KEEPING PROMISES

Comprehensive Annual Financial Report for the Year Ended December 31, 2004

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
A Pension Trust Fund of the County of Alameda and Five Special Districts
475-14TH STREET, OAKLAND, CA 94612

Oakland's new City Hall from 14th & Broadway in 1926

Photo courtesy of the Bancroft Library University of California, Berkeley

Issued By

Charles F. Conrad
General Manager

Catherine E. Walker, CPA
Accounting and Operations Manager

CONTENTS

CHUCK F. CONRAD

General Manager
ADMINISTRATION AND HUMAN RESOURCES

"At ACERA the entire staff is dedicated to fulfilling the promise made when the organization was founded. We are here to provide retirement benefits to all our members when they retire and to manage the Fund and the organization so as to ensure that we fulfill our mission."

Martha Richardson, Chuck Conrad, and Ofelia Garrido

Opposite page, from left; Ofelia Garrido, Human Resources Technician; Chuck F. Conrad; Niger Edwards, Administrative Assistant; Vicki Arruda, Human Resources Officer; and Martha Richardson, Executive Secretary

1

1 Introduction

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

LETTER OF TRANSMITTAL

General Manager
Charles F. Conrad

Dear Board Members:

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the Alameda County Employees' Retirement Association for the year ended December 31, 2004.

The Alameda County Employees' Retirement Association (ACERA) was established in 1948 by the County Board of Supervisors to provide retirement, disability, and death benefits to the employees of Alameda County and its member districts. At that time, ACERA had $2.8 million in assets and paid slightly more than $13,000 in retirement payments. Members retiring on May 5, 1948 received monthly retirement allowances ranging between $63.00 and $108.00.

Now, ACERA has over $4.3 billion in assets and paid more than $188 million in benefits in 2004. In 2004, the average monthly benefit payment amount ranged from $709 for members retired 30 or more years to $2,903 for those retired less than 5 years.

While much has changed since 1948, our commitment to our members remains the same. The job of ACERA's Board is to ensure that we keep the promises made to members by County employers. Whether they retired in 1948 or will be retiring 30 years from today, members can be certain that they will receive the benefits promised.

The Board's authority for administering the retirement system and managing the investment of the system's assets is granted under the California Constitution. Article XVI of the Constitution requires Board members to carry out their duties solely in the interest of participants and beneficiaries, and solely for the purpose of providing benefits to participants and their beneficiaries. It also requires the Board to minimize employer contributions to the system and to pay for the expenses of the system. The Constitution also provides that the Board has fiduciary responsibility over the assets of the system and the responsibility to operate the system in a way that assures prompt delivery of benefits and related services to participants and their beneficiaries.

As many of you know, there are growing threats to defined benefit plans such as ACERA. Last year Assemblyman Keith Richman introduced Assembly Constitutional Amendment 5 (ACA 5). This measure would terminate all public-sector defined benefit plans like ACERA and provide that any public employee hired after July 1, 2007 may only enroll in a defined contribution plan.

If the proposed amendment becomes law and ACERA closes to all new participants, our existing members can rest assured that they and their beneficiaries will receive the retirement benefits originally promised to them and guaranteed under California law. ACERA will remain in existence as long as necessary to fulfill this promise.

Even so, if the amendment passes, the supplemental benefit programs that ACERA has been administering for its retired members—cost-of-living increases, contributions to health care, Medicare Part B reimbursement, dental care, and vision care—will be reduced or eliminated over time, as the Plan's earnings and asset base decline.

I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 14.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The ACERA 2004 CAFR is submitted for your review. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with ACERA's management. It is our intent to ensure that the presentation of financial information is accurate and fair and that all material disclosures have been made.

The CAFR is divided into six sections:

Introductory Section: Letter of Transmittal, ACERA's Mission, Commitment and Goals, list of Board of Retirement members, ACERA's Administrative Organizational Chart, List of Professional Consultants, and the Certificate of Achievement.

Financial Section: Independent Auditors' Report, Management's Discussion and Analysis, Financial Statements of the system including Notes to the Financial Statements, and Required Supplementary Schedules.

Investment Section: Chief Investment Officer's Report, Investment Consultant's Report, Asset Allocations, List of Investment Professionals, Investment holdings, and various investment schedules.

Actuarial Section: Actuary's Certification Letter, results of the most recent annual actuarial valuation, overview of the funding status of the Association and other actuarial-related information.

Statistical Section: Significant detailed demographic and other statistical data pertaining to ACERA.

Compliance Section: Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.

I trust that you and the members of ACERA will find this CAFR helpful in understanding the Association and our commitment to maintaining financial integrity and improving member service.

ACERA'S MISSION, COMMITMENT AND GOALS

MISSION: To provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services.

COMMITMENT AND GOALS: To carry out our Mission through a competent, professional, impartial and open decision-making process. In providing benefits and services, all persons will be treated fairly and with courtesy and respect. Investments will be managed to balance the need for security with superior performance. We expect excellence in all activities. We will also be accountable and act in accordance with the law.

ACERA AND ITS SERVICES

Established by the Alameda County Board of Supervisors by Ordinance No. 446, dated October 21, 1947, operative January 1, 1948, and governed by the provisions of the County Employees Retirement Law of 1937, ACERA provides retirement allowances and other benefits to the General and Safety members employed by the County of Alameda (including the Superior Court of California, County of Alameda) and members employed by five special districts of the County.

ACERA provides lifetime retirement, disability, and death benefits to its members. In addition, ACERA administers retiree health care, dental care, vision care, and supplemental cost-of-living programs.

The ACERA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investments of the system's assets. The Board has nine members. The Alameda County Board of Supervisors appoints four members, and four are elected by ACERA's membership. The County Treasurer is an *ex-officio* member.

The Board of Retirement oversees the General Manager and staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937, ACERA's by-laws, and Board policies.

MEMBER SERVICES

ACERA Publications

In 2004, ACERA published and distributed a new *Member Handbook* to all active and deferred members. The *Handbook* summarizes all benefits provided by ACERA. We also revised the *2005 Open Enrollment and Benefits Reference Guide* for retirees. To provide further support and assistance to retirees in making decisions during the open enrollment period, ACERA sent each a personalized letter confirming their 2004 and 2005 medical premiums.

Workflow Improvements

Five positions were added to ACERA's Benefits Department in 2004 to address the increased workload volume, including member requests, retirements, deaths, and disability retirement applications. In addition, ACERA is reviewing administrative processes to ensure that we work as efficiently as possible to achieve our goals. In 2004, delivery of services improved in member request completions, final retirement allowance calculations, death benefit processing, and disability application processing.

Enhanced Benefits for Safety Members

Enhanced benefits for Safety members, with the exception of Group Counselors, will become effective on July 3, 2005. Approximately 150 Safety members have already retired anticipating this enhancement, where the benefit formula will increase from 2% @ 50 to 3% @ 50.

Internal Revenue Code 415(b) Benefit Limits

The County and ACERA are developing a plan to implement a 415(m) Benefit Replacement Plan for those retirees who reach a 415(b) limit set pursuant to the Internal Revenue Code. This applies to retirees who retired under an enhanced benefit program ("*Golden*

Handshake"), became a member of ACERA on or after 1/1/90, or who receive an enhancement to their benefit structure. The 415(m) Benefit Replacement Plan will ensure that retirees who reach the 415(b) limit will receive their full retirement benefit.

FINANCIAL REPORTING

Responsibility for the accuracy, completeness, fair presentation of information, and all disclosures in this report rests with ACERA's management. Management of ACERA is also responsible for establishing and maintaining an internal control structure designed to ensure that ACERA's financial reporting is accurate and reliable and that ACERA's assets are protected from loss, theft, or misuse.

The accounting firm of Williams, Adley & Co., LLP provides audit services to ACERA. The financial audit ensures that ACERA's financial statements are presented in conformity with generally accepted accounting principles and are free from material misstatement. Internal controls are reviewed to ensure that ACERA's operating policies and procedures are being adhered to and are sufficient to ensure accurate and reliable financial reporting and to safeguard ACERA's assets.

This 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) and its predecessor, the National Council on Governmental Accounting.

The accompanying basic financial statements and transactions of the organization are prepared on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when the payment is made.

ACTUARIAL FUNDING STATUS

ACERA's funding objective is to meet long-term benefit commitments by implementing an actuarially prudent funding plan, by obtaining superior investment returns consistent with our risk controls and by minimizing employer contributions to the Fund.

ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations and to make recommendations to the Board of Retirement. The December 31, 2004 actuarial valuation will not be completed until after the publication of the 2004 CAFR; therefore the 2004 CAFR is based on the actuarial valuation of December 31, 2003, ACERA's more recent valuation.

The actuarial accrued liability of ACERA at December 31, 2003 was $3,890 million. The actuarial value of assets at December 31, 2003 was $3,382 million. As a consequence, ACERA's funded ratio at December 31, 2003 was 86.9%. The Schedule of Funding Progress on page 38 provides additional details. The Actuarial Section of this report contains a more detailed discussion of funding.

INVESTMENTS

The California Constitution gives the Board of Retirement the authority and fiduciary responsibility for investing ACERA's funds. In addition, the Constitution provides that board members will carry out their duties in the manner of a prudent person familiar with such retirement and investment matters acting under similar circumstances. This prudent expert rule permits the board to make investment allocation decisions and diversify investment holdings to reduce overall risk and increase returns. A summary of ACERA's asset allocation is presented in the Investment Section of this report.

The prudent expert rule also permits the Board to establish an investment policy based on professional advice and counsel and allows for the delegation of investment authority to professional investment managers. ACERA's investment policy outlines the responsibility for the investment of the funds and the degree of risk deemed appropriate for the ACERA's investments. Investment managers are bound by contract to carry out their responsibilities in accordance with the Board of Retirement's investment policy and with the specific guidelines specified in the contract.

For the years ended December 31, 2004 and 2003, ACERA's investments provided a 12.3% and 26.7% rate of return, respectively. ACERA's annualized rate of return over the last three years was 9.9% and over the last five years, it was 5.2%.

PROFESSIONAL SERVICES

Professional consultants and investment managers are retained by the Board of Retirement to provide professional services essential to the effective and efficient operation of ACERA.

An opinion from ACERA's independent auditors, a letter from its investment consultant, and a letter of certification from ACERA's actuary are included in this report. The consultants and investment professionals retained by the Board are listed on pages 8 and 51 of this report, respectively.

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 (see page 9) to ACERA for its comprehensive annual financial report for the year ended December 31, 2003. This was the eighth consecutive year that ACERA has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGEMENTS

The compilation of this report reflects the combined effort of ACERA's staff under the leadership of the Board of Retirement. It is intended to provide complete and reliable information with respect to the Board's stewardship of ACERA.

This CAFR is being mailed to all County employers and to employee and retiree organizations. Their cooperation contributes significantly to the success of ACERA. The accompanying Annual Report to Members is being mailed to all members. The complete CAFR is also available to members (and to the general public). We hope our employers and our members find these reports informative.

On behalf of the Board of Retirement, I would like to take this opportunity to express my gratitude to the staff, to the advisors, and to the many people who have worked so diligently to ensure the successful operation of ACERA.

Respectfully submitted,

Charles F. Conrad

Charles F. Conrad
General Manager
April 8, 2005

MEMBERS OF THE BOARD OF RETIREMENT

As of January 1, 2005

Sandre Swanson
Appointed by the Board of Supervisors

Darryl Walker
Alternate
Elected by Safety Members

L. Darryl Gray
First Vice-Chair
Elected by General Members

Dale Amaral
Elected by Safety Members

Donald R. White
Ex-Officio Member Treasurer-Tax Collector, County of Alameda

Ophelia B. Basgal
Second Vice-Chair
Appointed by the Board of Supervisors

Trevor White
Elected by General Members

Keith Carson
Chair
Appointed by and Member of the Board of Supervisors

Annette Cain-Darnes
Appointed by the Board of Supervisors

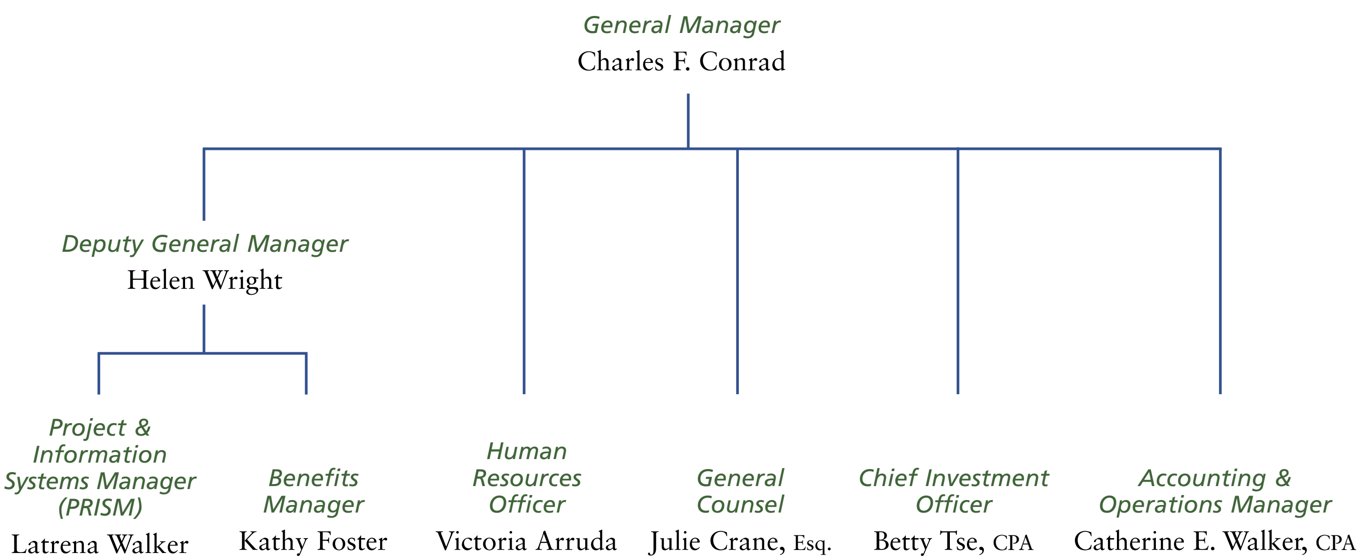
David Safer
Elected by Retired Members

2004 Members of the Board of Retirement

Ophelia B. Basgal
Annette Cain-Darnes
Keith Carson, *First Vice-Chair*
Robert Chambers, *Chair*
L. Darryl Gray
Charles L. Harrington, *Second Vice-Chair*
Liz Koppenhaver
Sandre Swanson
Donald R. White

ADMINISTRATIVE ORGANIZATION CHART

As of December 31, 2004



LIST OF PROFESSIONAL CONSULTANTS[1]

Actuary
The Segal Company

Auditor
Williams, Adley & Co., LLP

Benefits Consultant
Rael & Letson

Legal
Hanson, Bridgett, Marcus, Vlahos, Rudy, LLP
Jones, Day, Reavis, and Pogue
Morrison & Foerster, LLP
Bob Pickus, Esq.

