Liability	$ 182,845,515	$ 416,186,556
Total Pension Liability – Beginning of Year	5,645,345,607	5,229,159,051
Total Pension Liability – End of Year (a)	**$ 5,828,191,122**	**$ 5,645,345,607**
Plan Fiduciary Net Position:		
Contributions – Employer	$ 215,476,956	$ 220,393,167
Contributions – Employee	30,324,848	25,810,310
Net Investment Income	81,931,170	487,591,494
Benefit Payments, including Refunds	(273,864,680)	(257,495,061)
Administrative Expense	(4,886,637)	(4,958,637)
Other	-	-
Net Change in Plan Fiduciary Net Position	$ 48,981,657	$ 471,341,273
Plan Fiduciary Net Position – Beginning of Year	3,576,111,526	3,104,770,253
Plan Fiduciary Net Position – End of Year (b)	**$ 3,625,093,183**	**$ 3,576,111,526**
Net Pension Liability: (a) - (b)	**$ 2,203,097,939**	**$ 2,069,234,081**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	62.20%	63.35%
Covered Employee Payroll	$ 531,598,183	$ 533,850,811
Plan Net Pension Liability as a Percentage of Covered Employee Payroll	414.43%	387.61%

Note: Benefit Change – The SRBR death benefit increased from $3,000 to $5,000, effective January 1, 2015.

REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Actuarially Determined Contributions	Contributions in Relation to Actuarially Determined Contributions	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as % of Covered Employee Payroll
2006	$ 100,734,000	$ 100,734,000	0	$ 417,351,000	24.14%
2007	$ 128,135,000	$ 128,135,000	0	$ 453,412,000	28.26%
2008	$ 137,264,000	$ 137,264,000	0	$ 482,879,000	28.43%
2009	$ 138,815,000	$ 138,815,000	0	$ 482,879,000	28.74%
2010	$ 151,127,000	$ 151,127,000	0	$ 559,872,000	26.99%
2011	$ 177,444,000	$ 177,444,000	0	$ 559,380,000	31.72%
2012	$ 189,837,000	$ 189,837,000	0	$ 526,079,162	36.09%
2013	$ 211,677,000	$ 211,677,000	0	$ 516,465,189	40.99%
2014	$ 220,393,000	$ 220,393,000	0	$ 533,850,811	41.28%
2015	$ 215,477,000	$ 215,477,000	0	$ 531,598,183	40.53%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Methods and used assumptions to establish “actuarially determined contribution” rates:

Valuation date	Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age Actuarial Cost Method
Amortization method	Level percent of payroll for total unfunded liability (assuming 3.75% payroll increase)
Remaining amortization period	20.5 years as of June 30, 2015 for all UAAL as of June 30, 2011. Effective June 30, 2012, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over an 18-year closed period effective with each valuation. Any change in unfunded actuarial accrued liability that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years).
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized returns are equal to the difference between the actual market return and the expected return on a market value basis and are recognized semi-annually over a five-year period. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in nine equal semi-annual amounts over a period of four and a half years from that date.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION *(cont.)*

	June 30, 2015	June 30, 2014
Actuarial Assumptions:		
Investment rate of return	7.50%, net of investment expenses, including inflation	7.50%, net of investment expenses, including inflation
Inflation rate	3.25%	3.25%
Real across-the-board salary increase	0.50%	0.50%
*Projected salary increases**	General: 4.25% to 9.25% Safety: 4.25% to 11.75%	General: 4.25% to 9.25% Safety: 4.25% to 11.75%
Administrative expenses	0.90% of payroll allocated to both the employer and member based on the components of the total average contribution rate (before expenses) for the employer and member	0.90% of payroll allocated to both the employer and member based on the components of the total contribution rate (before expenses) for the employer and member
Cost-of-living adjustments	2.5% (actual increases based on CPI increases with a 2.5% maximum)	2.5% (actual increases based on CPI increases with a 2.5% maximum)
Other assumptions	Same as those used in the June 30, 2015 funding actuarial valuation	Same as those used in the June 30, 2014 funding actuarial valuation

** Includes inflation at 3.25% plus real across-the-board salary increase of 0.50% plus merit and promotional increases.*

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

	2015	2014	2013
Annual Money-Weighted Rate of Return *(net of investment expenses)*	3.0%	15.5%	10.8%

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

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Staffing:		
Salaries	$ 1,698,556	$ 1,694,394
Benefits	1,259,589	1,253,824
Temporary staff	60,627	32,347
Staffing Total	3,018,772	2,980,565
Staff Development	$ 33,716	$ 28,115
Professional Fees:		
Actuarial fees	$ 42,309	$ 38,021
Audit fees	33,000	33,300
Consultant fees	47,313	78,348
Legal fees	71,505	14,415
Professional Fees Total	194,127	164,084
Office Expenses:		
Building expenses	$ 44,748	$ 43,852
Communications	17,278	17,353
Equipment lease	12,727	17,185
Equipment maintenance	29,299	37,958
Memberships	7,920	8,820
Office supplies & misc. admin.	29,814	27,849
Payroll & accounts payable fees	5,930	4,431
Postage	16,811	15,898
Subscriptions	5,604	5,604
Utilities	44,503	43,541
Office Expenses Total	214,634	222,491
Insurance	$ 115,235	$ 123,188
Member Services:		
Benefit payment fees	$ 64,417	$ 73,238
Disability - legal fees	34,396	80,042
Disability - medical advisors	68,376	5,111
Disability - professional services	52,667	52,482
Member communications	17,500	12,685
Members Services Total	237,355	223,558

(Schedule continued on next page)

See accompanying independent auditors' report.

SCHEDULE OF ADMINISTRATIVE EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014 *(cont.)*

	2015	2014
Systems:		
Audit - security & vulner. scan	$ 8,741	$ 1,800
Business continuity expenses	9,805	-
Hardware	16,905	9,920
Maintenance	308,828	271,891
Software	14,845	20,523
IT projects	19,325	115,001
Systems Total	378,449	419,135
Board of Retirement:		
Board compensation	$ 12,057	$ 13,475
Board conferences & training	23,152	15,886
Board elections	2,108	48,469
Board meetings	2,542	2,147
Board of Retirement Total	39,859	79,977
Depreciation / Amortization	$ 654,405	$ 618,889
Total Administrative Expenses	**$ 4,886,552**	**$ 4,860,002**

SCHEDULE OF INVESTMENT EXPENSES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
Investment Manager Fees:		
Equity	$ 7,010,513	$ 5,533,760
Fixed Income	2,396,733	2,506,627
Commodities	591,917	364,515
Real Estate	2,194,182	1,754,443
Private Equity Funds	2,208,981	2,316,926
Hedge Funds	8,074,831	4,251,937
Total Investment Manager Fees	22,477,157	16,728,208
Other Investment Expenses:		
Custodian	335,625	349,166
Actuarial Valuation	213,094	98,635
Investment Consultants	745,000	755,000
Legal Fees	80,588	236,500
Due Diligence	15,750	20,235
Real Estate	24,287	14,686
Total Other Investment Expenses	1,414,344	1,474,222
Total Fees and Other Investment Expenses	**$ 23,891,501**	**$ 18,202,432**
Security Lending Rebates and Bank Fees	(57,167)	(164,527)
Total Investment Expenses	**$ 23,834,334**	**$ 18,037,903**

In 2014, the investment manager fees paid directly from the investment managers' funds are included in the net appreciation (depreciation) in fair value of investments on the Statement of Changes in Fiduciary Net Position. The amount of the investment manager fees paid from the funds' assets was $9.7 million. The amount of the investment manager fees paid directly by KCERA was $7.0 million.

See accompanying independent auditors' report.

SCHEDULE OF PAYMENTS TO CONSULTANTS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

		Commission / Fee	
Individual or Firm	**Nature of Service**	**2015**	**2014**
Cortex Applied Research, Inc.	Policy Consultants	$ 46,787	$ 34,875
Linea Solutions, Inc.	Oversight Project Manager for Pension Admin. System	0	105,580
Ventera Corp.	Imaging System Software	0	12,749
The Segal Company	Actuarial Services	42,309	38,256
Kern County Counsel	Legal Counsel	34,833	80,166
Hanson Bridgett	Legal Counsel	7,479	5,633
Nossaman LLP	Legal Counsel	18,210	6,531
Ice Miller	Legal Counsel	30,424	1,464
Reed Smith LLP	Legal Counsel	14,455	0
Public Pension Professionals	Legal Counsel	0	663
PAS Associates	Personnel Consultants	527	12,694
Alliance Resources Consulting	Personnel Consultants	0	28,500
CliftonLarsonAllen	External Auditors	33,000	31,500
Fluxar Studios	Website Design	19,325	0
Agility Recovery Solutions	Disaster Recovery	9,805	0
Aurora Systems Consulting	System Audit	8,740	0
Trace Security, Inc.	System Audit	0	1,800
Total Payments to Consultants		**$ 265,894**	**$ 360,410**

(These payments were made to outside consultants other than investment professionals. A Schedule of Investment Fees is presented on pages 70-72 in the Investment Section.)