Master Custodian
State Street Corporation

Personnel Coordination
Mercer Human Resource Consulting
Lakeside Group

Other Specialized Services
Accounting Systems & Solutions
Levi, Ray & Shoup, Inc.
Linea Solutions

[1] List of Investment Professionals is located on page 51 in the Investment Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alameda County Employees' Retirement Association, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2003

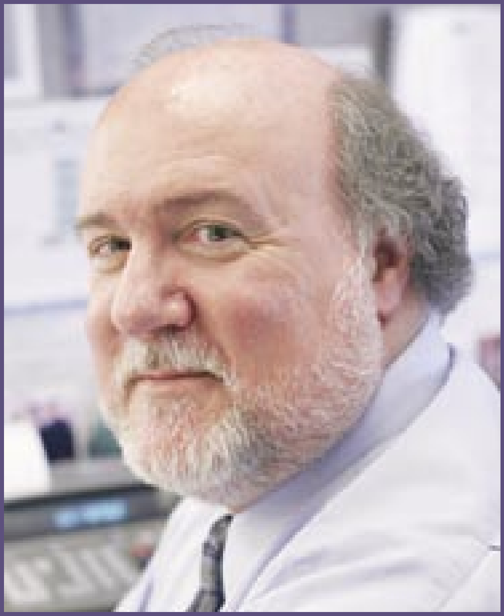
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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

Nancy L. Zielke
President

Jeffrey L. Esser
Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999, 2000, 2001, 2002

"In my department, we strive to make sure that the daily business of ACERA runs smoothly and that every penny is accounted for. It's all about managing our financial operations in such a way that when each member nears retirement, the funds are there to provide the retirement benefit that they have been guaranteed."



ART SPENCER

Retirement Accountant III
ACCOUNTING

2 Financial

Opposite page, from left; Heather Chan, Retirement Accountant II; Murray Kephart, Assistant Accounting Manager; Catherine Walker, Accounting and Operations Manager; Caxton Fung, Assistant Accounting Manager; and Art Spencer

Right, Caxton Fung and Art Spencer

INDEPENDENT AUDITORS' REPORT

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

Board of Retirement
Alameda County Employees' Retirement Association
Oakland, CA

We have audited the accompanying statements of plan net assets of the Alameda County Employees' Retirement Association (ACERA), as of December 31, 2004 and 2003, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of ACERA's management. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of December 31, 2004 and 2003, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the financial statements, ACERA changed its method of depreciation for certain assets during the year ended December 31, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 8, 2005 on our consideration of ACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government*

1330 Broadway, Suite 1825 • Oakland, CA 94612 • (510) 893-8114 • Fax (510) 893-2603

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages 14–20, and the schedules of funding progress and employer contributions on page 38 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants on pages 40 and 41, and introduction, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in the introduction, investment, actuarial, and statistical sections has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

Williams, Adley & Company, LLP

April 8, 2005

ACERA
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of ACERA for the years ended December 31, 2004 and 2003. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 23, provides a clear picture of ACERA's overall financial status.

Financial Highlights

- ACERA's plan net assets at the close of 2004 were $4.3 billion (net assets held in trust for pension benefits). All plan net assets are available to meet ACERA's ongoing obligations to plan participants and their beneficiaries.
- ACERA's plan net assets at the close of the year were $402.4 million more than the prior year, or 10%, primarily as a result of returns on investments.
- ACERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2003, the date of ACERA's most recent actuarial valuation, the funded ratio for ACERA was approximately 86.9%. In general, this indicates that for every dollar of benefit obligations, ACERA has approximately $0.87 of assets to cover it.
- Additions to plan net assets for the year were $607.9 million. These include employer contributions of $85.5 million, member contributions of $63.1 million, net investment income of $457.0 million, and other income of $2.3 million. Additions to plan net assets were $310.0 million less than those of the prior year mainly due to a 43% decline in net investment income.
- Deductions from plan net assets for the year were $203.1 million. These include $169.1 million for retirement benefit payments, $19.6 million for health insurance, $5.2 million for member refunds, and $9.2 million for administrative and other expenses. Deductions for 2004 were $22.3 million larger then those for 2003 due to a net increase in the number of retirees and beneficiaries, as well as the impact of cost-of-living adjustments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to ACERA's financial statements, which comprise these components:

1. Statements of Plan Net Assets
2. Statements of Changes in Plan Net Assets
3. Notes to the Financial Statements

Please note, however, that this report also contains supplementary information in addition to the financial statements.

A Statement of Plan Net Assets shows a snapshot of account balances at year-end. It indicates the assets available for future benefit payments as well as current liabilities which are owed at year-end.

A Statement of Changes in Plan Net Assets on the other hand, provides a view of additions to and deductions from the plan net assets for the year.

The Statements of Plan Net Assets and the Statements of Changes in Plan Net Assets report information about ACERA's financial activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the year's asset additions and deductions are taken into account regardless of when the corresponding cash is received or paid. All investment purchases and sales are shown at trade date, not settlement date. Both realized and unrealized investment gains and losses are recognized. Each component of capital assets is depreciated over its useful life.

These statements report ACERA's net assets held in trust for pension benefits (the difference between assets and liabilities) as one way to measure the system's financial position. The increase in ACERA's plan net assets in 2004 was 10.3%. This substantial increase is a significant indicator that ACERA's overall financial health improved during the year. In fact, ACERA's total fund return of 12.3 % in 2004 easily outpaced the actuarial assumed interest rate of 8.00%. (See ACERA's financial statements on pages 21–22.)

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 23–37 of this report.)

In addition to the financial statements and accompanying notes, this report presents Required Supplementary Information concerning ACERA's progress in funding its obligations to provide pension benefits to members (on page 38 of this report).

Schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented starting on page 40 of this report.

Financial Analysis

Table 1 and Table 2 present condensed information about ACERA's financial results for the current and prior years.

Plan net assets as of December 31, 2004 totaled $4.3 billion which is $402.4 million or 10% more than the prior year. This result essentially reflects the 10% increase in the balance of ACERA's investments during 2004. Plan net assets had increased 23% in 2003 due to the robust stock market rebound that year. For the three years 2000 to 2002, ACERA had experienced net asset decreases (–3%, –6%, and –10%, respectively) due in part to negative investment returns for these years (–0.1%, –3.1%, and –6.8%, respectively). In 2003 ACERA's investment results turned strongly positive and the trend continued in 2004, although at a more moderate pace. The increase in plan net assets is a direct result of strict adherence to ACERA's Investment Guidelines, Policies, and Procedures. This disciplined approach, combined with the asset allocation and rebalancing program adopted by ACERA's Board, have enabled ACERA to maximize the upturn in the market.

Current assets at year end reached $513.4 million. The two main components of this total were securities lending cash collateral of $353.5 million and receivables for unsettled sales of securities of $125.2 million. Please note that an offsetting $353.5 million securities lending liability is a major component of ACERA's current liabilities, as described in the paragraph that follows. Current assets increased $209.5 million over the prior year. About half of this increase came in securities lending cash collateral reflecting an increase in securities lending activity. The remainder of the increase was mainly in the balance of receivables for unsettled purchases of securities, reflecting a large increase in unsettled foreign currency exchange contracts. Current assets had also increased in 2003 for the same reasons, but the magnitude of the changes was not as large.

Table 1: Plan Net Assets (Condensed)

(Dollars in Millions)

As of December 31, 2004 and 2003

	2004	2003	Increase (Decrease) Amount	Percent Change
Current Assets	$ 513.4	$ 303.9	$ 209.5	69%
Investments at Fair Value	4,303.7	3,903.0	400.7	10%
Capital Assets, net	6.1	9.8	(3.7)	–38%
Total Assets	**4,823.2**	**4,216.7**	**606.5**	**14%**
Current Liabilities	500.8	296.7	204.1	69%
Total Liabilities	**500.8**	**296.7**	**204.1**	**69%**
Plan Net Assets	**$4,322.4**	**$3,920.0**	**$402.4**	**10%**

As of December 31, 2003 and 2002

	2003	2002	Increase (Decrease) Amount	Percent Change
Current Assets	$ 303.9	$ 245.1	$ 58.8	24%
Investments at Fair Value	3,903.0	3,160.2	742.8	24%
Capital Assets, net	9.8	9.4	0.4	4%
Total Assets	**4,216.7**	**3,414.7**	**802.0**	**23%**
Current Liabilities	296.7	231.8	64.9	28%
Total Liabilities	**296.7**	**231.8**	**64.9**	**28%**
Plan Net Assets	**$3,920.0**	**$3,182.9**	**$737.1**	**23%**

Table 2: Changes In Plan Net Assets (Condensed)

(Dollars in Millions)

For the Years Ended December 31, 2004 and 2003

	2004	2003	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Employer Contributions	$ 85.5	$ 49.1	$ 36.4	74%
Member Contributions	63.1	60.2	2.9	5%
Net Investment Income (Loss)	457.0	807.7	(350.7)	–43%
Other Income	2.3	0.9	1.4	156%
Total Additions	**607.9**	**917.9**	**(310.0)**	**–34%**
DEDUCTIONS				
Retirement Benefit Payments	169.1	150.6	18.5	12%
Health Insurance	19.6	17.0	2.6	15%
Members' Refunds	5.2	6.6	(1.4)	–21%
Administrative and Other Expenses	9.2	6.6	2.6	39%
Total Deductions	**203.1**	**180.8**	**22.3**	**12%**
Beginning Plan Net Assets	**3,920.0**	**3,182.9**	**737.1**	**23%**
Increase (Decrease) in Plan Net Assets (including adjustment for change in accounting principle)	**402.4**	**737.1**	**(334.7)**	**–45%**
Ending Plan Net Assets	**$4,322.4**	**$3,920.0**	**$ 402.4**	**10%**

For the Years Ended December 31, 2003 and 2002

	2003	2002	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Employer Contributions	$ 49.1	$ 27.0	$ 22.1	82%
Member Contributions	60.2	53.3	6.9	13%
Net Investment Income (Loss)	807.7	(246.6)	1,054.3	428%
Other Income	0.9	1.0	(0.1)	–10%
Total Additions	**917.9**	**(165.3)**	**1,083.2**	**655%**
DEDUCTIONS				
Retirement Benefit Payments	150.6	141.5	9.1	6%
Health Insurance	17.0	14.1	2.9	21%
Members' Refunds	6.6	6.4	0.2	3%
Administrative and Other Expenses	6.6	6.8	(0.2)	–3%
Total Deductions	**180.8**	**168.8**	**12.0**	**7%**
Beginning Plan Net Assets	**3,182.9**	**3,517.0**	**(334.1)**	**–10%**
Increase (Decrease) in Plan Net Assets	**737.1**	**(334.1)**	**1,071.2**	**321%**
Ending Plan Net Assets	**$3,920.0**	**$3,182.9**	**$ 737.1**	**23%**

Current liabilities increased to $500.8 million, up $204.1 million. As mentioned in the paragraph above, the securities lending liability was $353.5 million, an increase of $112.5 million. The year-end balance of payables for unsettled purchases of securities was $137.6 million, up $90.7 million, reflecting a large increase in unsettled foreign currency exchange contracts. Current liabilities had also increased in 2003 likewise due to an increase in the securities lending liability and in payables for securities purchases.

Capital Assets

The balance of ACERA's capital assets declined from $9.8 million in 2003 to $6.1 million in 2004 (net of accumulated depreciation and amortization). Capital assets include information systems, equipment, furniture, leasehold improvements, and construction-in-progress. The major new capital investment during 2004 was for enhancing ACERA's technology infrastructure. This enhancement includes additional customization and improvements to ACERA's retirement information system.

In 2004 ACERA changed the depreciation method and reduced the estimated useful lives of information systems assets. As a result, a cumulative adjustment of $2.3 million representing additional depreciation for prior years was recorded as a reduction in the 2004 beginning balance of plan net assets along with a corresponding increase in accumulated depreciation. The $0.4 million increase in the balance of capital assets (net) in 2003 was due to spending on equipment, furniture, and leasehold improvements for the build-out of the eleventh floor at ACERA's office as well as on enhancements to the retirement information system ($1.4 million), offset by routine scheduled depreciation for that year ($1.0 million).

ACERA'S ACTIVITIES

Changes in plan net assets consist of total additions reduced by total deductions (see Table 2 on page 17). Plan net assets increased by $402.4 million and $737.1 million for the years ended December 31, 2004 and 2003 respectively, largely due to net investment income.

Additions to Plan Net Assets

The primary sources of financing for the benefits ACERA provides to its members are income on investments along with employer and employee contributions. Additions for the years ended December 31, 2004 and 2003 totaled $607.9 million and $917.9 million respectively.

Employer contributions for 2004 were $85.5 million, up $36.4 million over the prior year primarily as a result of a substantial increase in the average contribution rate. This contribution rate increase was mainly due to investment returns that were less than the corresponding actuarial assumed rate-of-return. A significant but lesser factor in the increase was the earlier reduction in the actuarial assumed rate-of-return from 8.25% to 8.00%. Employer contributions experienced a similar increase in the prior year for the same reasons.

Member contributions for 2004 were $63.1 million. This $2.9 million increase over 2003 is due to an increase in the average employee contribution rate. The largest factor in the contribution rate increase was the earlier reduction in the actuarial assumed rate-of-return from 8.25% to 8.00%. Member contributions had increased $6.9 million in 2003 due to salary increases, retroactive salary adjustments, and an increase in member contribution rates.

For 2004, net investment income was $457.0 million, a 43% decline from the outstanding results achieved in 2003. This reduction reflects the year-on-year change in ACERA's total investment return from 26.7% in 2003 to 12.3% in 2004. The $1,054.3 million improvement in net investment income for 2003 reflects the strong rebound in the stock market that year.

Other income for 2004 was $2.3 million, up $1.4 million, due almost entirely to a one-time reimbursement of real estate fees. Other income mainly represents net income from securities lending transactions. In 2003, the level of other income changed little from the prior year.

For 2004, overall additions to plan net assets were $607.9 million, a decline of $310.0 million versus the prior year primarily due to reductions in net investment income as the stock market cooled off from the 2003 rebound. For 2003, overall additions to plan net assets grew by $1,083.2 million mainly due to strong investment returns.

Deductions from Plan Net Assets

ACERA was created to provide lifetime retirement annuities, survivor benefits and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, as designated by the plan, refunds of contributions to terminating members, and the cost of administering the system.

Retirement benefit payments were $169.1 million in 2004, an increase of $18.5 million, or 12% over the prior year. Retirement benefit payments comprise service retirement payments, death payments, and cost-of-living adjustments. Payments for service retirement, $161.4 million in 2004, represent the bulk of benefit payments as well as the bulk of the increase in benefit payments. The growth in benefit payments was due to new retirees and cost-of-living adjustments. Retirement benefits payments increased 6% in 2003 and the increases were also due to new retirees and cost-of-living adjustments.

Health insurance subsidies for 2004 were $19.6 million, up 15% over the prior year due to the high costs and limited availability of health insurance to retirees. Alameda County subsidizes health care benefits for retirees and their dependents and ACERA manages the payments made to health care providers. Health insurance had increased 21% in 2003 for the same reasons.

Member refunds in 2004 were $5.2 million, a decline of $1.4 million, or 21%, from 2003. Member refunds are a return of a member's contributions plus credited interest as a result of termination of membership in ACERA. The level of member refunds changed little in 2003.

Administrative expenses are charged against investment earnings and are normally limited to 0.18% of the total assets of the retirement system. ACERA's Board of Retirement adopts an administrative expense budget annually that covers expenses to be incurred in the following year. In 2004, the Board adopted a new provision of The County Employees Retirement Law of 1937 (Section 31580.3) that provides additional budgeting discretion. For a limited period (until January 1, 2007) the Board may adopt an administrative expense budget based on 0.23% of net assets which is based on an asset valuation date in an earlier year as described in the code. The Board approved the final 2004 administrative expense budget in accordance with the Section 31580.3 limitation.

Administrative and other expenses were $9.2 million for the year ended December 31, 2004 and were in compliance with budget limitations. About half of these expenses (58%) represent personnel costs. Administrative and other expenses increased $2.6 million, or 39% over the prior year mainly due to additional depreciation expense recorded in 2004 for a change in the accounting method for information systems assets. Moreover, administrative expenses in 2003 were artificially low due to temporary cost containment measures in effect that year, such as the freeze on staff wages.

Overall, deductions from plan net assets for 2004 totaled $203.1 million, an increase of $22.3 million or 12% over the prior year, primarily due to increases in retirement benefits payments. Deductions from plan net assets for 2003 were $180.8 million, an increase of 7% over 2002, mainly due to increases in retirement benefits payments and health insurance subsidies.

ACERA's Fiduciary Responsibilities

ACERA's Board and management staff are fiduciaries of the retirement system. Under the California Constitution, system assets can be used only for the exclusive benefit of plan participants and their beneficiaries.

Requests for Information

This financial report is designed to provide the Board of Retirement, our membership, taxpayers, investment managers, and vendors with a general overview of ACERA's financial condition and to demonstrate accountability for the funds ACERA receives and manages. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

ACERA
Office of Accounting and Operations
475 14th Street, Suite 1000
Oakland, California 94612-1900

Respectfully submitted,

Catherine E. Walker, CPA
Accounting & Operations Manager
April 8, 2005

Statements of Plan Net Assets

As of December 31, 2004 and 2003

	2004	2003
ASSETS		
Cash	$ 1,845,364	$ 1,778,143
Securities Lending Cash Collateral	353,491,227	240,979,054
Receivables		
Contributions	10,839,247	10,746,915
Accrued Interest	18,123,059	14,554,105
Dividends	1,101,467	1,480,633
Real Estate	886,963	246,866
Securities Lending	62,717	48,727
Sale of Securities	125,176,816	33,655,614
Other	1,401,842	249,628
Total Receivables	**157,592,111**	**60,982,488**
Prepaid Expenses	449,059	169,003
Total Current Assets	**513,377,761**	**303,908,688**
Investments, at Fair Value		
Short-Term Investment Fund	157,064,172	192,972,851
Government Bonds	357,575,868	308,338,556
Corporate Bonds	709,168,670	518,965,503
International Bonds	188,492,713	133,130,283
Corporate Stocks	794,390,776	696,134,166
S&P 500 Index Fund	837,470,841	804,176,891
Stock Index Futures	7,110,809	10,622,166
International Equities	1,022,909,454	921,599,923
Real Estate Properties	174,531,197	246,797,597
Real Estate Commingled Funds	2,787,257	5,114,430
Real Estate Mortgage Loans	–	36,415
AFL-CIO Housing Trust	52,232,950	65,148,310
Total Investments	**4,303,734,707**	**3,903,037,091**
Capital Assets (Net of Accumulated Depreciation and Amortization of $7,850,263 and $3,164,898)	6,124,519	9,778,981
Total Assets	**4,823,236,987**	**4,216,724,760**
LIABILITIES		
Purchase of Securities	137,565,825	46,830,106
Accrued Investment and Actuary Expenses	2,599,183	4,764,367
Accrued Administration Expenses	1,053,702	1,065,799
Members Benefits & Refunds Payable	2,013,017	2,452,587
Securities Lending Liability	353,491,227	240,979,054
Stock Dividends Payable	57,520	84,940
Retirement Payroll Deductions Payable	16,786	71,985
Other Liabilities	3,998,007	471,796
Total Liabilities	**500,795,267**	**296,720,634**
Net Assets Held in Trust for Pension Benefits	**$4,322,441,720**	**$3,920,004,126**

(See Schedule of Funding Progress presented on page 38.)
The accompanying Notes to the Financial Statements beginning on page 23 are an integral part of these financial statements.

Statements Of Changes In Plan Net Assets

For the Years Ended December 31, 2004 and 2003

	2004	2003
ADDITIONS		
Contributions:		
Member	$ 63,065,527	$ 60,159,279
Employer	85,497,767	49,091,005
Total Contributions	**148,563,294**	**109,250,284**
Investment Income:		
Net Appreciation in Fair Value of Investments	365,716,988	732,725,012
Interest	67,542,671	60,005,696
Dividends	22,846,968	13,348,147
Real Estate—Net	16,023,117	19,373,752
Total Investment Income	**472,129,744**	**825,452,607**
Less: Investment Expenses	(15,178,058)	(17,735,396)
Net Investment Income	**456,951,686**	**807,717,211**
Securities Lending Income		
Securities Lending Income	5,150,800	2,808,232
Less: Securities Lending Expenses	(4,414,405)	(2,126,680)
Net Securities Lending Income	**736,395**	**681,552**
Miscellaneous Income	1,647,766	252,878
Total Additions	**607,899,141**	**917,901,925**
DEDUCTIONS		
Benefit Payments:		
Service Retirement	161,411,403	142,270,330
Death Payments	2,143,825	2,020,305
Supplemental Cost of Living	5,587,585	6,324,807
Health Insurance	19,589,165	17,002,962
Total Benefit Payments	**188,731,978**	**167,618,404**
Members Refunds	5,189,609	6,585,186
Administration		
Administrative Expenses	8,220,857	6,460,667
Legal Expenses	839,431	
Actuarial Expenses	148,055	173,714
Total Administration	**9,208,343**	**6,634,381**
Total Deductions	**203,129,930**	**180,837,971**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of Year	3,920,004,126	3,182,940,172
Adjustment for Change in Accounting Principle[1]	(2,331,617)	
Beginning of Year(Adjusted)	3,917,672,509	
Excess of Additions over Deductions	404,769,211	737,063,954
End of Year	**$4,322,441,720**	**$3,920,004,126**

The accompanying Notes to the Financial Statements beginning on page 23 are an integral part of these financial statements.

[1] A change in the method of depreciation for information systems assets.

NOTES TO THE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ACERA is an independent public employee retirement system with its own governing board. ACERA's annual financial statements are included in the County of Alameda's Comprehensive Annual Financial Report as a pension trust fund.

Basis of Accounting

ACERA follows the accounting principles and reporting guidelines set forth by the Governmental Accounting Standards Board (GASB). ACERA's financial statements are prepared on the accrual basis of accounting. Employer and employee contributions are recognized when due, pursuant to formal commitments as well as statutory or contractual requirements. Investment dividends and interest are recognized as income when earned. The net appreciation (depreciation) in the fair value of investments held by ACERA is recorded as an increase (decrease) to investment income. Retirement benefits and member refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred.

Cash

Cash includes deposits with a financial institution and a pooled account with the Alameda County Treasurer. The reported amounts of deposits in the pooled accounts approximate fair value. All participants in the pool proportionately share earnings and losses.

Valuation of Investments

Investments are reported at fair value. Fair value for investments of publicly traded stocks and bonds and issues of the U.S. Government and its agencies is based on the last reported sales price as of the fiscal year end. Fair value of securities denominated in a foreign currency reflects exchange rates in effect at fiscal year end. Fair values of ACERA's short-term investments held in external investment pools sponsored by the master custodian are provided by the master custodian (based on market quotes). The fair value of real estate investments is based on prices in a competitive market as determined by specialists relying on periodic appraisals.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation and amortization. Capital assets with an initial cost of more than $3,000 and an estimated useful life in excess of one year are capitalized and depreciated. Depreciation and amortization are calculated using the straight-line method (for most assets) over the estimated useful lives of the depreciable assets or over the term of the lease on leasehold improvements. For each asset, ACERA recognizes one-half year of depreciation expense in the year the asset is placed in service and one-half year of expense in the year of retirement. The estimated useful lives for the assets in each category are as follows: office furniture – seven years; office equipment – five years; business continuity assets – five years; computer hardware – five years; and computer software – three years. For information systems—see the next paragraph.

In 2004, ACERA changed the method of depreciation for information systems assets from straight-line to sum-of-the-years'-digits and reduced the estimated useful lives of these assets. The changes resulted from a management assessment that the scheduled depreciation for these assets no longer matched the anticipated benefits in light of continually changing technology, the emergence of competing benefits administration software, and the consolidation in the market for accounting software. The estimated useful life of the retirement information system was reduced from 15 years to seven and the estimated useful life of the accounting information system was reduced from five years to three.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain amounts and disclosures. Accordingly, actual results may differ from those estimates.

Reclassification

Certain financial statement items from the prior year's financial statements have been reclassified for comparative purposes. Such reclassifications had no effect on previously reported plan net assets.

2. PLAN DESCRIPTION

ACERA began operations on January 1, 1948. It is governed by the California Constitution, the County Employees Retirement Law of 1937 (a component of the California Government Code) and the bylaws, procedures and policies adopted by the Board of Retirement.

ACERA provides retirement, disability and death benefits to its Safety and General members, and administers retiree health, dental, and vision benefit programs.

ACERA operates as a cost-sharing multi-employer defined benefit plan for Alameda County (the County) and five participating special districts located in the County but not under the control of the County Board of Supervisors. All risks and costs, including benefit costs, are shared by the participating employers. These participating special districts are:

- Alameda County Medical Center
- Alameda County Office of Education
- First 5 Alameda County
- Housing Authority of the County of Alameda
- Livermore Area Recreation and Park District

Board of Retirement.

The ACERA Board of Retirement has sole and exclusive responsibility over the assets of the system and the responsibility to administer the system to assure prompt delivery of benefits and related services as provided in Article XVI of the California Constitution. The Board has nine members. The Alameda County Board of Supervisors appoints four members, and four are elected by ACERA's membership. The County Treasurer serves as an *ex-officio* Board member.

Board members, with the exception of the County Treasurer, serve three-year terms in office, with no term limits. The four elected Board members are selected as follows:

- Two Board members are elected by General members of ACERA.

- One Board member is elected by Safety members of ACERA.
- One Board member is elected by retired members of ACERA.

The Board of Retirement oversees the General Manager and staff in the performance of their duties in accordance with the County Employees Retirement Law of 1937, ACERA's by-laws, and Board policies.

Effective January 1, 2005 an alternate Board member elected by Safety members will be added.

Plan Membership

All full-time employees of participating employers appointed to permanent positions are required by statute to become members of ACERA. Safety membership includes employees who are in active law enforcement, probation officers, and juvenile hall counselors. General membership includes all other eligible classifications.

ACERA's Membership

As of December 31, 2004 and 2003

	2004	2003
Retirees and Beneficiaries Currently Receiving Benefits	6,475	6,287
Active Employees:		
Vested	6,995	6,796
Nonvested	3,561	4,424
Inactive Vested Members	1,361	1,224
Total Membership	**18,392**	**18,731**

Benefit Provisions

Members become vested upon completion of five years of credited qualifying service. Vested General members may retire at age 50 or older with 10 or more years of qualifying service, at any age with 30 or more years of qualifying service, or at age 70 or older, regardless of service credit. Vested Safety members may retire at age 50 or older with 10 or more years of qualifying service, or at any age with 20 or more years of qualifying service. Members who qualify for service retirement are entitled to receive monthly retirement benefits for life. Service retirement benefits are based on final average salary, age at retirement, and length of service as of the retirement date, according to applicable statutory formulae.

The service retirement benefits within the plan are tiered based on membership entry date. Generally, members with an entry date prior to July 1, 1983 belong to Tier 1 while those with an entry date on or after July 1, 1983 belong to Tier 2. Tier 1 members contribute at a higher rate (as a percent of compensation) and therefore receive higher retirement benefits.

ACERA benefits are integrated with Social Security benefits for all employees except most Safety members. For each member receiving integrated benefits (i.e., the member is also covered by Social Security) the ACERA retirement benefit is adjusted by a reduction factor.

Cost-of-Living Adjustment

Retirement benefits are subject to post-retirement cost-of-living adjustments (COLA) based upon the Consumer Price Index for the San Francisco Bay Area. Annual COLA increases are capped at 3% for Tier 1 and 2% for Tier 2 members under the County Employees Retirement Law of 1937.

The actual 2004 COLA increase granted for Tier 1 members was the maximum 3% for all but the most recently retired members (who received at least 1%); the actual COLA increase for Tier 2 members was the maximum 2% for all but the most recently retired members (who received 1%).

Supplemental Cost-of-Living Adjustment

In addition to the basic cost-of-living adjustments, the Board of Retirement implemented a Supplemental Cost-of-Living Adjustment (Supplemental COLA) program, effective January 1, 1998. The Supplemental

COLA is structured to maintain purchasing power at no less than 85% of the original benefit. The Supplemental COLA is applicable to members who have an accumulated loss of purchasing power of more than 15% due to inflation.

Funding for the Supplemental COLA is provided solely through the Supplemental Retiree Benefit Reserve (SRBR) as described in Note 4.

Supplemental COLA increases are subject to approval by the Board of Retirement on an annual basis. The benefit is non-vested and based on available funding.

Actuarial Valuation

An actuarial valuation is normally performed annually for the system as a whole. However, due to the actuary's involvement in ACERA's triennial experience analysis, the December 31, 2004 valuation was not completed prior to the publication date of the 2004 CAFR. Accordingly, the 2004 CAFR is based on the actuarial valuation of December 31, 2003.

3. CONTRIBUTIONS

The County Employees Retirement Law of 1937 establishes the basic obligations for employer and member contributions to the retirement system. The actual employer and member contribution rates in effect each year are based on recommendations made by an independent actuary and adopted by the Board of Retirement.

Covered employees are required by statute to contribute toward their pensions. Member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. ACERA members are required to contribute a percentage of their annual covered salary. The ranges of current contribution rates based on age at the date of entry are as follows (each pair of figures ranges from youngest to oldest age group):

General Tier 1:	9.78%–13.56%;
General Tier 2:	6.63%–10.22%;
Safety Tier 1:	12.71%–15.83%;
Safety Tier 2:	9.80%–13.92%.

For members receiving integrated benefits (i.e., they are covered by Social Security) the rates shown apply to biweekly salary over $161; slightly lower rates apply to the first $161 of biweekly salary.

Member contributions along with credited interest are refundable upon termination of membership.

The County and participating employers are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to ACERA members not otherwise funded by employee contributions or investment earnings.

In 1995 and 1996 Alameda County, the primary ACERA sponsor, issued pension obligation bonds and contributed the net proceeds to ACERA. The aggregate net proceeds received by ACERA was $591 million. In connection with the receipt of the net proceeds, the County received "pension obligation bond credits" reducing the required County pension contributions otherwise payable in 2004 and 2003 by approximately $32 million and $54 million respectively.

4. RESERVES

ACERA's reserves are established from member and employer contributions and the accumulation of investment income, after satisfaction of investment and administrative expenses. ACERA's reserves are as follows:

Member Reserves represent the total accumulated member contributions of current active and deferred members. Additions include member contributions and credited interest; deductions include refunds of member contributions along with credited

ACERA's Reserves

As of December 31, 2004 and 2003

	2004	2003
RESERVES		
Member Reserves	$ 909,497,081	$ 892,612,337
Employers' Advance Reserve	447,140,799	546,644,663
Retired Member Reserves	2,208,850,036	1,949,501,667
Supplemental Retiree Benefit Reserve	498,005,232	497,083,389
Contingency Reserve	48,246,215	42,167,248
Market Stabilization Reserve	210,702,357	
Total Reserves at Fair Value	**4,322,441,720**	**3,928,009,304**
UNDER-FUNDED RESERVE ACCOUNTS		
Market Stabilization Account		(8,005,178)
Total Reserves and Under-Funded Accounts	**$4,322,441,720**	**$3,920,004,126**

interest and transfers to Retired Member Reserves.

Employers' Advance Reserve represents the total accumulated employer contributions for future retirement payments to current active members. Additions include contributions from the employers and credited interest; deductions include transfers to Retired Member Reserves.

Retired Member Reserves represent the total accumulated transfers from Member Reserves, the Employers' Advance Reserve and credited interest, reduced by payments to retired members, beneficiaries, and survivors.

Contingency Reserve represents reserves accumulated for future earnings deficiencies. The Contingency Reserve is used to satisfy the statutory requirement to reserve at least 1% of total assets against future earnings deficiencies.

Supplemental Retiree Benefit Reserve (SRBR) represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. Health insurance subsidies, supplemental COLA, Medicare Part B reimbursement, health equity location program, vision, dental, and increased death benefits to retirees are currently being funded by this reserve. The SRBR was established on January 1, 1985, upon adoption of Article 5.5 of the County Employees Retirement Law of 1937 by the Board of Supervisors for Alameda County.