See accompanying independent auditors' report.

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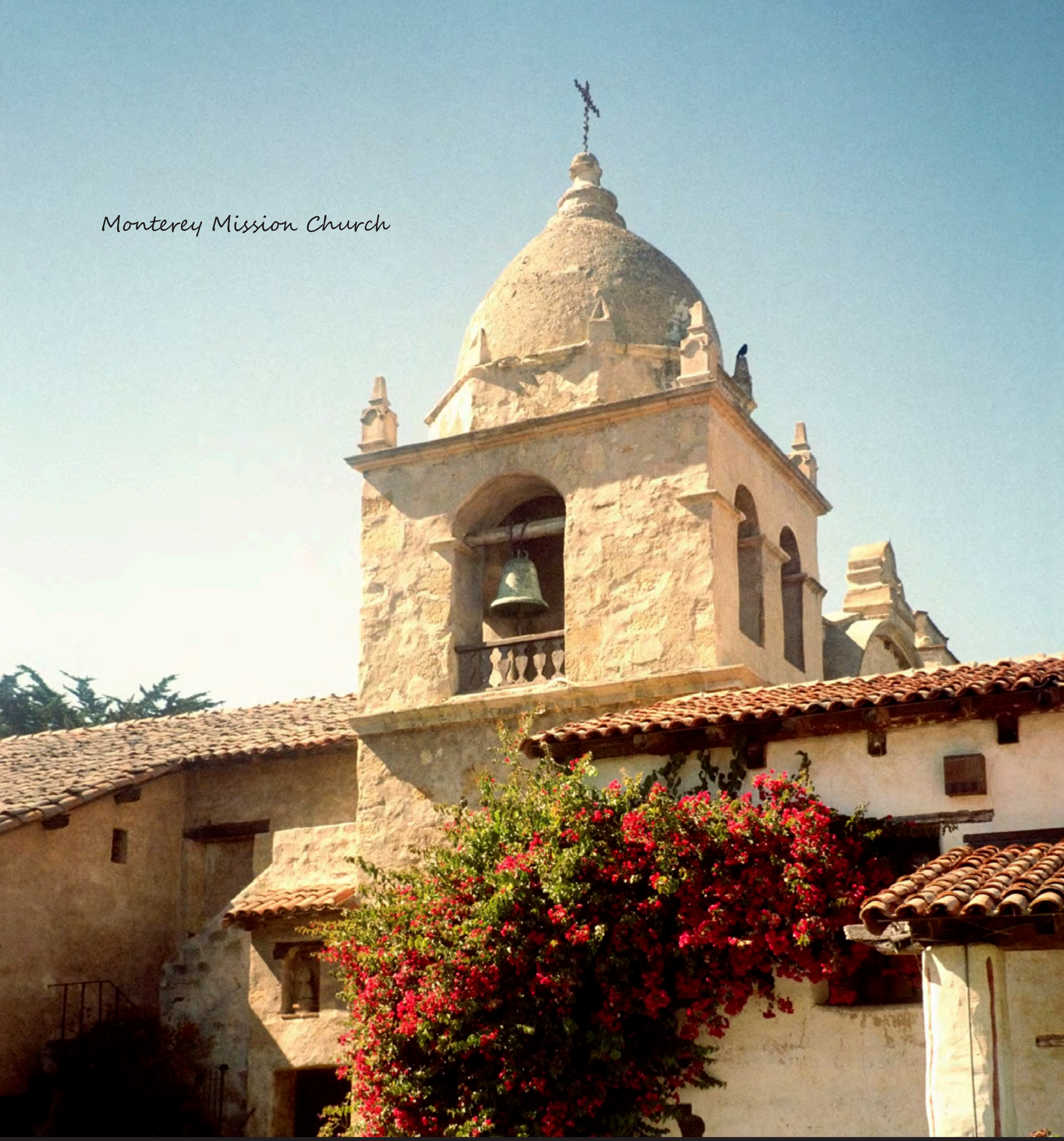

SECTION III

Investment

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Verus

November 1, 2015

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

Dear Ms. Dominguez,

Verus is pleased to have had the opportunity to serve the Kern County Employees' Retirement Association since July 2011 and to provide this investment review for the year ending June 30, 2015.

Verus independently calculated the Fund's fiscal year performance results utilizing a time-weighted annualized rate of return methodology (modified Dietz method) with data on market valuations and transactions provided by the Fund's custodian bank, the Northern Trust Company. For the fiscal year ended June 30, 2015, KCERA's retirement fund had an investment gain of 2.9% (gross of fees) and 2.4% (net of fees) and ended the fiscal year with total assets of approximately $3.63 billion.

All of KCERA's investments are managed according to guidelines codified in KCERA's Statement of Investment Goals, Objectives and Policies. This Statement is reviewed periodically to ensure best practices are employed in all aspects of our work and was last updated in April 2014.

Capital Markets Review

Last year at this point in time, nearly all major asset classes advanced for the fiscal year. However, this year the story is very different for the fiscal year ending June 30, 2015. U.S. equities cooled off quite a bit compared to past years, but the Russell 3000 still produced a 7.3% return for the fiscal year. International equities of developed nations represented by the MSCI EAFE struggled as the index returned -3.8% over the same period. Emerging market equities also faced challenges as the MSCI EM Index delivered a -4.8% return. Real estate was a bright spot as the NCREIF Property index returned 13.0% for the fiscal year. Given the Fed's zero interest rate policy and inflation expectations, core fixed income plodded along with the BC Aggregate Bond Index returning 1.9% over the period.

It's been just about a year since the Fed ended its stimulus program, Quantitative Easing, which was the Fed's main tool to manage monetary policy since 2008. Now that QE has ended, the Fed can get back to using the conventional Fed Funds Rate to implement monetary policy. It was heavily

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speculated that after nearly 10 years, the Fed would finally raise the benchmark rate in September. But even with signs of a strengthening economy, improving unemployment figures, and adequate GDP growth, the Fed held the benchmark rate unchanged between 0% and 0.25% citing lack of inflation, strength of the dollar, and global weakness. Hearing "global weakness" as a reason to keep the Fed Funds Rate unchanged was a surprise to many. It's not that global weakness isn't a concern, it is. But the Fed will generally look within the domestic US boundaries for economic signals and indicators to base its decisions. Perhaps the challenges facing emerging market economies and those in Europe are just too big to ignore. At the end of the day, investors are facing volatile markets and uncertainty across the globe in the near term. Under these conditions, it is absolutely necessary to maintain a long-term investment perspective and rely on broad diversification to navigate these markets.

Asset Allocation

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

Asset Class	Target	Year-End Allocation*
Domestic Equity	23%	26.2%
International Equity	22%	23.4%
Fixed Income	29%	26.8%
Real Estate	5%	5.6%
Hedge Funds	10%	8.3%
Private Equity	5%	5.4%
Commodities	6%	4.2%
Cash	0%	0.2%

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

Investment Performance

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

- KCERA's total fund returned 2.4% for the fiscal year, versus the policy return of 1.3%. Outperformance was mainly driven by the real estate and hedge fund allocations. Although the Plan's international equity allocation was down for the fiscal year, the asset class outperformed relative to its benchmark contributing to relative results.

- KCERA's Domestic Equity composite return of 7.3%, was in-line with the benchmark Russell 3000 Index.

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- The International Equity allocation returned -1.8% versus an index return of -4.8% for the year, with five of the six international equity managers outperforming their assigned benchmark.

- KCERA's Fixed Income composite, which includes a broad selection of domestic and international bonds, detracted -0.8% and underperformed the Barclays Aggregate Bond Index by 270 basis points. Allocations to emerging markets debt and to a lesser extent, high yield fixed income weighed on returns.

- The Plan's Real Estate allocation includes allocations to a REIT manager, which invests in U.S. REITs, three closed-end funds invested in value-added strategies, and two open-end funds invested mostly in income generating core properties. Overall, the real estate portfolio returned 18.7% for the year, outperforming the benchmark return of 13.0%.

- The direct hedge fund portfolio delivered a return of 5.3% and outperformed its custom benchmark by approximately 190 basis points.