Market Stabilization Reserve represents the remaining unallocated balance of unrealized investment gains or losses recognized as a result of the adoption of Governmental Accounting Standards Board (GASB) Statement No. 25, which requires reporting investments at fair value instead of cost.

Under Article 5.5 of the County Employees Retirement Law of 1937, earnings (interest) are allocated to reserves at the actuarial assumed rate-of-return as approved by the Board, except for the Contingency Reserve and the Market Stabilization Reserve (the "highest rate possible" is used whenever net earnings are not sufficient to credit the actuarial assumed rate-of-return). The Contingency Reserve is adjusted up to an amount not to exceed 1% of total assets at fair value as established by the Board and permitted by Section 31616 of the County Employees Retirement Law of 1937. The remaining net earnings are allocated 50% to the SRBR and 50% proportionally to all other reserves with the exception of the Contingency Reserve and the Market Stabilization Reserve as described in Sections 31618 and 31619 of the County Employees Retirement Law of 1937.

For the year ending December 31, 2004, ACERA's allocations of earnings to reserves were $229,088,352. $223,009,384 in interest was credited to reserves at 2.79% and 2.88% at June 30, 2004 and December 31, 2004, respectively. Earnings for each semi-annual period in 2004 were insufficient to provide interest credits to the reserves at the actuarial assumed rate-of-return in effect during the year (4.00% semi-annually). $6,078,968 was allocated to the Contingency Reserve to maintain the Contingency Reserve balance at 1% of assets. Separately, the Market Stabilization Reserve increased by $218,707,535 as a result of applying the actuarial five-year smoothing methodology described below.

The following past events have significantly impacted the reserve accounts and the amount of interest credited to reserve accounts:

- In 1996, the adoption of GASB Statement No. 25 (Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Benefit Pension Plans). Under GASB 25 investments are stated at fair value (instead of cost) and investment income includes both realized and unrealized gains and losses. The Market Stabilization Reserve was established at this time to record the amount of unrealized gains and losses.
- In 1998, the implementation of a five-year smoothing methodology for investment gains and losses.
- In 2002, the implementation of an 80–120% market value corridor to prevent actuarial valuation assets from deviating too significantly from the actual market value of these assets. Whenever the semi-annual smoothed value of actuarial valuation assets falls outside the corridor, the portion outside the corridor is recognized in the current semi-annual period.
- In 2003, the implementation of an Investment Earnings and Loss Policy. This policy requires the Contingency Reserve Account to accumulate losses when the net result of the actuarial asset valuation process is a negative number (net earnings are less than zero). Such losses are then made up by future earnings (less only administrative expenses). The regular interest crediting process only resumes when future earnings have made up losses and a Contingency Reserve Account balance equal to 1% of system assets has been restored. This means that all accounts other than the Contingency Reserve Account suffer a delay in the crediting of future earnings until losses are made up and the Contingency Reserve Account restored.

5. ACTUARIAL VALUATION

ACERA retains an independent actuarial firm to conduct an actuarial valuation to monitor ACERA's funding status and funding integrity. This valuation is updated annually for economic and non-economic assumptions. The most recent valuation was performed as of December 31, 2003, and it determined the plan's funded status to be 86.9%. The Schedule of Funding Progress on page 38 provides further details.

6. POSTEMPLOYEMENT HEALTHCARE BENEFITS

ACERA administers a healthcare benefits program for retired members and their eligible dependents. The County negotiates the healthcare contracts with the providers covering both active and retired members and subsidizes the premiums.

All subsidies for retirees' healthcare premiums are paid by the County, based on the lowest average cost plan available. The amount of the subsidy for each retiree depends on the retiree's number of years of service. The subsidy ranges from 50% for retirees with 10+ years of service to 100% for retirees with 20+ years of service. The cost of the healthcare premiums, after the subsidy, is deducted from the retirees' monthly benefit payments. The program may be amended, revised or discontinued at any time.

No plan net assets are held in trust for postemployment healthcare benefits. Each year, the County pays an amount to cover the estimated healthcare premium subsidies.

Postemployment Healthcare Benefits

For the Years Ended December 31, 2004 and 2003

	2004	2003
County's Healthcare Premium Account Balance	$2,593,748	$2,161,072
Health Insurance Subsidies Paid	$19,589,165	$17,002,962
Number of Subsidized Retirees		
Medical	4,634	4,235
Dental	5,978	5,499
Vision	5,963	5,498

7. INDUSTRY CONCENTRATION OF PORTFOLIO ASSETS

The Board of Retirement's investment policies and guidelines permit investment in numerous specified asset classes to take advantage of the non-correlated economic behavior of diverse asset classes. The result is a well-diversified portfolio. The investment portfolio contained no concentration of investments in any one entity (other than those issued or guaranteed by the U.S. Government) that represented 5 percent or more of the total investment portfolio. The limitation is not applicable to the passive index funds and high alpha managers.

8. DEPOSITS AND INVESTMENTS

The County Employees Retirement Law of 1937 gives the Board of Retirement exclusive control over ACERA's investment portfolio. Except as otherwise restricted by the California Constitution or other laws, the County Employees Retirement Law of 1937 allows for the Board to invest, or delegate the authority to invest, the investment portfolio through the purchase, holding, or sale of any form or type of investment, financial instrument, or financial transaction when prudent to do so, in the informed opinion of the Board.

Moreover, the County Employees Retirement Law of 1937 requires the Board and its officers and employees to discharge their duties with respect to ACERA and the investment portfolio:

- Solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, and minimizing employer contributions thereto;
- With the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and like aims;
- Shall diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly prudent not to do so.

Deposits

Operational cash accounts held with a financial institution are swept on a daily basis into a pooled money-market fund, which invests in repurchase agreements and U.S. treasury bills and notes. The cash amounted to $1,771,000 and $1,532,000 as of December 31, 2004 and 2003, respectively. ACERA also participates in the Alameda County Treasurer's investment pool. The pool invests in Local Agency Investment Funds (LAIF), banker's acceptances, collateralized time deposits, negotiable certificates of deposits, commercial paper, corporate notes and bonds, money market funds, federal agency notes and bonds, federal agency discount notes, and U.S. treasury notes. The cash held in the investment pool was approximately $73,000 and $246,000 at December 31, 2004 and 2003, respectively. The above deposits are both uninsured and uncollateralized and are not categorized. The book value of deposits does not differ materially from the bank balance of deposits.

GASB Statement No. 3 requires that deposits be categorized by type to give an indication of the level of custodial credit risk assumed at year end, as follows:

Category 1 includes deposits that are insured or collateralized with securities held by ACERA or by its agent in ACERA's name. ACERA had no Category 1 Deposits as of December 31, 2004 and 2003.

Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in ACERA's name. ACERA had no Category 2 Deposits as of December 31, 2004 and 2003.

Category 3 includes deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in ACERA's name). ACERA had no Category 3 Deposits as of December 31, 2004 and 2003.

Investments

ACERA's asset classes include U.S. equity, international equity, fixed income (U.S. and international), real estate, and cash/short-term investments. Any class may be held in direct form, pooled form, or both. As of December 31, 2004, eleven external investment managers managed securities portfolios and four investment managers were used for real estate investments.

Available cash held by investment managers is swept on a daily basis into a short term investment pool managed by the master custodian that consists of short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, banker's acceptances, time deposits, and floating-rate notes. Likewise, cash collateral received by ACERA under the master custodian's securities lending program is held in a different short-term investment pool (see Securities Lending on page 32). These two investment pools are each held in the form of a trust fund by the master custodian and are regulated by the Federal Reserve, the Massachusetts Commissioner of Banks, and the U.S. Department of Labor. The value of the underlying instruments in these investments pools is marked to market on an audited basis at each month end. The fair value of ACERA's position in these investment pools is not materially different from the value of the pool shares.

GASB Statement No. 3 requires that investments are categorized by type to give an indication of the level of custodial credit risk assumed at year end, as follows:

Category 1 includes investments that are insured or registered, or for which the securities are held by ACERA or its agent in ACERA's name. The schedule of ACERA Investments shows Category 1 investments.

ACERA Investments

For the Years Ended December 31, 2004 and 2003

	Risk Category	2004 Fair Value	2003 Fair Value
INVESTMENTS—CATEGORIZED			
Government Bonds	1	$ 218,298,652	$ 184,018,763
Corporate Bonds	1	672,780,512	490,462,841
Corporate Stocks	1	702,225,891	623,205,084
International Bonds	1	188,492,713	133,130,283
International Equity	1	946,751,018	912,619,945
Total		**2,728,548,786**	**2,343,436,916**
Investments Made with Securities Lending Cash Collateral			
Government Bonds	3	141,529,744	127,021,255
Corporate Bonds	3	36,955,468	29,070,183
Corporate Stocks	3	94,493,405	75,519,808
International Equity	3	80,512,610	9,367,808
Total		**353,491,227**	**240,979,054**
Total Categorized Investments		**3,082,040,013**	**2,584,415,970**
INVESTMENTS—NOT CATEGORIZED			
Short-Term Investment Fund		157,064,172	192,972,851
Domestic Equity Index Fund		837,470,841	804,176,891
Stock Index Futures		7,110,809	10,622,166
AFL-CIO Housing Trust		52,232,950	65,148,310
Real Estate Properties		174,531,197	246,797,597
Real Estate Trusts		2,787,257	5,114,430
Real Estate Mortgage Loans		–	36,415
Total		**1,231,197,226**	**1,324,868,660**
Investments Held by Broker-Dealer under Securities Loans with Cash Collateral			
Government Bonds		139,277,216	124,319,793
Corporate Bonds		36,388,158	28,502,662
Corporate Stocks		92,164,885	72,929,082
International Equity		76,158,436	8,979,978
Total		**343,988,695**	**234,731,515**
Total Non-Categorized Investments		**1,575,185,921**	**1,559,600,175**
Total Categorized and Non-Categorized		**$4,657,225,934**	**$4,144,016,145**

Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in ACERA's name. ACERA had no Category 2 investments at December 31, 2004 and 2003.

Category 3 includes investments that are uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in ACERA's name.The schedule of ACERA Investments shows Category 3 investments.

Real Estate

ACERA seeks to achieve total gross returns equivalent to the National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index ("NPI") as a minimum return for the total portfolio over rolling five-year periods. In addition, income, which is to be defined as cash distributed to ACERA, should comprise at least two-thirds of the expected total return over rolling five-year periods.

Securities Lending

Board of Retirement Policies authorize ACERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of ACERA securities to broker-dealers and banks that allow ACERA to invest and receive earnings on the loan collateral for a loan rebate fee. ACERA has signed a securities lending authorization agreement authorizing the master custodian to lend ACERA securities to broker-dealers and banks pursuant to a loan agreement.

For the years ended December 31, 2004 and 2003, on behalf of ACERA, the master custodian lent ACERA securities (government bonds, corporate stocks, corporate bonds, and international equities) under this agreement and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt and irrevocable bank letters-of-credit as collateral. ACERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to at least 102% of the market value of the loaned security for domestic securities and 105% for international securities. Moreover, borrowers were required to maintain the market value of collateral on a daily basis.

ACERA did not impose any restrictions for the years ended December 31, 2004 and 2003 on the amount of the loans that the custodian made on its behalf. The custodian indemnified ACERA by agreeing to purchase replacement securities or return cash collateral in the event the borrower failed to return the loaned securities and the collateral was inadequate to replace the securities lent or the borrower failed to pay

Real Estate Investment Income

For the Years Ended December 31, 2004 and 2003

	2004	2003
Real Estate Investment Income	$ 34,627,171	$ 41,310,402
EXPENSES		
Real Estate, Non-Operating Expense[1]	5,505,098	5,973,487
Real Estate, Operating Expenses	13,098,956	15,963,163
Total Expenses	**18,604,054**	**21,936,650**
Real Estate, Net Income	**$16,023,117**	**$19,373,752**

[1] Non-operating expense includes interest expense which resulted from loans on properties.

Securities Lending Income

For the Years Ended December 31, 2004 and 2003

	2004	2003
Gross Income	$ 5,150,800	$ 2,808,232
EXPENSES		
Interest Expense (Borrower Rebates)	4,098,695	1,834,480
Bank Fees	315,710	292,200
Total Expenses	**4,414,405**	**2,126,680**
Net Income from Securities Lending	**$ 736,395**	**$ 681,552**

ACERA for income distributions by the securities issuers where the securities are on loan. There were no losses during the years ended December 31, 2004 and 2003 resulting from a default of the borrowers or the custodian.

For the years ended December 31, 2004 and 2003, ACERA and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders in a collective investment pool. As of December 31, 2004 and 2003, such investment pool had an average duration of 36 days and 71 days, and an average weighted maturity of 446 and 540 days, respectively. Because the loans were terminable at will their duration did not generally match the duration of the investments made with cash collateral. For the years ended December 31, 2004 and 2003, ACERA had no credit risk exposure to borrowers.

As of December 31, 2004 and 2003, ACERA had securities on loan with a fair value of $343,988,695 and $234,731,515, respectively, for cash collateral of $353,491,227 and $240,979,054, respectively. The securities on loan are presented as unclassified in the preceding schedule of custodial credit risk. Investments made with the cash collateral are classified by risk category.

Derivative Financial Investments

ACERA does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are utilized by ACERA to improve or defend against currency fluctuations of the investment earnings and reduce interest rate risks. None

Holdings of Derivative Securities

For the Years Ended December 31, 2004 and 2003

	2004		2003	
	Cost	Market	Cost	Market
Collateralized Mortgage Obligations	$ 164,600,902	$ 164,080,074	$ 77,371,847	$ 77,875,525
Futures Contracts				
Indexed Securities	89,140,075	91,634,350	79,380,438	82,184,400
Government Debt Issues	–	–	1,340	1,344
Total Derivative Securities	**$253,740,977**	**$255,714,424**	**$156,753,625**	**$160,061,269**

of these securities were leveraged as of December 31, 2004 and 2003.

Derivatives are generally described as a contract whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. Futures contracts and collateralized mortgage obligations (CMO's) are specific types of derivative instruments.

The investments in futures contracts bear credit risk in that parties to the contracts may fail to perform according to the terms of the contract. Also, the investments may be subject to market risk due to a change in the price of the underlying securities.

The investments in collateralized mortgage obligations may be subject to credit risks such as the credit quality rating of the underlying security may be downgraded by rating organizations and the mortgages or underlying assets can be prepaid. Collateralized mortgage obligations also bear market risk, as the market may be sensitive to interest rate fluctuations.

9. CAPITAL ASSETS

ACERA's investment in capital assets declined from $9.8 million in 2003 to $6.1 million in 2004 (net of accumulated depreciation and amortization). This investment in capital assets includes information systems, equipment, furniture, leasehold improvements, and construction-in-progress. The major capital investment during 2004 was the enhancement of ACERA's technology infrastructure. This enhancement includes additional customization and improvements to ACERA's Retirement Information System.

The significant decline in the net balance of Capital Assets mainly arose from a 2004 change in the method of depreciation for information systems assets coupled with a reduction in the estimated useful life for each asset of this type (Note 1 Summary of Significant Accounting Policies provides further details).

Depreciation expense for capital assets was $2.4 million and $1.0 million for the years ended December 31, 2004 and 2003, respectively (see schedule of Capital Assets and Accumulated Depreciation). An additional $2.3 million was recorded as an adjustment to accumulated depreciation in 2004 representing the cumulative prior years' adjustment for the change in depreciation method for the information systems assets as mentioned above.

10. LEASES

During the year ended December 31, 2001, ACERA purchased the building where its offices are located at 475-14th St., Oakland, CA 94612 and formed a title holding corporation named Oakland 14th St. Office to take ownership of the building. Under a lease agreement with Oakland 14th St. Office effective in 2002, ACERA occupies two floors in the building, totaling approximately 29,000 square feet. The term of the lease is ten years, with an option to renew for five additional years. Under the terms of the lease agreement, ACERA's base rent is abated. However, ACERA is required to pay its proportionate share of the building operating expenses as defined in the lease. ACERA's share of these operating expenses totaled $34,000 and $15,000 for the years ended December 31, 2004 and 2003, respectively. Operating expense payments are expected to increase each year over the lease term in line with the general consumer price index.