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

Sincerely,

Scott J. Whalen, CFA
Managing Director, Executive Vice President

OUTLINE OF INVESTMENT POLICIES ADOPTED BY THE BOARD OF RETIREMENT APRIL 9, 2014

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 investment consultants. The Board is required to diversify the investments of the Plan so as to minimize the risk of loss and to maximize the rate of return, unless it is clearly prudent not to do so.

The Board consists of nine members and two alternate members. Four members of the Board are appointed by the Kern County Board of Supervisors; 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.

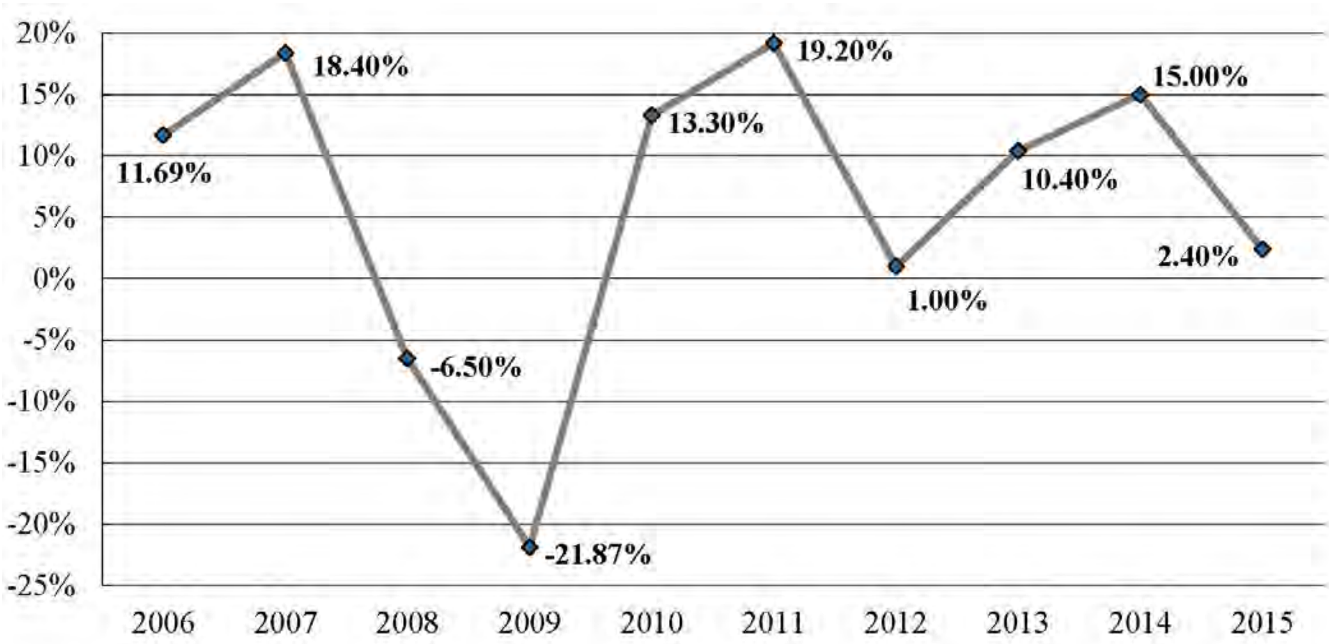
The Board of Retirement adopted the current asset allocation policy in October 2011. The target asset allocation and the actual asset allocation at June 30, 2015 are as follows:

Asset Class	Actual	Target	Target Ranges Minimum	Target Ranges Maximum
Domestic Equity	26.2%	23.0%	8.0%	38.0%
International Equity	23.4%	22.0%	7.0%	37.0%
Fixed Income	26.8%	29.0%	14.0%	44.0%
Real Estate	5.6%	5.0%	0.0%	10.0%
Private Equities	5.4%	5.0%	0.0%	10.0%
Hedge Funds	8.3%	10.0%	0.0%	15.0%
Commodities	4.2%	6.0%	0.0%	8.0%
Cash	0.2%	0.0%		
Total	**100.0%**	**100.0%**		

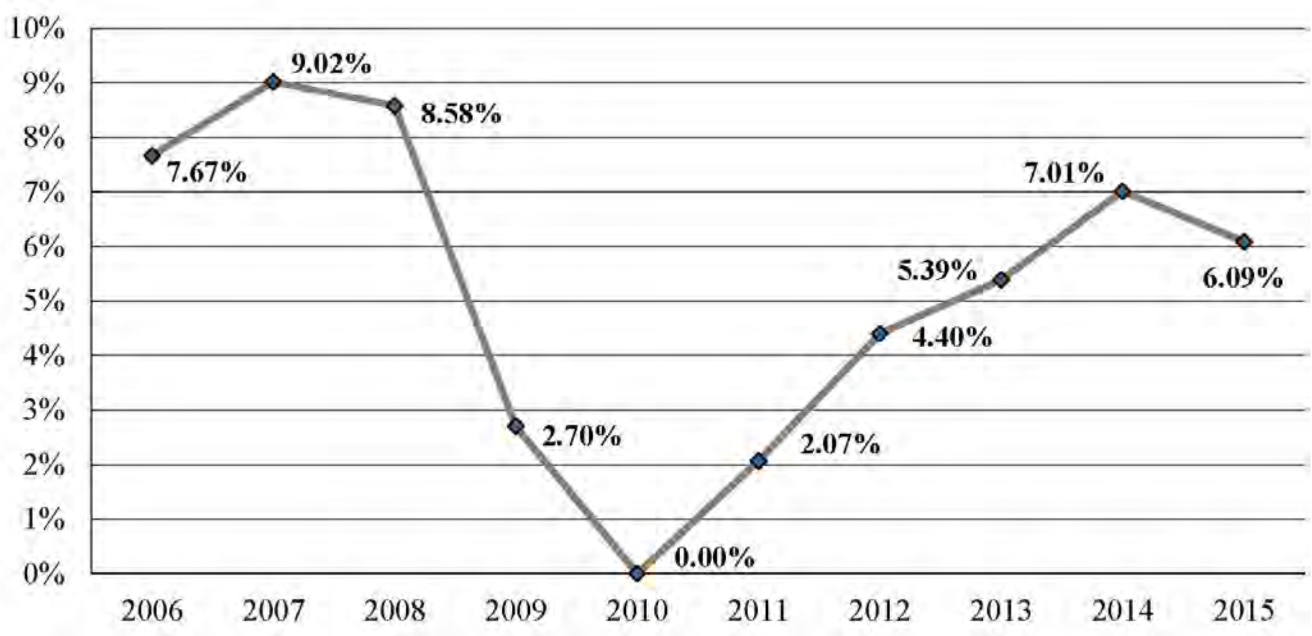
INVESTMENT SUMMARY
FOR THE YEAR ENDED JUNE 30, 2015

Type of Investment	Fair Value (In thousands)	% of Total Fair Value
Domestic Equities		
All Cap Passive	$ 217,791	6.00%
Large Cap Enhanced	318,151	8.77%
Large Cap	293,727	8.10%
Small Cap Growth	55,538	1.53%
Small Cap Value	65,530	1.81%
Total Domestic Equities	950,737	26.21%
International Equities		
Large Cap	585,358	16.13%
Small Cap	122,147	3.37%
Emerging Markets	140,535	3.87%
Total International Equities	848,040	23.38%
Fixed Income		
Core	236,560	6.52%
Core Plus	403,775	11.13%
TIPS	32,050	0.88%
High Yield	147,414	4.06%
Emerging Markets	153,005	4.22%
Total Fixed Income	972,804	26.81%
Real Estate		
Core	144,892	3.99%
Domestic REITs	27,912	0.77%
Real Estate Private Equity	25,134	0.69%
Property	3,795	0.10%
Total Real Estate	201,733	5.56%
Alternative Investments		
Private Equities	192,205	5.30%
Hedge Funds	301,029	8.30%
Commodities	150,771	4.16%
Total Alternative Investments	644,005	17.75%
Cash & Cash Equivalents	10,440	0.29%
Assets in Liquidation	135	0.00%
Total Investments	**$ 3,627,894**	**100.00%**
KCERA Capital Assets	5,182	
KCERA Receivables / Payables	(7,983)	
Fiduciary Net Position	**$ 3,625,093**	

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:	2.4	9.2	9.4	5.5
Benchmark: Policy Index*	1.3	8.1	9.2	6.4
Domestic Equities:	7.3	17.3	17.5	7.9
Benchmark: Russell 3000 Index	7.3	17.7	17.5	8.2
International Equities:	-1.8	12.3	9.5	6.1
Benchmark: MSCI ACWI ex-US	-4.8	9.9	8.2	6.0
Global Fixed Income:	-0.8	2.1	4.5	4.8
Benchmark: Barclays Aggregate Index	1.9	1.8	3.3	4.4
Real Estate:	18.7	12.6	N/A	N/A
Benchmark: NCREIF Property Index	13.0	11.6	N/A	N/A
Hedge Funds / Alternative Investments:	5.3	8.0	6.2	5.1
Benchmark: Policy Index**	3.4	6.4	6.3	6.0
Private Equities:	9.8	11.5	11.3	7.8
Benchmark: Russell 3000 + 300 bps	15.7	19.9	18.1	11.6
Commodities:	-23.7	N/A	N/A	N/A
Benchmark: Bloomberg Comm. Index	-23.7	N/A	N/A	N/A

* Total Fund: 23% Russell 3000
22% MSCI ACWI ex-U.S.
29% Barclays Aggregate
5% NCREIF Property
6% Bloomberg Commodities
7.5% 91-Day T-Bills + 400 bps
5% Russell 3000 + 300 bps
2.5% MSCI ACWI

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

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

INVESTMENT PROFESSIONALS
AS OF JUNE 30, 2015

CONSULTANTS

Verus Investments
Albourne America LLC

CUSTODIAN

The Northern Trust Company

THIRD-PARTY SECURITIES LENDING

Deutsche Bank

INVESTMENT MANAGERS

Domestic Equity

AllianceBernstein
Columbia Management Investment Advisors
Mellon Capital Management Corporation
Pacific Investment Management Co., LLC
PanAgora Asset Management, Inc.
T. Rowe Price Associates, Inc.

International Equity

BlackRock Institutional Trust Company
Dimensional Fund Advisors, L.P.
J. P. Morgan Investment Management, Inc.
Pyramis Global Advisors Trust Company
Vontobel Asset Management, Inc.

Real Estate

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

INVESTMENT MANAGERS *(cont.)*

Private Equity

Abbott Capital Management, LLC
Pantheon Ventures, Inc.

Global Fixed Income

Gramercy Funds Management LLC
Mellon Capital Management Corporation
Pacific Investment Management Co., LLC
Stone Harbor Investment Partners
Western Asset Management Company

Hedge Funds

Amici Qualified Associates, L.P.
Aristeia Capital, LLC
Black Diamond / Carlson Capital GP
BlueCrest Capital Management LLP
Brevan Howard Asset Management LLP
Cevian Capital L.P.
D. E. Shaw & Co.
HBK Capital Management
Indus Capital Partners, LLC
K2 Advisors, LLC
Magnetar Capital LLC
MKP Capital Management, LLC
Och-Ziff Capital Management Group LLC
York Capital Management

Commodities

BlackRock Institutional Trust Company
Gresham Investment Management LLC
Wellington Trust Company

LARGEST STOCK DIRECT HOLDINGS (FAIR VALUE)
AS OF JUNE 30, 2015

Shares	Stocks	Market Value
100,789	Apple	$ 12,641,460
141,372	Microsoft	$ 6,241,574
61,400	Novartis	$ 6,054,261
339,452	BG Group	$ 5,656,206
64,126	Exxon Mobil	$ 5,335,283
218,626	Prudential	$ 5,269,242
576,697	HSBC Holdings	$ 5,218,321
59,939	Facebook	$ 5,206,279
18,250	Roche Holdings	$ 5,116,366
1,399,423	Vodafone Group	$ 5,058,705

LARGEST BOND DIRECT HOLDINGS (FAIR VALUE)
AS OF JUNE 30, 2015

Par	Bonds	Market Value
21,700,000	FNMA Single Family 3.5% 15 Yrs	$ 22,843,308
14,900,000	FNMA Single Family 3.5% 30 Yrs	$ 15,315,576
11,810,000	U.S. Treasury 2.25% due 07-31-2021	$ 12,033,280
10,800,000	U.S. Treasury Bonds 3.125% due 08-15-2044	$ 10,817,723
10,000,000	U.S. Treasury 1.75% due 02-28-2022	$ 9,825,780
7,910,000	U.S. Treasury Notes 2.5% due 05-15-2024	$ 8,045,332
8,000,000	FNMA Single Familiy 3% 30 Yrs	$ 7,949,528
7,700,000	U.S. Treasury 2.25% due 04-30-2021	$ 7,861,223
7,200,000	FNMA Single Family 3.5% 15 Yrs	$ 7,593,415
7,800,000	U.S. Treasury Notes Inflation Index 0.125% 07-15-2024	$ 7,579,212

A complete list of portfolio holdings is available upon request.

ASSETS UNDER MANAGEMENT
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

(In thousands)

Asset Classes	2015	2014
Domestic Equity	$ 931,744	$ 899,159
International Equity	840,784	854,138
Fixed Income	1,003,084	960,875
Real Estate	201,393	175,405
Hedge Funds	301,029	248,090
Private Equity	192,205	215,268
Commodities	150,771	142,227
Investments at Fair Value	**$ 3,621,010**	**$ 3,495,162**
Cash & Short-Term Investments	68,304	85,777
Investments Sold / Purchased	(69,890)	(17,901)
Investment Income & Other Liabilities	8,470	9,124
Total Assets Under Management	**$ 3,627,894**	**$ 3,572,162**
KCERA Capital Assets	5,182	5,549
KCERA Receivables / Payables	(7,983)	(1,599)
Fiduciary Net Position	**$ 3,625,093**	**$ 3,576,112**

SCHEDULE OF INVESTMENT FEES
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Investment Manager Fees	2015	2014
Domestic Equity Managers:		
Columbia Management	$ 148,955	$ 179,990
Fisher Asset Management	321,866	443,353
Mellon Tangent Added	493,844	-
Mellon Capital Management	57,302	50,741
PIMCO	495,537	740,321
PanAgora Asset Management	194,622	386,365
T. Rowe Price Associates	566,121	583,776
Total Domestic Equity Managers	2,278,247	2,384,546
International Equity Managers:		
BlackRock Institutional Trust Company	1,638,041	251,574
JP Morgan Investment Management	587,927	575,708
Pyramis Global Advisors (Large Cap)	402,085	394,901
Pyramis Global Advisors (Small Cap)	1,165,592	1,148,333
Total International Equity Managers	3,793,645	2,370,516
Emerging Markets Managers:		
Capital Guardian	-	408,720
DFA Emerging Markets Value Portfolio	291,791	78,810
Vontobel Global Emerging Markets	646,830	291,168
Total Emerging Markets Managers	938,621	778,698
High Yield Managers:		
Neuberger Berman Fixed Income	146,472	338,720
Western Asset Management	223,942	147,264
Total High Yield Managers	370,414	485,984
Global Fixed Income Managers:		
Gramercy Funds Management	517,552	533,120
Mellon Capital Mgmt (Fixed Income)	57,219	41,446
Mellon Capital Mgmt (TIPS)	10,905	26,349
PIMCO	532,698	521,284
Stone Harbor Global Funds	421,281	430,105
Western Asset Managment	486,664	468,339
Total Global Fixed Income Managers	2,026,319	2,020,643

(Schedule of Investment Fees continued on next page)

SCHEDULE OF INVESTMENT FEES *(cont.)*
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Investment Manager Fees	2015	2014
Real Estate Managers:		
ASB Capital Management	$ 444,981	$ 250,134
Fidelity RE Growth Fund III	554,515	755,318
Invesco	542,500	456,569
JPMCB Strategic Property Fund	506,510	-
LaSalle Investment Mgmt (Domestic REITs)	44,956	216,891
LaSalle Investment Mgmt (Global REITs)	100,720	75,531
Total Real Estate Managers	2,194,182	1,754,443
Commodity Managers:		
BlackRock Institutional Trust Company	143,456	131,054
Gresham	275,195	144,154
Wellington	173,266	89,307
Total Commodities Managers	591,917	364,515
Hedge Fund Managers:		
Amici Qualified Associates	477,124	705,254
Aristeia International Ltd	156,800	28,120
Black Diamond Relative Value Partners	309,739	-
BlueTrend Fund	787,701	226,060
Brevan Howard Multi-Strategy Fund	518,387	375,104
Cevian Capital II SP	157,322	-
D.E. Shaw Composite Fund	1,283,492	1,024,575
HBK Multi-Strategy Fund	449,695	526,658
Indus Pacific Opportunities Fund	1,282,025	-
Magnetar Structured Credit Fund	761,334	36,591
MKP Opportunity Offshore Ltd	563,791	42,578
OZ Domestic partners II	933,150	909,845
York Capital Management	394,271	377,152
Total Hedge Fund Managers	8,074,831	4,251,937
Private Equity Managers:		
Abbott Capital Fund IV	158,408	176,386
Abbott Capital Fund V	397,304	430,414
Abbott Capital Fund VI	475,000	475,000
Pantheon V	161,467	161,568
Pantheon VI	216,126	227,504
Pantheon VII	375,000	375,000
Pantheon SEC Fund III	425,676	471,054
Total Private Equity Managers	2,208,981	2,316,926
Total Investment Managers' Fees	**$ 22,477,157**	**$ 16,728,208**