ACERA leases photocopy machines and mailing equipment to support operations. Equipment rental expense was $16,000 and $8,000 for the years ended December 31, 2004 and 2003, respectively. Two additional

Capital Assets and Accumulated Depreciation

For the Years Ended December 31, 2004 and 2003

	January 1 2004	Additions	Deletions / Transfers	December 31 2004
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 2,682,740	$ 173,022	–	$ 2,855,762
Information Systems	8,485,504	1,754,762	–	10,240,266
Leasehold Improvements	834,602	19,672	$(2,120)	852,154
Subtotal	**12,002,846**	**1,947,456**	**(2,120)**	**13,948,182**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction in Progress	941,033	1,271,160	$(2,185,593)	26,600
Total Capital Assets (Cost)	**12,943,879**	**3,218,616**	**(2,187,713)**	**13,974,782**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,032,941)	(235,262)	–	(2,268,203)
Information Systems	(1,116,834)	(2,087,116)	(2,331,617)	(5,535,567)
Leasehold Improvements	(15,123)	(31,370)	–	(46,493)
Total Accumulated Depreciation and Amortization	**(3,164,898)**	**(2,353,748)**	**(2,331,617)**	**(7,850,263)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 9,778,981**	**$ 864,868**	**$ (4,519,330)**	**$ 6,124,519**

	January 1 2003	Additions	Deletions / Transfers	December 31 2003
CAPITAL ASSETS				
Equipment and Furniture	$ 2,272,847	$ 409,893	–	$ 2,682,740
Information Systems	8,485,504	–	–	8,485,504
Leasehold Improvements	–	834,602	–	834,602
Subtotal	**10,758,351**	**1,244,495**	**–**	**12,002,846**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction in Progress	826,924	1,358,604	$(1,244,495)	941,033
Total Capital Assets (Cost)	**11,585,275**	**2,603,099**	**(1,244,495)**	**12,943,879**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(1,792,973)	(239,968)	–	(2,032,941)
Information Systems	(371,597)	(745,237)	–	(1,116,834)
Leasehold Improvements	–	(15,123)	–	(15,123)
Total Accumulated Depreciation and Amortization	**(2,164,570)**	**(1,000,328)**	**–**	**(3,164,898)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 9,420,705**	**$ 1,602,771**	**$ (1,244,495)**	**$ 9,778,981**

photocopiers were leased on five-year terms in August 2004 to support a higher level of in-house document production. The future minimum rental payments for these leases are as follows:

Year Ending December 31	Amount
2005	$24,000
2006	$24,000
2007	$24,000
2008	$24,000
2009	$24,000
Total	**$120,000**

11. ADMINISTRATIVE EXPENSES

ACERA's Board of Retirement annually adopts an administrative expense budget covering expenses to be incurred in the following fiscal year. The administrative expenses are charged against investment earnings and are normally limited to 0.18% of the assets of the retirement system (County Employees Retirement Law of 1937 Code Section 31580.2). ACERA's policy is to assess compliance with this limitation based on an asset valuation date of June 30 of the year in which the budget is adopted.

During the year ended December 31, 2004, the Board adopted a new provision of the County Employees Retirement Law of 1937 (Section 31580.3) that provides additional budgeting discretion. For a limited period (until January 1, 2007) the Board may elect to adopt an administrative expense budget based on 0.23% of net assets based on an asset valuation date in an earlier year. The Board approved the final revised 2004 administrative expense budget in accordance with the Section 31580.3 limitation.

Administrative expenses formerly included legal-related expenses. These are no longer reported as administrative expenses; they are charged directly against the assets of the system. This change in classification occured in 2004 (in accordance with Section 31529.9 of the County Employees Retirement Law of 1937 effective in 2004, as adopted by the Board).

ACERA Administrative Expenses

For the Years Ending December 31, 2004 and 2003

	2004	2003
Net Assets at March 31, 2000 and Total Assets at June 30, 2002	$3,947,312,000	$3,596,741,142
Maximum Allowable for Administrative Expense (0.23% and 0.18% respectively)	9,078,000	6,474,134
Actual Administrative Expenses for the Fiscal Year	8,220,857	6,460,667
Excess of Allowance over Actual Administrative Expenses	**$ 857,143**	**$ 13,467**
Actual Administrative Expenses as a Percentage of Asset Base	**0.21%**	**0.18%**

12. RELATED PARTY TRANSACTIONS

In connection with a contract with Alameda County Human Resources Department ("Lakeside Group"), ACERA paid $77,000 annually for the years ended December 31, 2004 and 2003 for personnel consulting services. Separately, under Board of Retirement policy, ACERA reimburses the County for a portion of the salary and benefits of each County employee elected to the Board of Retirement. In addition, ACERA reimburses the County for the cost of County services provided in the following areas: Insurance/Risk Management, Information Technology, and Telecommunications. The balance of such costs at December 31, 2004 not yet reimbursed to the County was approximately $6,000. The costs of County services provided are generally reimbursed by check on a monthly basis.

Related Party Transactions

For the Years Ended December 31, 2004 and 2003

	2004	2003
Reimbursed Costs of County Services	$ 138,314	$ 142,273
Partial Salary/Benefits Reimbursement for Elected Board Members	259,664	127,726
Personnel Services, Other	102,742	78,936
Total	**$500,720**	**$348,935**

ACERA leases office space from Oakland 14th St. Office, a title holding company controlled by ACERA. This is described in Lease Note 10.

REQUIRED SUPPLEMENTARY SCHEDULES

Schedule of Funding Progress[1]

(Dollars in Millions)

Actuarial Valuation Date	Actuarial Value of Assets [2] (a)	Actuarial Accrued Liability (AAL) [3] (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
12/31/1998	$2,830	$2,613	$(217)	108.3	$462	–47.0
12/31/1999	2,998	2,763	(235)	108.5	488	–48.2
12/31/2000	3,169	2,936	(233)	107.9	532	–43.7
12/31/2001	3,322	3,140	(182)	105.8	590	–30.8
12/31/2002	3,294	3,560	266	92.5	641	41.4
12/31/2003	3,382	3,890	508	86.9	714	71.2

1 This schedule is based the actuarial valuation as of 12/31/2003, ACERA's most recent actuarial valuation.

2 Excludes assets for SRBR and other non-valuation reserves.

3 Excludes liabilities for SRBR and other non-valuation reserves.

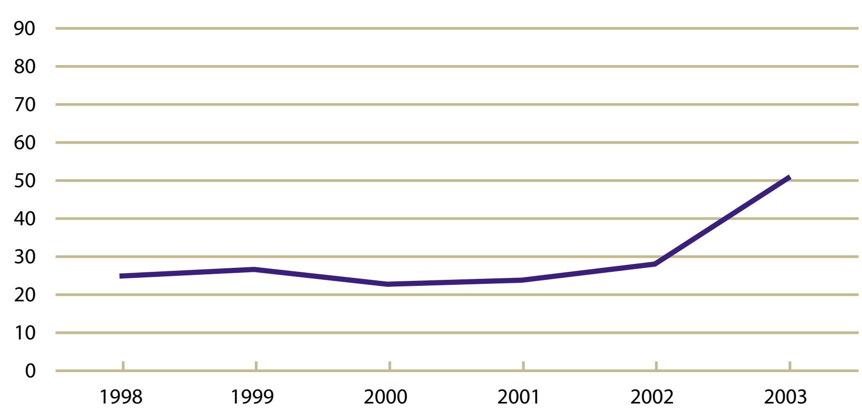
Schedule of Employer Contributions

(Dollars in Millions)

Year Ended December 31	Annual Required Contribution	Percentage (%) Contributed
1998	$24	100
1999	$26	100
2000	22	100
2001	23	100
2002	27	100
2003	49	100

Employer Contributions

(Dollars in Millions)



NOTES TO REQUIRED SUPPLEMENTARY SCHEDULES

The information presented in the supplemental schedules was determined as part of the actuarial valuations as of the date indicated. Additional information as of the most recent actuarial valuation date, December 31, 2003 is as follows:

Actuarial Cost Method:
Entry Age Normal

Asset Valuation Method:
The Actuarial Value of Assets is determined by phasing in any difference between actual and expected market return over 10 six-month interest crediting periods. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves.

Amortization of Unfunded Liability:
The annual contribution rate which, if paid annually over the Unfunded Actuarial Accrued Liability (UAAL) amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earnings rate. The employer contribution is designed to remain as a level percentage of future active member payroll (including payroll of new members as they enter the Association) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments are scheduled to increase at the total assumed annual inflation rate plus across-the-board salary increase of 4.25%.

The entire UAAL of the Association is being funded over a declining 29-year period following December 31, 2003.

Amortization Approach:
Open

Amortization of Actuarial Gains and Losses:
Any new actuarial gains and losses will be combined with all prior unamortized gains and losses and amortized over the amortization period of 29 years following December 31, 2003.

Cost-of-Living Adjustments:
The maximum statutory annual increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. The increases are based on the change in the Bay Area Consumer Price Index for the calendar year prior to the April 1, effective date.

Assumed Investment Rate of Return:
8.00% per annum

Assumed Salary Increases:
5.65% per annum

Assumed Inflation Rate:
4.00% per annum

Assumed Across-the-Board Salary Increase:
0.25% per annum

SUPPLEMENTARY SCHEDULES

Administrative Expenses

For the Years Ended December 31, 2004 and 2003

	2004	2003
Personnel Services		
Staff Wages	$ 2,817,805	$ 2,568,374
Fringe Benefits	1,151,111	983,426
Temporary Sevices	518,284	566,203
Total Personnel Services	**4,487,200**	**4,118,003**
Professional Services		
Computer Services	132,060	48,725
Audit	61,463	84,000
Legal Counsel[1]	–	81,872
Specialized Services	49,947	83,699
Total Professional Services	**243,470**	**298,296**
Communications		
Printing	267,177	211,648
Communication	50,369	50,346
Postage	61,363	58,504
Total Communications	**378,909**	**320,498**
Rental/Utilities		
Office Space	34,156	15,323
Equipment Leasing	15,535	8,372
Total Rentals/Utilities	**49,691**	**23,695**
Other		
Training	57,936	55,573
Supplies	48,448	43,163
Maintenance-Equipment	80,745	95,191
Insurance	146,184	144,561
Software Maintenance and Support	434,480	226,317
Depreciation and Amortization	1,825,082	750,246
Miscellaneous	468,712	385,124
Total Other	**3,061,587**	**1,700,175**
Total Administrative Expenses	**$8,220,857**	**$6,460,667**

[1] As of 2004, legal expenses are no longer reported as Adminstrative Expenses due to Board adoption of Section 31529.9 of the County Employees Retirement Law of 1937.

Investment Manager Fees and Other Investment Expenses

For the Years Ended December 31, 2004 and 2003

		2004	2003
INVESTMENT ACTIVITY			
Investment Manager Fees			
Equity Managers	Domestic	$ 4,633,651	$ 3,688,021
	International	3,021,490	2,895,895
	Total Equity	**7,655,141**	**6,583,916**
Fixed Income Managers	Domestic	1,714,748	1,497,849
	International	550,117	488,248
	Total Fixed Income	**2,264,865**	**1,986,097**
Real Estate Managers	Investment Trusts & Individual Properties	1,800,105	3,734,363
	Mortgage Loan Services	46	148
	Securities (REIT's)	–	35,880
	AFL-CIO Housing Invt.Trust	192,639	238,574
	Total Real Estate	**1,992,790**	**4,008,965**
Total Investment Manager Fees		**11,912,796**	**12,578,978**
Other Investment Expenses			
Investment Custodians		285,863	338,541
Investment Consultants		517,173	508,608
Brokerage Commissions		1,270,902	2,514,081
Investment Allocated Costs		1,191,324	1,795,188
Total Other Investment Expenses		**3,265,262**	**5,156,418**
Total Investment Activity		**15,178,058**	**17,735,396**
SECURITIES LENDING ACTIVITY			
Interest Expense (Borrower Rebates)		4,098,695	1,834,480
Bank Fees		315,710	292,200
Total Securities Lending Activity Expense		**4,414,405**	**2,126,680**
Total Manager Fees, Other Investment Expenses, and Securities Lending Expenses		**$ 19,592,463**	**$ 19,862,076**

Payments to Consultants

For the Years Ended December 31, 2004 and 2003

	2004	2003
Actuarial & Audit Services	$ 211,672	$ 305,044
Benefits Consultants	42,000	–
Legal Services	160,443	123,548
Personnel Coordination	134,616	77,375
Technical Services	–	31,128
Other Specialized Services	1,617,271	912,580
Total Payments to Consultants	**$ 2,166,002**	**$ 1,449,675**

For fees paid to Investment Professionals please see schedule of Investment Manager Fees and Other Investment Service Fees on page 54.

Left, Belinda Zhu and Betty Tse

Opposite page, from left; Belinda Zhu, Investment Analyst; Meredith Flynn, Junior Investment Analyst; Marna Watley, Administrative Assistant; Thuylinh Pham, Junior Investment Analyst; and Betty Tse

"The investment management team here at ACERA works hard to ensure that the Board has the information they need to make investment decisions that are absolutely sound. We want to keep the Fund's financial performance rock-solid so that ACERA can continue to deliver the benefits we have promised to all our members."

BETTY TSE

Chief Investment Officer
INVESTMENTS

3 Investment

ACERA
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
475 14th Street, Suite 1000, Oakland, CA 94612 800/838-1932 510/628-3000 fax: 510/268-9574 www.acera.org

CHIEF INVESTMENT OFFICER'S REPORT

Highlighted Performance of the ACERA Investment Portfolio for 2004

Total Fund return	12.3%
Domestic Equity return	11.3%
International Equity return	18.4%
Fixed Income return	8.4%
Year-end Fund value	$4.3 Billion

Summary of Portfolio Results

The ACERA Retirement Fund had a very strong performance for the year ended December 31, 2004. The Fund returned 12.3% and ranked in the upper 34% among all public pension funds greater than $100 million. It over-performed the median fund by 80 basis points, narrowly missing the policy index (a weighted average of the plan's asset classes and their respective benchmarks) by just 20 basis points (100 basis points equals one percentage point). Over the longer term, the Fund's three- and five-year returns beat their theoretical policy index by 70 basis points and 60 basis points and ranked in the upper 6th and 23rd percentiles, respectively, compared to peers. After paying all benefits and expenses of the Association, the value of the Fund exceeded $4.3 billion. This was the first time that the Fund ever reached a year-end value above four billion dollars—a milestone indeed!

Another indicator of our strong long-term performance was the Fund's annualized risk/return. This measure out-performed its policy index on a five-year basis, ranking it within the upper 30th percentile in the universe of public pension funds greater than $100 million. This means that in the last five years ACERA's Fund achieved higher investment returns given the level of risk that it had taken.

ACERA's 12.3% return in 2004 also beat the performance of the Wilshire 5000, a broad index of stock prices which rose, comparatively, by 11%. This result indicates that ACERA's Fund out-performed the broader investment market in 2004. Our success can be attributed to the well-thought-out asset allocation strategy adopted by our Board and to the staff's timely implementation of this plan in collaboration with outside consultants. Many academic studies suggest that over 90% of a portfolio's investment results come from its asset allocation. According to these studies, a well-diversified investment portfolio will probably produce better performance.

Analysis of Factors Affecting Our Portfolio in 2004

The outstanding leadership of ACERA's Board of Retirement is undoubtedly the most important factor in the continued success of our portfolio. Our board understands that ACERA's portfolio requires a stable strategy for meeting investment goals over the long-term. In 2004, ACERA's Board decided to retain the 2003 asset allocation targets and manager structures which had led our portfolio to its highest-ever rate of return. We are proud of our Board's capable and effective leadership.