SCHEDULE OF INVESTMENT FEES *(cont.)*
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

Investment Consultant Fees	2015	2014
Custodial Fees		
The Northern Trust Company	$ 335,625	$ 349,166
Actuarial Fees		
The Segal Company	213,094	98,635
Investment Consultant Fees		
Albourne America LLC	400,000	400,000
Glass, Lewis & Co.	15,000	25,000
Verus (Wurts & Associates)	330,000	330,000
Legal Fees		
Foley & Lardner LLP	73,616	191,520
Hansen Bridgett LLP	6,972	39,680
Nossaman LLP	-	4,637
Public Pension Consultants	-	663
Due Diligence Travel Expenses		
Trustees / KCERA Management	15,750	20,235
Security Lending Fees		
The Northern Trust Company	(57,167)	(164,527)
Real Estate Expenses		
KCERA Property Inc.	24,287	14,686
Total Investment Fees	**$ 23,834,334**	**$ 18,037,903**

In 2014, the investment manager fees paid directly from the investment managers' funds are included in the net appreciation (depreciation) in fair value of investments on the Statement of Changes in Fiduciary Net Position. The amount of the investment manager fees paid from the funds' assets was $9.7 million. The amount of the investment manager fees paid directly by KCERA was $7.0 million.

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SECTION IV

Actuarial

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Segal Consulting

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

October 19, 2015

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

Re: Kern County Employees' Retirement Association
June 30, 2015 Actuarial Valuation for Funding Purposes

Dear Members of the Board:

Segal Consulting (Segal) prepared the June 30, 2014 annual actuarial valuation of the Kern County Employees' Retirement Association (KCERA). We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices and KCERA's funding policy that was last reviewed with the Board in 2012. In particular, it is our understanding that the assumptions and methods used for funding purposes meet the parameters set by Actuarial Standards of Practice (ASOPs).

As part of the June 30, 2014 actuarial valuation, Segal conducted an examination of all participant data for reasonableness. However, the scope of this examination does not qualify as an audit. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, retirement plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over 10 six-month periods. Deferred gains and losses as of June 30, 2011 have been combined and will be recognized in equal amounts over a period of four and a half years from that date. The deferred return is further adjusted, if necessary, so that the actuarial value of assets will stay within 50% of the market value of assets.

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

The UAAL as of June 30, 2011 is amortized as a level percentage of payroll over a 21.5-year period as of June 30, 2014. Effective June 30, 2012, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over a

Board of Retirement
Kern County Employees' Retirement Association
October 19, 2015
Page 2

18-year closed period effective with each valuation. Any change in unfunded actuarial accrued liability that arises due to plan amendments is amortized over its own declining 15-year period (with exception of a change due to retirement incentives, which is amortized over a declining period of up to 5 years). The progress being made towards meeting the funding objective through June 30, 2014 is illustrated in the Schedule of Funding Progress.

A listing of supporting schedules Segal prepared for inclusion in the actuarial, statistical, and financial sections of the Association's CAFR is provided below. Unless otherwise stated, the schedules were prepared based on the results of the actuarial valuation as of June 30, 2014 for funding purposes. The notes to the financial section and Required Supplementary Information were prepared by the Association based on the results of the Govermental Accounting Standards (GAS) 67 actuarial valuation as of June 30, 2015 prepared by Segal.

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

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the June 30, 2013 Actuarial Experience Study and Review of Economic Actuarial Assumptions. 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, 2014 valuation produce results, which, in aggregate, reflect the future experience of the retirement plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years and was last performed as of June 30, 2013 with those assumptions first being implemented in the June 30, 2014 actuarial valuation.

In the June 30, 2014 valuation, the ratio of the valuation assets to actuarial accrued liabilities (funded percentage) decreased from 61.1% to 60.8%. The aggregate employer's rate has increased from 42.00% of payroll to 45.64% of payroll, while the employee's rate has increased from 5.14% of payroll to 5.58% of payroll.

Under the asset smoothing method, the total unrecognized investment gains are $114 million as of June 30, 2014. These investment gains will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years.

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The deferred gains of $114 million represent 3% of the market value of assets as of June 30, 2014. Unless offset by future investment losses or other unfavorable experience, the recognition of the $114 million market gains 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 gains were recognized immediately in the valuation value of assets, the funded percentage would increase from 60.8% to 62.9%.
- If the deferred gains were recognized immediately in the valuation value of assets, the aggregate employer rate would decrease from 45.64% to 43.95% of payroll.

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

Sincerely,

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

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

JAC/gxk
Enclosures

5398817v1/13452.002

SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

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

Economic Assumptions

Interest Rate of Return:	7.50% per year
Salary Increases:	General: 4.25% to 9.25%. Safety: 4.25% to 11.75% (see Table 1 on page 80).
Inflation Assumption:	3.25% per year
Cost-of-Living Adjustments:	2.50% (actual increases depend on CPI increases; 2.50% maximum)

Actuarial Methods

Funding Method:	Entry Age Funding Method, 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). As of June 30, 2014, the remaining amortization period for all UAAL as of June 30, 2011 was 21.5 years. Effective June 30, 2012, any changes in UAAL due to actuarial gains or losses or due to changes in actuarial assumptions or methods will be amortized over an 18-year closed period, effective with each valuation. Any change in UAAL that arises due to plan amendments is amortized over its own declining 15-year period (with the exception of a change due to retirement incentives, which are amortized over a declining period of up to 5 years).

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

Actuarial Methods (cont.)

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

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

2. According to a 5-year amortization to be invoiced to the employer in the first month of the fiscal year following the fiscal year in which the golden handshake(s) was granted. The amortization schedule will be based upon the valuation interest rate used in the most recently completed valuation at the time that the amortization schedule is created. The employer may complete payment of the golden handshake(s) at any time during the 5-year amortization period.

Demographic Assumptions

Post-Retirement Mortality:

A) General Members and Safety Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2023, set forward one year for male and female General members and set back one year for male and female Safety members.

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

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

Proportion of Members with Spouse 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. Females are assumed to be three years younger than their spouses.

Rate of Termination of Employment: Rates vary by years of service, as shown in Table 2 on page 81.

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.

ASSUMED RATE OF SALARY INCREASE

Table 1

Annual Increase in Salary (before wage inflation*)

Years of Service	General Members	Safety Members
0	5.50%	8.00%
1	4.00%	6.50%
2	3.50%	5.50%
3	3.00%	4.00%
4	2.25%	3.50%
5	2.00%	3.25%
6	1.75%	3.00%
7	1.50%	2.50%
8	1.25%	1.75%
9	1.00%	1.50%
10	0.90%	1.25%
11	0.80%	1.00%
12	0.70%	0.90%
13	0.60%	0.85%
14	0.50%	0.80%
15	0.50%	0.75%
16	0.50%	0.70%
17	0.50%	0.65%
18	0.50%	0.60%
19	0.50%	0.55%
20 & Over	0.50%	0.50%

* Inflation: 3.25% per year, plus "across-the-board" salary increases of 0.50% per year, plus the promotional and merit increases listed in the chart above.

PROBABILITIES OF SEPARATION FROM ACTIVE SERVICE
Table 2

(In percentages)

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

* 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	8.00
5	6.00	2.60
10	3.25	2.00
15	2.30	1.10
20	1.50	0.00
25	1.00	0.00
30 & Over	0.00	0.00

SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Valuation Date*	Plan Type	Members	Annual Payroll	Annual Average Pay	Increase in Average Pay
12/31/05	General	6,552	$ 300,821,384	$ 45,913	2.1%
	Safety	1,643	$ 92,679,367	$ 56,409	0.3%
	Total	**8,195**	**$ 393,500,751**	**$ 48,017**	**1.7%**
12/31/06	General	6,862	$ 320,078,067	$ 46,645	1.6%
	Safety	1,685	$ 100,355,950	$ 59,558	5.6%
	Total	**8,547**	**$ 420,434,017**	**$ 49,191**	**2.4%**
12/31/07	General	7,127	$ 345,308,360	$ 48,451	3.9%
	Safety	1,801	$ 111,418,703	$ 61,865	3.9%
	Total	**8,928**	**$ 456,727,063**	**$ 51,157**	**4.0%**
06/30/08	General	7,216	$ 369,093,653	$ 51,149	5.6%
	Safety	1,841	$ 117,947,008	$ 64,067	3.6%
	Total	**9,057**	**$ 487,040,661**	**$ 53,775**	**5.1%**
06/30/09**	General	7,166	$ 423,075,334	$ 59,039	15.4%
	Safety	1,854	$ 141,829,138	$ 76,499	19.4%
	Total	**9,020**	**$ 564,904,472**	**$ 62,628**	**16.5%**
06/30/10	General	6,802	$ 423,551,766	$ 62,269	5.5%
	Safety	1,765	$ 141,008,072	$ 79,891	4.4%
	Total	**8,567**	**$ 564,559,838**	**$ 65,899**	**5.2%**
06/30/11	General	6,487	$ 404,729,012	$ 62,391	0.2%
	Safety	1,700	$ 135,105,643	$ 79,474	-0.5%
	Total	**8,187**	**$ 539,834,655**	**$ 65,938**	**0.1%**
06/30/12	General	6,494	$ 406,039,414	$ 62,525	0.2%
	Safety	1,759	$ 137,518,061	$ 78,180	-1.6%
	Total	**8,253**	**$ 543,557,475**	**$ 65,862**	**-0.1%**
06/30/13	General	6,619	$ 410,905,480	$ 62,080	-0.7%
	Safety	1,866	$ 144,847,330	$ 77,625	-0.7%
	Total	**8,485**	**$ 555,752,810**	**$ 65,498**	**-0.6%**
06/30/14	General	6,629	$ 410,350,884	$ 61,902	-0.3%
	Safety	1,883	$ 145,284,147	$ 77,156	-0.6%
	Total	**8,512**	**$ 555,635,031**	**$ 65,277**	**-0.3%**

** 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*
2005	4,741	554	163	5,132	$21,827,425	$2,317,314	$114,349,075	20.6%	$22,282
2006	5,132	408	185	5,355	$15,910,761	$2,446,976	$127,812,860	11.8%	$23,868
2007	5,355	374	177	5,552	$13,845,079	$2,524,520	$139,133,419	8.9%	$25,060
2008	5,552	196	97	5,651	$ 5,039,591	$1,610,546	$145,783,557	4.8%	$25,798
2009	5,651	458	182	5,927	$16,056,013	$2,751,455	$164,591,026	12.9%	$27,770
2010	5,927	476	204	6,199	$13,128,260	$3,658,618	$181,377,904	10.2%	$29,259
2011	6,199	569	198	6,570	$27,159,926	$3,568,064	$204,969,766	13.0%	$31,198
2012	6,570	499	179	6,890	$24,783,041	$3,411,092	$226,341,715	10.4%	$32,851
2013	6,890	468	187	7,171	$22,305,618	$3,825,313	$244,822,020	8.2%	$34,141
2014	7,171	442	216	7,397	$19,663,621	$4,173,211	$260,312,430	3.1%	$35,192

** Excludes SRBR amounts.*

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)
12/31/05	$ 188,811	$ 1,437,047	$ 1,236,014	$ 2,861,872	$ 2,164,304	100%	100%	44%
12/31/06	$ 197,507	$ 1,629,003	$ 1,282,527	$ 3,109,038	$ 2,352,028	100%	100%	41%
12/31/07	$ 215,282	$ 1,773,556	$ 1,366,917	$ 3,355,755	$ 2,589,817	100%	100%	44%
06/30/08	$ 222,418	$ 1,913,946	$ 1,535,096	$ 3,671,460	$ 2,654,316	100%	100%	34%
06/30/09	$ 232,426	$ 2,159,371	$ 1,813,403	$ 4,205,200	$ 2,780,215	100%	100%	21%
06/30/10	$ 229,784	$ 2,380,826	$ 1,846,429	$ 4,457,038	$ 2,794,644	100%	100%	10%
06/30/11	$ 225,649	$ 2,680,161	$ 1,766,538	$ 4,672,348	$ 2,839,747	100%	98%	0%
06/30/12	$ 231,626	$ 2,933,987	$ 1,729,377	$ 4,894,990	$ 2,960,507	100%	93%	0%
06/30/13	$ 244,832	$ 3,153,966	$ 1,709,821	$ 5,108,619	$ 3,120,632	100%	91%	0%
06/30/14	$ 268,826	$ 3,446,962	$ 1,776,652	$ 5,492,440	$ 3,342,122	100%	89%	0%

ACTUARIAL ANALYSIS OF FINANCIAL EXPERIENCE

(In thousands)

	Gain (or Loss) for Year – UAAL		
	June 30, 2014	**June 30, 2013**	**June 30, 2012**
Investment Performance Greater (Less) than Expected	$ (14,593)	$ (64,430)	$ (91,605)
Salary Increase (Greater) Less than Expected	68,432	49,963	62,906
Other Experience Including Demographic Changes	5,151	(18,520)	(49,628)
Change in Assumptions/Methodology	(204,469)	-	-
Composite Gain (or Loss) During Year	**$ (145,479)**	**$ (32,987)**	**$ (78,327)**

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)
06/30/14	$ 3,342,122	$ 5,492,440	$ 2,150,318	60.8%	$ 555,634	387.0%
06/30/13	$ 3,120,632	$ 5,108,619	$ 1,987,987	61.1%	$ 555,752	357.7%
06/30/12	$ 2,960,507	$ 4,894,990	$ 1,934,483	60.5%	$ 543,558	355.9%
06/30/11	$ 2,839,747	$ 4,672,348	$ 1,832,601	60.8%	$ 539,836	339.5%
06/30/10	$ 2,794,644	$ 4,457,038	$ 1,662,394	62.7%	$ 559,380	297.2%
06/30/09	$ 2,780,215	$ 4,205,200	$ 1,424,985	66.1%	$ 559,872	254.5%
06/30/08	$ 2,654,305	$ 3,671,460	$ 1,017,155	72.3%	$ 482,879	210.6%
12/31/07	$ 2,589,817	$ 3,355,755	$ 765,937	77.2%	$ 453,412	168.9%
12/31/06	$ 2,352,028	$ 3,109,038	$ 757,010	75.7%	$ 417,351	181.4%
12/31/05	$ 2,164,304	$ 2,861,872	$ 697,568	75.6%	$ 391,381	178.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended June 30,	Annual Required Contributions (In thousands)	Percentage Contributed
2014	$ 220,393	100%
2013	$ 211,677	100%
2012	$ 189,837	100%
2011	$ 177,444	100%
2010	$ 151,127	100%
2009	$ 138,815	100%
2008	$ 137,264	100%
2007	$ 128,135	100%
2006	$ 100,734	100%
2005	$ 60,268	100%

SUMMARY OF MAJOR PLAN PROVISIONS

Benefit Sections 31676.01, 31676.14, 31676.17, 31664 & 31664.1 of "1937 Act," and 7522.20(a).

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 biweekly payroll period following the date of employment.

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

Final Average Salary

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

Vesting

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

Member Contribution Rates

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

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

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

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

Withdrawal Benefits

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

Compensation Limit

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

Service Retirement Benefits

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

SUMMARY OF MAJOR PLAN PROVISIONS *(cont.)*

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

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

Safety members with at least 10 years of retirement service credit who are age 50 or older, or with 20 years of retirement service credit regardless of age, are eligible for service retirement.

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

For members integrated with Social Security, benefits based on $350 of monthly final average salary are reduced by one-third.

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

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

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

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

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

Death Benefit (After Retirement)
A death benefit of $3,000 was payable to the designated beneficiary or estate until January 1, 2015, when the benefit was increased to $5,000.

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.

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, 2014 Actuarial Valuation.

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%).

<u>Eligibility</u>

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

<u>Benefits</u>

Tier 1:	$35.50 per month, not subject to cost-of-living adjustments.
Tier 2:	$1.372 times years of service, per month, for members who retired prior to 1985, granted July 1, 1994. $5.470 times years of service, per month, for members who retired prior to 1985, granted July 1, 1996. $10.276 times years of service, per month, for members who retired prior to 1981, granted July 1, 1997.
Tier 3:	Additional benefits to maintain 80% purchasing power protection.
Death Benefit:	A one-time payment of $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.