In general, ACERA's portfolio correlates well with the performance of the U.S. stock market. In 2004, political and economic factors slowed the U.S. recovery cycle and its markets. At the beginning of the year, the U.S. economy experienced perceptible growth, although employment gains were somewhat inconsistent. While a sustainable recovery was definitely taking place, its pace was measured. Beginning in the latter part of the first quarter, capital markets experienced noticeable volatility, something that was even more pronounced in the fourth quarter.

The battle for the U.S. presidency dominated headlines for much of 2004. The race was too close to call, even on election night. Key policy uncertainties were held in the balance throughout the campaign. Many investors believed that the country's fiscal and monetary policies would differ depending on a Democratic or Republican administration. The uncertainty heightened investor sensitivity about the future stability of the capital markets and this was reflected in the stock market's lower performance level as a whole.

Geopolitical risks remained throughout the world, especially in Iraq, where the persistent insurgency put pressure on both U.S. troops and on the provisional government as they prepared the country for its first formal democratic elections. The cost of the Iraq war, in casualties and in dollars, weighed heavily on the minds of many. To put it plainly, the country was divided about the war in in Iraq.

Corporate scandals, in particular, those concerning mutual fund transactions and insurance premium pricing, continued to attract media attention and impact investor sentiment.

The prices of many industrial raw materials increased significantly in 2004. Energy costs led the price hikes and reduced reserves translated into increased future risks. Higher energy prices raised the costs of production and put pressure on profits. Moreover, because the U.S. imports two-thirds of its crude oil needs, the price tag for this energy affected the overall import-export balance. The price of energy contributed to inflation, with consumers paying significantly more for energy in 2004 than in 2003. The Federal Reserve responded to these pressures with successive increases in the lending rate, although the rate remained low in relative historical terms.

The federal budget deficit reached a record high in 2004 and the value of the U.S. dollar declined against several major foreign currencies.

The following are economic performance highlights of 2004:

- The annual growth in the U.S. economy measured by GDP was 4.4% in 2004, up from 3.0% in 2003 and 1.9% in 2002. In effect, the GDP growth in 2004 was the highest since 1999.

- Corporate earnings were robust in general. Economic indicators strengthened with improvement in a wide array of manufacturing, services, and retail data. The average national unemployment rate was kept at a reasonable level of 5.5%.
- Consumer confidence improved in 2004. Between December 2003 and December 2004, real disposable personal income increased 6.4% and real consumer spending increased 4.0%.
- The housing sector remained strong throughout 2004. Sales of new single-family homes during 2004 were the highest since 1963. Home ownership reached a record high of 69%. Gains in home construction followed from a rapid increase in demand and prices. In 2004, housing starts were the strongest since 1978.
- Real business fixed investment—company outlays for equipment, software and structures—grew by 9.9% during 2004. Investment in transportation equipment also surged in the fourth quarter.
- The equity markets experienced positive gains across most sectors irrespective of size. The S&P 500 increased by 10.9%. The Dow Jones was up 5.3%. The NASDAQ gained 9.2%. The fixed income benchmark, represented by the Lehman Aggregate, gained 4.3%. Small-cap stocks outperformed large-cap stocks for the sixth consecutive year, with the Russell 2000 Index up 18.3%. International equities, as represented by the MSCI ACWI ex US Index, posted a return of 21.4% for the year. International bonds, represented by the Citigroup World Government Bond Index, returned 10.4%.
- The best returns came from energy and utility stocks. Financial industries had mixed performance due to various consolidations and litigations (e.g., the New York State charged several insurance firms with bid rigging and contract steering). Technology stocks, in general, underperformed due to concerns about existing over-investment. The healthcare sector also lagged behind the overall market.
- European equity markets experienced a year of positive returns in 2004, although gains were modest compared to those in 2003, partly because of rising oil prices and the strengthening of the Euro against the dollar.
- Pacific equity markets experienced strong gains although the leading economic powerhouse—Japan—lagged behind.

Economic Outlook for 2005

Many of the same factors that affected the economy in 2004 remain as variables in 2005. Although GDP in the U.S. is expected to grow modestly in 2005 because of increased productivity and more technological breakthroughs, the unemployment rate is not expected to drop significantly. The persistent unemployment problem reflects the fact that the U.S. economy is service-oriented rather than manufacturing-based. More non-skilled jobs have been and will continue to be outsourced to less developed countries.

Inflation will continue to be a key agenda item for the monetary policy makers of the Federal Reserve which raised the overnight lending rate for banks every time it met in the second half of 2004. The driving forces behind this inflationary threat in 2005 will most likely be the same villains as last year —energy prices, healthcare costs and the devaluation of the U.S. dollar.

Energy prices will remain high in the foreseeable future until the geopolitical risks in Iraq and in the Middle East have subsided. Both the healthcare and the federal budget deficit issues are extremely complex and will not be resolved by the current fiscal policy. Thus, they will continue to play a role in a rising Consumer Price Index (CPI). Consequently, in 2005 the Federal Reserve is expected to act more swiftly, and perhaps more aggressively than in 2004, to raise interest rates in order to curb any material threat of inflation.

Undoubtedly, the November 2004 elections have resolved investor uncertainty about the general direction of national fiscal and monetary policies.

The following are highlights of forecasted economic conditions in 2005:

- Continued economic expansion is expected, although the rate of expansion is expected to be more moderate.
- Interest rates are expected to increase steadily in response to inflationary threats.
- Employment growth is expected to be modest due to increased competition in the global marketplace as well as outsourcing.
- Equity markets are likely to perform in the same cyclical fashion as in 2004 but with the issue of the U.S. presidential election removed from the equation.

Despite the volatility of the economy and the capital markets, the ACERA Board of Retirement remains committed to a long-term investment strategy that emphasizes prudent diversification, active rebalancing to maintain appropriate asset allocation, and vigorously supervised professional asset management.

General Information

External investment management firms manage ACERA's assets. Professional investment consultants, along with ACERA's investment staff closely monitor the activities of these managers and assist the Board with the implementation of investment policies and long-term strategies. ACERA's goal is to operate at a level of performance that will rank the Fund in the upper quartile of comparable pension funds on a risk-adjusted basis, and to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

Summary of Investment Guidelines, Policies and Procedures

The Board of Retirement, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the Fund, has adopted ACERA Investment Guidelines, Policies and Procedures (Policy) for the management of ACERA's investments. The Board reserves the right to amend, supplement, or rescind this Policy at any time. The Policy establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies, and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian, and consultants.

ACERA's primary investment objective is to take prudent risk, as necessary, to maximize the return on the portfolio and to minimize the cost of meeting the obligations of the Fund. The strategic asset allocation policy is an integral part of the overall investment policy. The allocation policy is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. The end result is a well-diversified portfolio that helps protect the Fund from declines a particular asset class may experience in a given period. Both traditional assets (cash, domestic equities, domestic fixed income, and mortgages) and nontraditional assets (real estate, international equities, and fixed income) are included in the portfolio.

The total portfolio return, over the long term, is directed toward achieving and maintaining a fully funded status for ACERA. Prudent risk taking is warranted within the context of overall portfolio diversification to meet this objective. All activities are conducted to serve the best interests of ACERA's members and beneficiaries.

Summary of Proxy Voting Guidelines and Procedures

In recognition of its duty to manage retirement plan assets in the best interest of the plan participants, the Board has established proxy voting guidelines and procedures, which are intended to assist in the faithful discharge of the Board's duty to vote proxies on behalf of the plan participants.

The guidelines consist of preferences with respect to specific, recurring proxy-voting issues followed by a general statement of voting policies. ACERA will at all times strive to cast proxy votes toward advancing the overall good of the plan participants.

Specific Investment Results by Asset Classification

As of December 31, 2004 ACERA's fund was over-weighted in total equities, with 64.3% of assets in equities versus the target of 61.0%. Domestic equities were slightly over-weighted at 40.3 % of assets versus the target of 39.0%, while international equities were at 24.0% versus the target of 22.0%. Fixed income was at 30.4 % of assets, slightly over the target of 30.0%. Real estate was under its 9.0% target at 5.3% of assets.

For 2004, ACERA's U.S. equity composite returned 11.3%, trailing its benchmark Russell 3000 by 60 basis points and the median equity manager by 170 basis points. ACERA's international equity composite returned 18.4%, underperforming its benchmark MSCI-ACWI ex-U.S. Free and the median international equity manager by 300 basis points and 210 basis points, respectively. ACERA's all fixed income composite returned 8.4%, single-handedly beating its benchmark 75% Lehman Aggregate/15% Citigroup WGBI ex-U.S./10% Lehman High Yield and the median fixed income manager by 220 basis points and 370 basis points, respectively. ACERA's real estate composite returned 13.0% while its benchmark NCREIF Property Index returned 14.5%.

This investment information is presented in conformance with the presentation standards of the CFA Institute (formerly known as the AIMR).

Respectfully submitted,

Betty Tse
Chief Investment Officer
May 4, 2005

INVESTMENT CONSULTANT'S REPORT

STRATEGIC INVESTMENT SOLUTIONS, INC.

601 California Street, Ste. 200
San Francisco, California 94108

Tel 415/362-3484 ■ Fax 415/362-2752

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary and Investment Activities

The year 2004, after a very slow start, finished well and provided surprisingly good returns for US pension funds. Foreign equity markets were the best performers during the year, while US stocks and real estate assets were also solidly positive and bonds managed a return roughly equal to their coupon income. The ACERA total portfolio performed well in 2004, posting a return of 12.3% for the year. The 12.3% return was slightly behind the plan's policy index return of 12.5%, but well above the plan's actuarial return expectation and the return of the average large public plan.

The year was dominated by the US presidential election cycle, the US involvement in Iraq, and a somewhat subdued economic expansion that had the Federal Reserve pursuing a regime of less accommodative monetary policy. Equity instruments continued a fitful climb from the lows recorded in late 2002. Foreign equity returns benefited handsomely from another of the year's important macroeconomic themes—the dramatic weakening of the US dollar versus major foreign currencies. During 2004, the Russell 3000 US stock index returned investors 11.9% while the MSCI All Country World Ex. US Index of foreign stocks posted a return of 21.4%. In the relatively flat interest rate environment, investment grade bonds, as measured by the Lehman Aggregate Index, provided a positive return of 4.3%. High yield bonds again were a good investment in 2004, returning 10.9%.

Outstanding performance by the Plan's three bond managers, each of which outperformed its performance benchmark by a wide margin during the year, was the performance highlight in 2004. Active manager returns were not as impressive in the plan's equity composite. With the exception of the Large Growth manager, ACERA's US and International equity managers generally struggled to keep pace with their performance benchmarks in 2004, and as a group underperformed their asset class proxies. These two factors offset to produce a total plan return quite close to the policy index performance. Once again in 2004, a robust allocation to foreign equities and a strong commitment to foreign and high yield bonds contributed strongly to the plan's high absolute return during the year.

Investment Guidelines, Policies and Procedures

After a busy year of implementing strategic initiatives in 2003, ACERA largely monitored and refined the recent changes to its portfolio. During 2004, the plan refined its bond asset class structure and initiated a comprehensive strategic review of its real estate asset class structure. The plan also began the process of considering alternative investments and emerging managers.

ACERA reassessed and reaffirmed its portfolio asset allocation early in the year. Finally, no changes were made to the plan's roster of investment managers during the year.

Investment Objectives

In 2004, ACERA met two of its three management goals of ensuring the availability of sufficient funds to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, while falling short of its objective of adding marginal value. Longer term results continue to outpace the Policy Index.

Investment Results*

		Annualized	
	Year 2004	**3 Years**	**5 Years**
DOMESTIC EQUITY			
Total Domestic Equities	11.3%	5.7%	1.1%
Median Equity	13.0	6.0	3.2
Benchmark: Russell 3000	11.9	4.8	–1.2
INTERNATIONAL EQUITY			
Total International Equities	18.4	11.0	–1.2
Median International Equity	20.5	12.2	1.7
Benchmark: MSCI ACWI ex US	21.4	13.6	0.0
FIXED INCOME			
Total Fixed Income	8.4	10.9	10.3
Median Fixed Income	4.7	6.6	7.9
Benchmark: Hybrid Index	6.2	8.5	8.9
REAL ESTATE			
Total Real Estate	13.0	8.5	9.0
Median Real Estate	12.3	8.8	8.8
Benchmark: NCREIF	14.5	10.0	13.4
TOTAL FUND			
ACERA Total Fund	12.3	9.9	5.2
Median Total Fund	11.5	7.4	4.0
Benchmark: Policy Index	12.5	9.2	4.6

NOTE: Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in conformance with the performance presentation standards of the CFA Institute (formerly known as the AIMR).

* Calculated using the time-weighted rate-of-return based on the market rate-of-return.

Although the plan's return for the year slightly trailed its policy benchmark return by 20 basis points, it performed very well against its peers and exceeded its actuarial return expectation handily. Overall, 2004 was another successful year for ACERA.

Barry W. Dennis
Managing Director
Strategic Investment Solutions, Inc.
May 4, 2005

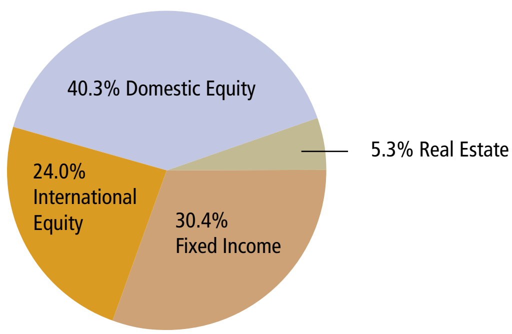
Actual and Target Asset Allocation

As of December 31, 2004

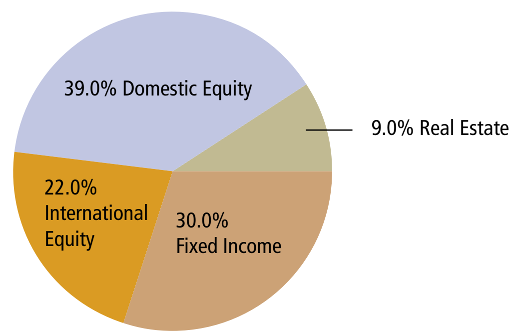
Investment Manager Type	Actual Asset Allocation	Target Asset Allocation	Actual Allocation over/underTarget Allocation
Domestic Equity	40.3%	39.0%	1.3%
International Equity	24.0%	22.0%	2.0%
Fixed Income	30.4%	30.0%	0.4%
Real Estate	5.3%	9.0%	–3.7%
Total	**100.0%**	**100.0%**	**0.0%**

The Actual Asset Allocation percentages are based on the fair value of assets under management; Short-term investments are reported where managed.

Actual Asset Allocation



Target Asset Allocation



List of Investment Professionals

For the Year Ended December 31, 2004

INVESTMENT MANAGERS

Domestic Equity

Bank of New York – Index Fund
Brandywine Asset Management, Inc.
Next Century Growth
Pacific Financial Research
Salus Capital Management Co.
Trust Company of the West

International Equity

Capital Guardian Trust Company
Mondrian Investment Partners Ltd.[1]

Fixed Income

Baird Investors
Brandywine Asset Management, Inc.
Loomis Sayles & Company, LP

Real Estate

AFL-CIO Housing Investment Trust
Morgan Stanley Funds
Prudential Real Estate Investments
RREEF America

INVESTMENT CONSULTANTS

Doug McCalla – Portfolio Rebalancing
Institutional Shareholder Services – Proxy Voting and Corporate Governance
Plexus Group, Inc – Analysis of Trading Costs
Strategic Investment Solutions – General Investment
The Townsend Group – Real Estate Investment

[1] Mondrian Investment Partners Ltd. is the successor to Delaware International Advisers.