<u>Funding</u>

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

SECTION IV

Statistical

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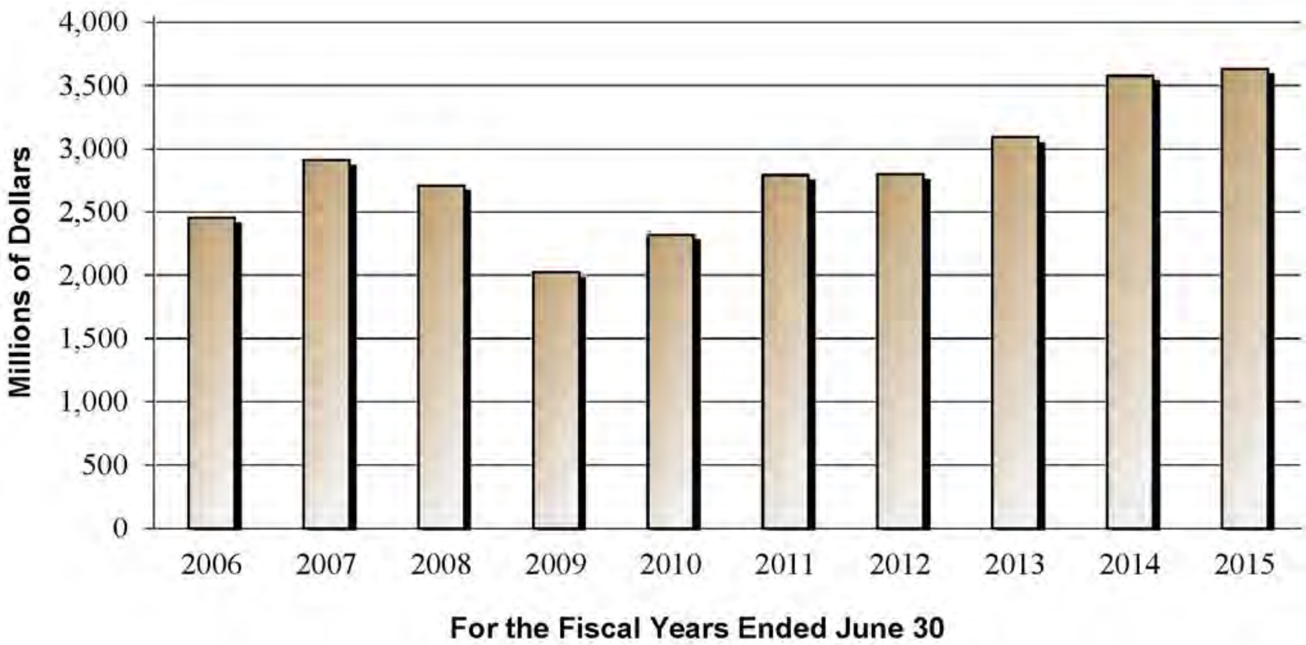
STATISTICAL SECTION OVERVIEW

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

KCERA Net Position Value



SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION
LAST 10 FISCAL YEARS

(In thousands)

	2006	2007	2008	2009	2010
Additions					
Employer Contributions	$ 100,734	$ 128,134	$ 137,264	$ 138,815	$ 151,127
Member Contributions	11,775	12,634	15,031	18,191	17,877
Net Investment Income (Loss)	259,760	453,363	(201,562)	(677,336)	291,333
Total Additions	**$ 372,269**	**$ 594,131**	**$ (49,267)**	**$ (520,330)**	**$ 460,337**
Deductions					
Total Benefit Expenses**	$ 123,765	$ 137,078	$ 148,561	$ 162,489	$ 180,366
Administrative Expenses	2,519	3,030	3,341	3,072	3,207
Miscellaneous	-	1	-	-	547
Total Deductions	**$ 126,284**	**$ 140,109**	**$ 151,902**	**$ 165,561**	**$ 184,120**
Change in Fiduciary Net Position	**$ 245,985**	**$ 454,022**	**$ (201,169)**	**$ (685,891)**	**$ 276,217**

	2011	2012	2013	2014	2015
Additions					
Employer Contributions	$ 177,444	$ 189,837	$ 211,677	$ 220,393	$ 215,477
Member Contributions	18,271	18,720	20,283	25,810	30,325
Net Investment Income (Loss)	503,553	21,150	319,264	487,494	81,930
Total Additions	**$ 699,268**	**$ 229,707**	**$ 551,224**	**$ 733,697**	**$ 327,732**
Deductions					
Total Benefit Expenses*	$ 201,013	$ 222,140	$ 242,630	$ 257,495	$ 273,865
Administrative Expenses	3,763	3,469	3,848	4,860	4,886
Miscellaneous	-	-	-	-	-
Total Deductions	**$ 204,776**	**$ 225,609**	**$ 246,478**	**$ 262,355**	**$ 278,751**
Change in Fiduciary Net Position	**$ 494,492**	**$ 4,098**	**$ 304,746**	**$ 471,342**	**$ 48,981**

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

SCHEDULE OF BENEFIT EXPENSES BY TYPE
FOR FISCAL YEARS 2011-2015

(In thousands)

	2015	2014	2013	2012	2011
Service Retirement Benefits					
General	$ 148,697	$ 137,993	$ 127,139	$ 114,742	$ 101,934
Safety	72,097	68,705	68,078	62,207	55,886
Total	220,794	206,698	195,217	176,949	157,820
Service-Connected Disability (SCD) Benefits					
General	$ 8,422	$ 8,331	$ 8,064	$ 7,947	$ 7,924
Safety	21,222	20,565	15,495	15,145	14,656
Total	29,644	28,896	23,559	23,092	22,580
Beneficiary Benefits					
General	$ 11,186	$ 10,660	$ 11,152	$ 10,353	$ 9,533
Safety	7,881	7,565	8,602	8,231	7,580
Total	19,067	18,225	19,754	18,584	17,113
Ventura Retro Payments					
General	$ -	$ -	$ -	$ -	$ -
Safety	-	-	-	-	-
Total	-	-	-	-	-
Lump Sum Death Benefits	$ 862	$ 564	$ 606	$ 433	$ 383
Total Benefit Payments	**$ 270,367**	**$ 254,383**	**$ 239,136**	**$ 219,058**	**$ 197,896**
Refunds					
General	$ 2,876	$ 2,762	$ 2,973	$ 2,408	$ 2,666
Safety	622	350	521	674	451
Total	3,498	3,112	3,494	3,082	3,117
Total Benefit Expenses	**$ 273,865**	**$ 257,495**	**$ 242,630**	**$ 222,140**	**$ 201,013**

SCHEDULE OF BENEFIT EXPENSES BY TYPE *(cont.)*
FOR FISCAL YEARS 2006-2010

(In thousands)

	2010	2009	2008	2007	2006
Service Retirement Benefits					
General	$ 89,204	$ 79,546	$ 71,725	$ 65,324	$ 58,529
Safety	49,949	43,311	39,650	37,075	33,334
Total	139,153	122,857	111,375	102,399	91,863
Service-Connected Disability (SCD) Benefits					
General	$ 7,906	$ 7,720	$ 7,547	$ 7,209	$ 6,846
Safety	14,230	13,545	12,516	11,609	10,771
Total	22,136	21,265	20,063	18,818	17,617
Beneficiary Benefits					
General	$ 9,072	$ 8,573	$ 7,962	$ 7,452	$ 6,991
Safety	7,222	6,525	6,297	5,575	5,109
Total	16,294	15,098	14,259	13,027	12,100
Ventura Retro Payments					
General	$ -	$ -	$ -	$ -	$ 2
Safety	-	-	-	-	-
Total	-	-	-	-	2
Lump Sum Death Benefits	$ 466	$ 640	$ 490	$ 320	$ 244
Total Benefit Payments	**$ 178,049**	**$ 159,860**	**$ 146,187**	**$ 134,564**	**$ 121,826**
Refunds					
General	$ 1,998	$ 2,270	$ 2,084	$ 2,206	$ 1,770
Safety	319	359	290	308	169
Total	2,317	2,629	2,374	2,514	1,939
Total Benefit Expenses	**$ 180,366**	**$ 162,489**	**$ 148,561**	**$ 137,078**	**$ 123,765**

SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT
AS OF JUNE 30, 2015

Amount of Monthly Benefit	Number of Retirants	Type of Retirement								
		1	2	3	4	5	6	7	8	9
$1-500	458	309	2	0	0	86	12	0	11	38
501-1,000	934	617	49	6	0	176	21	6	23	36
1,001-1,500	1,012	681	81	74	0	105	24	0	21	26
1,501-2,000	807	532	33	114	0	70	14	0	20	24
2,001-3,000	1,564	1,029	14	288	0	139	6	7	56	25
3,001-4,000	847	647	7	113	0	56	1	2	11	10
4,001-5,000	527	455	4	34	0	21	3	0	7	3
5,001-6,000	396	345	0	38	0	8	0	0	4	1
Over $6,000	1,029	908	5	93	0	13	1	0	9	0
Totals	**7,574**	**5,523**	**195**	**760**	**0**	**674**	**82**	**15**	**162**	**163**