Investment Summary

As of December 31, 2004

Investment Type	Investment Detail	Fair Value	Percentage of Total Fair Value
SHORT-TERM INVESTMENTS	**Total Short-Term Investments**	**$ 157,064,172**	**3.6%**
DOMESTIC EQUITY	Corporate Stocks	794,390,776	18.4%
	S&P 500 Index Fund	837,470,841	19.5%
	Stock Index Futures	7,110,809	0.2%
	Total Domestic Equity	**1,638,972,426**	**38.1%**
INTERNATIONAL EQUITY	**Total International Equity**	**1,022,909,454**	**23.8%**
FIXED INCOME	Government Bonds	357,575,868	8.3%
	Corporate Bonds	709,168,670	16.5%
	International Bonds	188,492,713	4.4%
	Total Fixed Income	**1,255,237,251**	**29.2%**
REAL ESTATE	Real Estate Properties	174,531,197	4.0%
	Real Estate Commingled Funds	2,787,257	0.1%
	AFL-CIO Housing Trust	52,232,950	1.2%
	Total Real Estate	**229,551,404**	**5.3%**
Total Investments		**$4,303,734,707**	**100.0%**

Largest Stock and Bond Holdings (By Fair Value)[1]

As of December 31, 2004

STOCK HOLDINGS

	Shares	Issuer	Fair Value
1	419,800	Federal Home Loan Mortgage Corp.	$ 30,939,260
2	833,300	Marsh & McLennan Cos. Inc.	27,415,570
3	454,900	American Express Co.	25,642,713
4	298,980	Progressive Corp. Ohio	25,365,463
5	583,800	Yahoo Inc.	21,997,584
6	356,000	Altria Group Inc.	21,751,600
7	185,700	Ebay Inc.	21,593,196
8	617,100	Network Appliance Inc.	20,500,062
9	264,700	Federal National Mortgage Assn.	18,849,287
10	788,200	Electronic Data Systems Corp.	18,207,420
Total of Largest Stock Holdings			**$232,262,155**

BOND HOLDINGS

	Par Value	Issuer	Security Description	Fair Value
1	$ 51,925,000	United States Treasury Bonds	6.250% 15 Aug 2023	$ 60,736,023
2	48,875,000	Federal Home Loan Mortgage Corp.	6.625% 15 Sep 2009	54,608,023
3	17,250,000	United States Treasury Bonds	9.250% 15 Feb 2016	24,621,681
4	24,250,000	Canadian Government Treasury Bills CDs	0.010% 24 Mar 2005	20,127,409
5	112,200,000	Sweden Kingdom of	5.000% 28 Jan 2009	18,067,418
6	49,410,000	Poland Government of	5.000% 24 Oct 2013	15,497,328
7	13,625,000	United States Treasury Notes	6.000% 15 Aug 2009	15,027,950
8	78,760,000	Norway Kingdom of	6.750% 15 Jan 2007	14,095,721
9	160,700,000	Mexico (UTD Mex St)	9.000% 20 Dec 2012	13,967,464
10	20,295,000	Singapore Government of	4.375% 15 Oct 2005	12,730,997
Total of Largest Bond Holdings				**$249,480,014**

[1] The Holdings Schedules do not reflect investments in mutual funds.
A complete list of portfolio holdings is available upon request.

Investment Manager Fees and Other Investment Service Fees

For the Years Ended December 31, 2004 and 2003

	2004	2003
ASSETS UNDER MANAGEMENT[1]		
Domestic Equity Managers	$ 1,734,099,057	$ 1,555,795,295
International Equity Managers	1,031,191,393	947,804,525
Fixed Income Managers	1,306,795,149	1,147,488,829
Real Estate Managers	231,649,108	251,948,442
Total Assets Under Management	**$4,303,734,707**	**$3,903,037,091**

[1]Each category includes any short-term investments under management.

	2004	2003
INVESTMENT MANAGER FEES		
Domestic Equity Managers	$4,633,651	$3,688,021
International Equity Managers	3,021,490	2,895,895
Fixed Income Managers	2,264,865	1,986,097
Real Estate Managers	1,992,790	4,008,965
Total Investment Manager Fees	**$ 11,912,796**	**$ 12,578,978**
OTHER INVESTMENT SERVICE FEES		
Master Custodian Fees	$285,863	$338,541
Brokerage Commissions	1,270,902	2,514,081
Security Lending Fees	4,414,405	2,126,680
Investment Consultant Fees	517,173	508,608
Total Other Investment Service Fees	**$ 6,488,343**	**$ 5,487,910**

Brokerage Commissions

For the Year Ended December 31, 2004

Brokerage Firm		Commissions	Shares/Par Value Traded	Commission Per Share
Merrill Lynch, Pierce, Fenner & Smith, Inc.	1	$ 166,415	4,962,488.000	$0.034
UBS Financial Services Inc.	2	96,378	2,258,357.500	0.043
ABN Amro Bank	3	94,283	2,523,355.000	0.037
Wells Fargo Investments LLC	4	85,432	2,652,509.000	0.032
Bear Stearns & Co. Inc.	5	38,095	840,374.000	0.045
Morgan Stanley Co Incorporated	6	32,945	1,555,091.000	0.021
Credit Suisse First Boston Corporation	7	32,925	833,837.000	0.039
Citigroup Global Markets Inc	8	32,073	927,196.000	0.035
Investment Technology Group Inc.	9	31,861	1,608,466.000	0.020
Charles Schwab Co. Inc.	10	30,732	853,174.000	0.036
Liquidnet Inc.	11	29,465	1,260,259.000	0.023
Cantor Fitzgerald & Co.	12	27,420	627,012.000	0.044
B-Trade Services LLC	13	27,394	1,347,792.000	0.020
Wachovia Capital Markets, LLC	14	20,069	452,808.000	0.044
Jefferies Company Inc.	15	19,265	516,745.000	0.037
Piper Jaffray & Co.	16	18,381	380,342.000	0.048
Lehman Brothers Inc	17	17,660	391,185.000	0.045
State Street Bank & Trust	18	15,954	519,850.000	0.031
National Financial Services Corp.	19	14,916	428,380.000	0.035
Deutsche Bank Securities Inc	20	14,804	327,370.000	0.045
Top 20 Firms by Commission Dollars		**846,467**	**25,266,590.500**	**0.034**
All Other Brokerage Firms		424,435	12,885,714.995	0.033
Total Brokerage Commissions		**$1,270,902**	**38,152,305.495**	**$0.033**

From left, Ingrid Culbertson; Kim Malloy, Retirement Specialist I; Rose Kwong, Assistant Benefits Manager; Tina Gonzales, Retirement Specialist III; and Jenni–Mimi Hui, Retirement Specialist III

"As a member of ACERA's benefits staff, I assist the Retirement Specialists in helping members, both active and retired, to understand their retirement benefits. My commitment to our members is to constantly strive to give the superior member service that ACERA has promised for the last 57 years"

INGRID CULBERTSON

Retirement Support Specialist
BENEFITS

57

4 Actuarial

ACTUARY'S CERTIFICATION LETTER

SEGAL

The Segal Company
120 Montgomery Street, Suite 500 San Francisco, CA 94104
T 415.263.8200 F 415.263.8290 www.segalco.com

May 27, 2004

Board of Retirement
Alameda County Employees' Retirement Association
475 – 14th Street, Suite 1000
Oakland, CA 94612

Dear Board Members:

We are pleased to submit this Actuarial Valuation and Review as of December 31, 2003. It summarizes the actuarial data used in the valuation, establishes the funding requirements for fiscal 2004-2005 and analyzes the preceding year's experience.

The census and financial information were prepared by the Alameda County Employees' Retirement Association. That assistance is gratefully acknowledged. The actuarial calculations were completed under the supervision of Andy Yeung, MAAA, Enrolled Actuary.

This actuarial valuation has been completed in accordance with generally accepted actuarial principles and practices. In our opinion, the combined operation of the assumptions and methods applied in this valuation, fairly represent past and anticipated future experience of the Association and meet the parameters required by GASB Statement 25. To the best of our knowledge, the information supplied in this actuarial valuation is complete and accurate. Further, in our opinion, the assumptions as approved by the Board of Retirement are reasonably related to the experience of and the expectations for the Plan.

Sincerely,

THE SEGAL COMPANY

By:

Andy Yeung, ASA, MAAA	*Drew James, FSA, MAAA*
Associate Actuary	*Actuary*

Valuation Summary for the Alameda County Employees' Retirement Association

Purpose

This report has been prepared by The Segal Company to present a valuation of the Alameda County Employees' Retirement Association as of December 31, 2003. The valuation was performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits. The contribution requirements presented in this report are based on:

- ➢ The benefit provisions of the Retirement Association, as administered by the Board of Retirement. In particular, we assume in this report that all Safety members will continue to receive a benefit pursuant to Section 31664 (2% at 50).
- ➢ The characteristics of covered active members, inactive vested members, and retired members and beneficiaries as of November 30, 2003, provided by the Retirement Office;
- ➢ The assets of the Plan as of December 31, 2003, provided by the Retirement Office;
- ➢ Economic assumptions regarding future salary increases and investment earnings; and
- ➢ Other actuarial assumptions, regarding employee terminations, retirement, death, etc.

Alameda County Employees' Retirement Association's basic financial goal is to establish contributions which fully fund the Association's liabilities, and which, as a percentage of payroll, remain as level as possible for each generation of active members. Annual actuarial valuations measure the progress toward this goal, as well as test the adequacy of the contribution rates.

In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to evaluate the Association's assets, liabilities and future contribution requirements. Our calculations are based upon member data and financial information provided to us by the Association's staff. This information has not been audited by us, but it has been reviewed and found to be consistent, both internally and with prior year's information.

The contribution requirements are determined as a percentage of payroll. The Association's employer rates provide for both normal cost and a contribution to amortize any unfunded or overfunded actuarial accrued liabilities. In this valuation, we have continued with the Board's funding policy to amortize the Association's entire unfunded actuarial accrued liability as of December 31, 2003 over a declining 29-year period. Also, we have continued the current 8% investment return assumption. The aggregate employer contribution rate calculated using the declining 29-year amortization period is 14.00% of payroll.

The rates calculated in this report may be adopted by the Board for the fiscal year that extends from July 1, 2004 through June 30, 2005.

SEGAL

Valuation Summary for the Alameda County Employees' Retirement Association

Significant Issues in This Valuation

The following key findings were the result of this actuarial valuation:

- The ratio of the valuation value of assets to actuarial accrued liabilities decreased from 92.5% to 86.9%. The Association's unfunded actuarial accrued liability has changed from $265.6 million as of December 31, 2002 to $508.3 million as of December 31, 2003. The increase is mainly due to a combination of actual investment return less than the 8% assumed in the current valuation and higher than expected salary increases.

- The aggregate employer rate calculated in this valuation has increased from 12.23% of payroll to 14.00% of payroll. The reasons for the changes are: (i) lower than expected return on investment, (ii) higher than expected salary increases, (iii) other actuarial losses, (iv) change in membership demographics, and (v) change in actuarial methods and actuarial assumptions.

- The aggregate member rate calculated in this valuation has decreased from 8.47% of payroll to 8.26% of payroll. The change in member rate is primarily due to the adoption of new terminal pay assumptions, changes in actuarial assumptions, and other actuarial experience.

- The results of this valuation reflect the following changes in economic assumptions: (i) reduction in the annual inflation assumption from 4.5% to 4.0%, (ii) the introduction of a 0.25% real across-the-board salary increase assumption and (iii) increase in terminal pay assumption. As of the date of this report, the Board had not yet adopted these assumption changes nor had the Board adopted the 7.75% investment return assumption that was recommended.

- In determining the contribution rate to the Unfunded Actuarial Accrued Liability, we increased the annualized 2003 calendar year compensation (assuming every employee will work full time) by one year of inflation. The assumption that every employee will work full time should be reviewed as part of the triennial experience study as of December 31, 2004. If the current part time employees do not increase their hours worked during their future working career, the UAAL rate calculated in this report may be understated by about 0.15% of payroll.

- The total unrecognized investment loss as of December 31, 2003 is $8,005,178. This investment loss will be recognized in the determination of the actuarial value of assets for funding purposes in the next few years, and will offset any investment gains that may be achieved after December 31, 2003. This implies that if the Association earns the assumed rate of investment return of 8.00% per year (net of expenses) on a market value basis, it will result in investment losses on the actuarial value of assets in the next few years. So, if the actual market return is equal to the assumed 8.00% rate and all other actuarial assumptions are met, the contribution requirements would still increase in each of the next few years.

SEGAL

Valuation Summary for the Alameda County Employees' Retirement Association

Impact of Future Experience on Contribution Rates

Future contribution requirements may differ from those determined in the valuation because of:

1) difference between actual experience and anticipated experience;

2) changes in actuarial assumptions or methods;

3) changes in statutory provisions; and

4) difference between the contribution rates determined by the valuation and those adopted by the Board.

Association's CAFR Report

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

1. Schedules of active member valuation data;
2. Retirees and beneficiaries added to and removed from retiree payroll;
3. Solvency test;
4. Actuarial analysis of financial experience;
5. Schedules of average benefit payments for retirees and beneficiaries;
6. Schedule of participating employers and active members statistics;
7. Schedule of benefit expenses by type;
8. Schedule of retiree members by type of benefit; and
9. Schedule of funding progress.

SEGAL

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The following assumptions have been adopted by the Board as of December 31, 2003.

Assumptions

Investment Rate of Return	8.00%
Inflation Rate	4.00%
Real Across-the-Board Salary Increase	0.25%
Projected Salary Increases[1]	5.65%
Retiree Cost-of-Living Adjustment	
for Tier 1 members:	3.00%
for Tier 2 members:	2.00%
Employee Contribution Crediting Rate	8.00%

Post-Retirement Mortality

The following post-retirement and pre-retirement demographic experiences and salary increase assumptions are based on the plan's actuarial experience through December 31, 2003. These were adopted by the Retirement Board and effective as of January 1, 2004.

(A) HEALTHY

General Member	
Males	1994 Male Uninsured Pensioner Table set back two years
Females	1994 Female Uninsured Pensioner Mortality Table set back one year
Safety Member	
Safety Member	1994 Male Uninsured Pensioner Table set back two years
Safety Beneficiary	1994 Female Uninsured Pensioner Table set back one year
Beneficiaries	1994 Female Uninsured Pensioner Mortality Table set back one year

(B) DISABILITY

General	1981 General Disability Mortality Table set back three years
Safety	1981 Safety Disability Mortality Table

(C) FOR EMPLOYEE CONTRIBUTION RATE PURPOSES

General	1994 Male Uninsured Pensioner Table set back four years
Safety	1994 Male Uninsured Pensioner Table set back two years

Pre-Retirement Mortality	Based upon the Experience Analysis from 12/1/1998–11/30/2001
Withdrawal Rates	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
Disability Rates	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
Service Retirement Rates	Based upon the Experience Analysis as of 12/1/1998–11/30/2001

[1] Includes inflation at 4.00%, plus across-the-board salary increase of 0.25% plus merit and longevity increases

Percent of Active and Inactive Members Married

Males	80%
Females	55%

Beneficiary Age Difference

Males	3 years older
Females	3 years younger

Actuarial Value of Assets

The Actuarial Value of Assets is determined by phasing in any difference between actual and expected market return over 10 six-month interest crediting periods. The Actuarial Value of Assets is reduced by the value of the non-valuation reserves.

Terminal Pay Assumptions

Additional pay elements are expected to be received during a member's final average earnings period. The percentages used in this valuation are as follows:

Membership Category	Service Retirement	Disability Retirement
General Tier 1	8.8%	7.0%
General Tier 2	3.0%	2.8%
Safety Tier 1	11.7%	8.5%
Safety Tier 2	3.0%	2.8%

Future Benefit Accruals

One year of service per year of employment plus 0.008 year of additional service to anticipate conversion of unused sick leave for each year of employment.