Amount of Monthly Benefit	Number of Retirants	Option Selected						
		Option 1	Option 2	Option 3	Option 4	Unmodified A	Unmodified B	Unmodified C
$1-500	458	11	19	1	0	151	276	0
501-1,000	934	5	46	2	0	327	551	3
1,001-1,500	1,012	8	46	5	1	372	549	31
1,501-2,000	807	7	25	2	0	300	400	73
2,001-3,000	1,564	12	50	6	2	566	730	198
3,001-4,000	847	4	33	0	0	396	325	89
4,001-5,000	527	0	29	2	1	305	164	26
5,001-6,000	396	0	14	1	2	253	97	29
Over $6,000	1,029	2	33	1	1	733	177	82
Totals	**7,574**	**49**	**295**	**20**	**7**	**3,403**	**3,269**	**531**

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 2006							
Average Annual Benefit	$ 11,629	$ 16,244	$ 22,533	$ 28,364	$ 39,952	$ 58,136	$ 71,635
Average Monthly Benefit	$ 969	$ 1,354	$ 1,878	$ 2,364	$ 3,329	$ 4,845	$ 5,970
Average Final Monthly Salary	$ 5,238	$ 4,638	$ 4,238	$ 4,101	$ 4,698	$ 5,156	$ 5,322
Number of Active Retirants	15	21	53	53	43	63	79
Fiscal Year 2007							
Average Annual Benefit	$ 10,168	$ 15,098	$ 21,096	$ 30,783	$ 39,612	$ 51,227	$ 70,197
Average Monthly Benefit	$ 847	$ 1,258	$ 1,758	$ 2,565	$ 3,301	$ 4,269	$ 5,850
Average Final Monthly Salary	$ 5,411	$ 4,486	$ 4,756	$ 4,726	$ 4,665	$ 4,829	$ 5,592
Number of Active Retirants	16	35	41	50	46	65	53
Fiscal Year 2008							
Average Annual Benefit	$ 8,987	$ 10,798	$ 18,939	$ 26,865	$ 44,969	$ 56,900	$ 79,268
Average Monthly Benefit	$ 749	$ 900	$ 1,578	$ 2,239	$ 3,747	$ 4,742	$ 6,606
Average Final Monthly Salary	$ 4,606	$ 3,494	$ 4,195	$ 4,134	$ 5,317	$ 5,443	$ 6,298
Number of Active Retirants	12	24	47	39	35	37	41
Fiscal Year 2009							
Average Annual Benefit	$ 6,416	$ 12,395	$ 22,675	$ 28,976	$ 49,495	$ 61,019	$ 91,147
Average Monthly Benefit	$ 535	$ 1,033	$ 1,890	$ 2,415	$ 4,125	$ 5,085	$ 7,596
Average Final Monthly Salary	$ 9,785	$ 4,246	$ 5,213	$ 4,636	$ 6,162	$ 6,044	$ 7,363
Number of Active Retirants	12	35	54	47	38	68	94
Fiscal Year 2010							
Average Annual Benefit	$ 8,195	$ 17,283	$ 19,720	$ 34,006	$ 42,307	$ 63,105	$ 86,327
Average Monthly Benefit	$ 683	$ 1,440	$ 1,643	$ 2,834	$ 3,526	$ 5,259	$ 7,194
Average Final Monthly Salary	$ 7,823	$ 5,609	$ 4,564	$ 5,549	$ 5,361	$ 6,421	$ 7,226
Number of Active Retirants	13	33	72	46	64	84	52

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 2011							
Average Annual Benefit	$ 8,506	$ 12,972	$ 23,290	$ 35,063	$ 42,529	$ 59,721	$ 83,582
Average Monthly Benefit	$ 709	$ 1,081	$ 1,941	$ 2,922	$ 3,544	$ 4,977	$ 6,965
Average Final Monthly Salary	$ 5,893	$ 5,036	$ 5,473	$ 5,742	$ 5,440	$ 6,034	$ 7,089
Number of Active Retirants	11	52	75	54	97	98	100
Fiscal Year 2012							
Average Annual Benefit	$ 7,514	$ 14,060	$ 19,930	$ 32,924	$ 44,162	$ 65,097	$ 81,795
Average Monthly Benefit	$ 626	$ 1,172	$ 1,661	$ 2,744	$ 3,680	$ 5,425	$ 6,816
Average Final Monthly Salary	$ 7,079	$ 5,509	$ 4,735	$ 5,568	$ 5,675	$ 6,626	$ 6,991
Number of Active Retirants	13	34	85	52	70	90	79
Fiscal Year 2013							
Average Annual Benefit	$ 8,372	$ 15,369	$ 20,424	$ 30,382	$ 42,911	$ 60,314	$ 74,004
Average Monthly Benefit	$ 698	$ 1,281	$ 1,702	$ 2,532	$ 3,576	$ 5,026	$ 6,167
Average Final Monthly Salary	$ 7,851	$ 5,400	$ 4,969	$ 5,418	$ 5,672	$ 6,342	$ 6,534
Number of Active Retirants	17	32	82	56	69	64	75
Fiscal Year 2014							
Average Annual Benefit	$ 8,349	$ 12,476	$ 19,479	$ 32,230	$ 42,154	$ 66,267	$ 82,493
Average Monthly Benefit	$ 696	$ 1,040	$ 1,623	$ 2,686	$ 3,513	$ 5,522	$ 6,874
Average Final Monthly Salary	$ 10,199	$ 5,604	$ 5,031	$ 5,659	$ 5,829	$ 6,915	$ 7,346
Number of Active Retirants	16	25	68	41	49	70	47
Fiscal Year 2015							
Average Annual Benefit	$ 4,077	$ 13,399	$ 21,732	$ 32,812	$ 40,152	$ 56,389	$ 82,885
Average Monthly Benefit	$ 340	$ 1,117	$ 1,811	$ 2,734	$ 3,346	$ 4,699	$ 6,907
Average Final Monthly Salary	$ 5,732	$ 5,488	$ 5,203	$ 5,632	$ 5,340	$ 6,293	$ 7,380
Number of Active Retirants	6	42	73	44	42	79	57

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

	2006	2007	2008	2009	2010
County of Kern:					
General Members	6,222	6,537	6,348	6,254	5,920
Safety Members	1,646	1,738	1,842	1,854	1,765
Total	7,868	8,275	8,190	8,108	7,685
Participating Agencies (General Membership):					
Berrenda Mesa Water District	14	12	12	12	11
Buttonwillow Recreation and Park District	3	3	3	4	5
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	2	2	2	2	2
Kern County Water Agency	67	72	89	76	72
Kern Mosquito & Vector Control District	19	19	19	19	19
North of the River Sanitation District	8	9	10	9	10
San Joaquin Valley Unified Air Pollution Control District	267	272	280	291	292
Shafter Recreation and Park District	0	0	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito & Vector Control Dist.	8	8	9	8	8
West Side Recreation and Park District	11	11	11	12	12
Kern County Superior Court	-	-	473	472	444
Total	406	415	915	912	882
Total Active Membership:					
General Members	6,628	6,952	7,263	7,166	6,802
Safety Members	1,646	1,738	1,842	1,854	1,765
Total	**8,274**	**8,690**	**9,105**	**9,020**	**8,567**

Data retrieved from the Plan's database.

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

	2011	2012	2013	2014	2015
County of Kern:					
General Members	5,622	5,632	5,873	5,833	5,827
Safety Members	1,703	1,762	1,873	1,886	1,847
Total	7,325	7,394	7,746	7,719	7,674
Participating Agencies (General Membership):					
Berrenda Mesa Water District	10	10	10	10	9
Buttonwillow Recreation and Park District	6	6	6	4	4
East Kern Cemetery District	1	1	1	1	1
Inyokern Community Services District	1	1	1	1	1
Kern County Water Agency	73	71	65	68	67
Kern Mosquito & Vector Control District	18	19	18	18	18
North of the River Sanitation District	10	11	13	12	13
San Joaquin Valley Unified Air Pollution Control District	287	281	281	276	264
Shafter Recreation and Park District	0	0	0	0	0
West Side Cemetery District	6	6	6	6	6
West Side Mosquito & Vector Control Dist.	8	7	7	10	10
West Side Recreation and Park District	10	10	10	11	11
Kern County Superior Court	441	443	353	389	414
Total	871	866	771	806	818
Total Active Membership:					
General Members	6,493	6,498	6,644	6,639	6,645
Safety Members	1,703	1,762	1,873	1,886	1,847
Total	**8,196**	**8,260**	**8,517**	**8,525**	**8,492**

PRUDENT INVESTMENT • QUALITY SERVICE

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