Funding Method and Amortization of Actuarial Gains and Losses

Entry Age Normal Actuarial Cost Method. Entry Age is the age at the member's hire date. Normal Cost and Actuarial Accrued Liability are calculated on an individual basis and are allocated by salaries, with Normal Cost determined as a level percentage of aggregate salary, as if the current benefit accrual rate had always been in effect. The total unfunded Actuarial Accrued Liability is amortized over a declining 29-year period (i.e., outstanding UAAL from last year, in addition to actuarial gains and losses from this year).

Active Member Valuation Data

Year	Plan Type	Number	Annual Payroll	Annual Average Pay	Percent Increase in Average Pay[1]
1999	General	8,445	$ 407,628,000	$48,269	1.69%
	Safety	1,414	80,358,000	56,830	1.10%
	Total	**9,859**	**487,986,000**	**49,497**	**1.67%**
2000	General	9,027	446,911,072	49,508	2.57%
	Safety	1,429	85,394,052	59,758	5.15%
	Total	**10,456**	**532,305,124**	**50,909**	**2.85%**
2001 [2]	General	9,502	498,299,521	52,442	5.93%
	Safety	1,472	92,092,614	62,563	4.69%
	Total	**10,974**	**590,392,135**	**53,799**	**5.68%**
2002 [2]	General	9,839	537,245,555	54,604	4.12%
	Safety	1,499	103,531,751	69,067	10.40%
	Total	**11,338**	**640,777,306**	**56,516**	**5.05%**
2003 [3]	General	9,725	599,062,000	61,600	12.81%
	Safety	1,495	115,282,000	77,111	11.64%
	Total	**11,220**	**714,344,000**	**63,667**	**12.65%**
2004 [4]	General	9,138	579,365,000	63,402	2.92%
	Safety	1,418	115,261,000	81,284	5.41%
	Total	**10,556**	**$694,626,000**	**$65,804**	**3.36%**

1 The Percent Increase in Average Pay represents the change betweeen the average salary of those members employed at the beginning of the year and the average salary of those members employed at the end of the year. Therefore, this figure may differ from the average salary increase received for those members who worked the full year.

2 Salary projected from 11/30 to 12/31 (2001 and 2002)

3 Salary projected from 11/30 to 12/31 (2003) Projected compensation was calculated by increasing the prior calendar year's compensation (assuming every employee will work full time) by one year of inflation.

4 Salary projected from 11/30 to 12/31 (2004). About 23% of the General members belong to five participating employers in 2004. The schedule of Participating Employers and Active Members in the Statistical Section shows historical membership information for participating agencies.

Retirees and Beneficiaries Added To and Removed From Retiree Payroll

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Plan Year	Number	Annual Allowance[1] (in 000s)	Number	Annual Allowance[1] (in 000s)	Number	Annual Allowance (in 000s)	% Increase in Retiree Allowance	Average Annual Allowance
1999	364		(139)		5,605	$101,158	12.74%	$18,048
2000	381		(287)		5,699	115,261	13.94%	20,225
2001	303	$10,548	(135)	$(1,723)	5,867	124,086	7.66%	21,150
2002	335	12,671 [2]	(206)	(3,060)	5,996	133,697	7.75%	22,298
2003	447	17,558 [3]	(156)	(2,732)	6,287	148,523	11.09%	23,624
2004	571	19,189 [4]	(383)	(1,195)	6,475	166,517	12.12%	25,717

1 The dollar amounts of Annual Allowance additions or removals are not available for years prior to 2001.

2 Includes data adjustments.

3 Includes data adjustments and automatic cost-of-living adjustments granted on April 1.

4 Includes automatic cost-of-living adjustments granted on April 1, 2004.

Solvency Test[1]

(Dollars in Thousands)

	Aggregate Accrued Liabilities For:					Portion of Aggregate Accrued Liabilities Covered by Reported Assets For:		
Valuation Date	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)	Total	Valuation Value of Assets	Active Member Contributions	Retired/ Vested Members	Active Members (Employer Financed Portion)
12/31/1998	$537,895	$1,316,570	$758,546	$2,613,011	$2,830,437	100%	100%	100%
12/31/1999	640,623	1,326,463	795,438	2,762,524	2,997,932	100%	100%	100%
12/31/2000	735,101	1,435,302	766,228	2,936,631	3,169,178	100%	100%	100%
12/31/2001	802,356	1,503,393	834,467	3,140,216	3,321,794	100%	100%	100%
12/31/2002	821,702	1,664,465	1,073,446	3,559,613	3,294,053	100%	100%	75%
12/31/2003	802,442	1,833,917	1,253,684	3,890,043	3,381,757	100%	100%	59%

[1] This schedule is based on the actuarial valuation as of 12/31/2003, ACERA's most recent actuarial valuation.

This schedule includes actuarial funded liabilities and assets. The non-valuation of reserves such as Supplemental Retirees Benefit Reserve, Death Benefit, and Reserve for Interest Fluctuations, etc., are not included.

Events affecting year-to-year comparability for each valuation date:
12/31/2001 Change in non-economic assumptions
12/31/2002 Investment return assumption reduced from 8.25% to 8.00%; salary increase assumption increased from 5.6% to 5.9%; increase in terminal pay assumption; and implementation of 80%–120% market value corridor.
12/31/2003 Inflation assumption decreased from 4.5% to 4.0%; across-the-board salary increase increased from 0.00% to 0.25%; and increase in terminal pay assumption.

Actuarial Analysis of Financial Experience[1]

(Dollars in Millions)

	2003	2002	2001	2000	1999	1998
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability	$266	$(182)	$(233)	$(235)	$(217)	$(95)
Expected Increase from Prior Valuation						
Salary Increase Greater (Less) than Expected	93	17	10	(5)	5	36
Asset Return Less (Greater) than Expected	133	207	34	(5)	26	(110)
Other Experience (Including Scheduled UAAL Payment)	26	20	13	12	12	6
Ventura Litigation	–	–	–	–	(69)	259
Conversion of Sick Leave Service	–	–	–	–	8	–
Actuarial Value of Assets Method Change	–	–	–	–	–	(259)
Economic Assumption Changes	–	190	–	–	–	(54)[2]
Non-economic Assumption Changes	(10)	14	35	–	–	–
Data Corrections	–	–	(41)	–	–	–
Dilution of Rate Credit from Surplus Assets	–	–	–	–	–	–
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$508	$266	$(182)	$(233)	$(235)	$(217)

[1] This schedule is based on the actuarial valuation of 12/31/2003, ACERA's most recent actuarial valuation.

[2] $(54) million is the combined impact of changes in economic and non-economic assumptions for 1998.

SUMMARY OF PLAN PROVISIONS

BENEFITS SECTIONS 31676.1, 31676.12, AND 31664 OF THE COUNTY EMPLOYEES RETIREMENT LAW OF 1937

Briefly summarized below are major provisions of the County Employees Retirement Law of 1937 as amended through December 31, 2003, and as adopted by Alameda County.

Membership

Persons hired to full-time eligible, permanent position with the County of Alameda and Alameda County Medical Center (ACMC) after June 30, 1983 become members under Tier 2. All other members are covered by Tier 1 provisions.

Final Average Salary

Final average salary (FAS) is defined as the highest 12 consecutive months of compensation earnable for Tier 1 and highest 36 consecutive months for Tier 2.

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contributions plus interest will be refunded. In lieu of receiving a return of contributions, a member may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

Service Retirement Benefit

Members with 10 years of service who have attained the age of 50 are eligible to retire. Members with 30 years of service (20 years for Safety), regardless of age, are eligible to retire.

The benefit is a percentage of monthly FAS per year of service, depending on age at retirement and is illustrated below for typical ages. For members integrated with Social Security, the benefit is reduced by ⅓ of the percentage shown below times the first $350 of monthly FAS per year of service credited after January 1, 1956.

Percentage Of Final Average Salary

	General		Safety
Age	Tier 1	Tier 2	
50	1.34%	1.18%	2.00%
55	1.77%	1.49%	2.62%
60	2.34%	1.92%	2.62%
62	2.62%	2.09%	2.62%
65 and over	2.62%	2.43%	2.62%

Disability Benefit

Members with five years of service, regardless of age, are eligible for nonservice connected disability. The benefit is 1.8% (1.5% for Tier 2 General members) of FAS for each year of service. If this benefit does not equal ⅓ of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 62 for Tier 1 General members, age 65 for Tier 2 General members and age 55 for Safety members. The total benefit in this case cannot exceed ⅓ of FAS unless the benefit calculated from the member's age, years of service, and salary is greater.

If the disability is service-connected, the member may retire regardless of length of service with a benefit which is the greater of 50% of FAS or the benefit derived from the member's age, years of service, and salary.

Death Benefit (Before Retirement)

In addition to the return of contributions, lump sum death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the Retirement System, based on the final year's average salary, but not to exceed six months' salary.

If a member dies while eligible for service retirement or non-service connected disability, the eligible surviving spouse may elect to receive 60% of the allowance that the member would have received for retirement on the day of his or her death in lieu of the above mentioned lump sum.

If a member dies in the performance of duty, the eligible surviving spouse may elect to receive 50% of the member's FAS.

Death Benefit (After Retirement)

If a member dies after retirement, a lump sum amount of $5,000 is paid to the beneficiary or estate.

In addition, if the retirement was for service-connected disability, 100% of the member's allowance as it was at death is continued to the qualified surviving spouse for life.

If the retirement was for other than service connected disability, 60% of the member's allowance is continued to the qualified surviving spouse for life.

Active Death Equity Benefit (ADEB)

In 2000, the Retirement Board authorized the ADEB option which provides a continuance to the surviving spouse of a member who died because of non-service connected disability equal to 100% of the member's reduced allowance.

The funding of the ADEB benefit is provided from assets held in the Supplemental Retirement Benefits Reserve. The ADEB is a non-vested benefit and may be discontinued at any time and for any reason. The Retirement Board reserves the right to terminate the ADEB for future recipients.

Maximum Benefit

The maximum basic benefit payable to a member or beneficiary is 100% of FAS.

Cost-of-Living Adjustments (COLA)

The Cost-of-Living adjustments are based on the change in the Bay Area Consumer Price Index for the calendar year prior to the April 1 effective date. The maximum increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. COLA banks are set up for retirees and accumulated when the Bay Area CPI is greater than the maximum allowance. If banks are sufficient, they are depleted when the CPI is smaller than the maximum allowance.

Contribution Rates

Member basic rates are based on a formula reflecting the age at entry into the system. The rates are such as to provide, for each year of service, an average annuity at age 60 of $1/100$ of FAS for General members under Tier 1, at age 60 of $1/120$ of FAS for General members under Tier 2, and at age 50 of $1/100$ of FAS for Safety members. Please note that in estimating FAS, we have included an assumption to anticipate how much unused vacation would be available for conversion at retirement. Member cost-of-living rates are actuarially determined to pay for one-half of future cost-of-living liabilities.

For members integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first $350 of monthly salary. Member contributions are refundable upon termination from the system.

Employer contribution rates are actuarially determined to provide for the balance of the contributions needed to fund the benefits promised under the retirement system.

RATES OF SEPARATION PRIOR TO RETIREMENT

The following pages indicate the rates of separation from active service for each of the following circumstances:

Withdrawal: member terminates and elects refund of member contributions.

Vested termination: member terminates and contributions are left on deposit.

Ordinary death: member dies prior to eligibility for retirement; death not employment-related.

Ordinary disability: member receives disability retirement; disability not employment-related.

Service retirement: member retires after satisfaction of requirements of age and/or service for reasons other than disability.

Duty disability: member receives disability retirement; disability is employment-related.

Duty death: member dies prior to retirement; death is employment-related.

The rates shown for each cause of termination represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the rate of withdrawal for a General Tier 1 male member at age 25 and with less than three years of service is 0.1275, then we are assuming that 12.75% of all General Tier 1 male members with less than three years of service will terminate without vested rights during the year.

Rates of Separation Prior to Retirement

GENERAL TIER 1 MEMBERS—MALE

	Ordinary Withdrawal				Vested	Ordinary	Duty	Ordinary	Duty	Service
Age	0<X<3	3<=X<4	4<=X<5	5<=X	Termination	Disability	Disability	Death	Death	Retirement
25	12.75%	11.73%	5.25%	5.25%	0.10%	0.02%	0.01%	0.06%	0.01%	0.00%
30	12.75%	11.73%	5.25%	5.25%	0.46%	0.02%	0.01%	0.08%	0.01%	0.00%
35	12.75%	11.73%	5.25%	5.25%	0.84%	0.04%	0.01%	0.09%	0.01%	0.00%
40	12.75%	11.73%	5.25%	2.85%	0.87%	0.07%	0.04%	0.10%	0.01%	0.00%
45	7.28%	6.70%	3.00%	0.37%	0.72%	0.11%	0.07%	0.15%	0.01%	0.00%
50	7.28%	6.70%	3.00%	0.25%	0.66%	0.14%	0.14%	0.23%	0.01%	3.00%
55	7.28%	6.70%	3.00%	0.16%	0.20%	0.18%	0.34%	0.39%	0.01%	9.07%
60	7.28%	6.70%	3.00%	0.00%	0.08%	0.26%	0.34%	0.68%	0.01%	18.09%
65	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.23%	0.01%	27.67%

GENERAL TIER 1 MEMBERS—FEMALE

	Ordinary Withdrawal				Vested	Ordinary	Duty	Ordinary	Duty	Service
Age	0<X<3	3<=X<4	4<=X<5	5<=X	Termination	Disability	Disability	Death	Death	Retirement
25	16.31%	10.50%	5.25%	5.25%	0.09%	0.03%	0.01%	0.03%	0.00%	0.00%
30	16.31%	10.50%	5.25%	5.15%	0.64%	0.04%	0.02%	0.04%	0.00%	0.00%
35	16.31%	10.50%	5.25%	4.64%	1.50%	0.07%	0.05%	0.05%	0.01%	0.00%
40	16.31%	10.50%	5.25%	1.22%	2.00%	0.10%	0.08%	0.08%	0.01%	0.00%
45	10.87%	7.00%	3.00%	0.33%	0.91%	0.12%	0.11%	0.10%	0.01%	0.00%
50	10.87%	7.00%	3.00%	0.24%	0.67%	0.20%	0.29%	0.15%	0.01%	3.45%
55	10.87%	7.00%	3.00%	0.12%	0.32%	0.20%	0.49%	0.25%	0.01%	7.15%
60	10.87%	7.00%	3.00%	0.00%	0.21%	0.20%	0.89%	0.48%	0.01%	19.64%
65	0.00%	0.00%	0.00%	0.00%	0.06%	0.00%	0.00%	0.93%	0.01%	25.41%

(continues)

Rates of Separation Prior to Retirement

GENERAL TIER 2 MEMBERS—MALE

	Ordinary Withdrawal						Vested Termination		Ordinary	Duty	Ordinary	Duty	Service
Age	0<=X<1	1<=X<2	2<=X<3	3<=X<4	4<=X<5	5<=X	0<=X<5	5<=X	Disability	Disability	Death	Death	Retirement
25	14.52%	9.53%	7.36%	6.70%	3.00%	3.00%	1.47%	2.94%	0.02%	0.01%	0.06%	0.01%	0.00%
30	14.52%	9.53%	7.36%	6.70%	3.00%	3.00%	1.05%	2.11%	0.02%	0.01%	0.08%	0.01%	0.00%
35	14.52%	9.53%	7.36%	6.70%	3.00%	2.61%	1.00%	2.00%	0.10%	0.03%	0.09%	0.01%	0.00%
40	14.52%	8.66%	7.36%	6.70%	3.00%	2.23%	0.88%	1.75%	0.12%	0.13%	0.10%	0.01%	0.00%
45	14.52%	8.66%	6.70%	6.70%	3.00%	1.84%	0.88%	1.75%	0.10%	0.23%	0.15%	0.01%	0.00%
50	14.52%	8.66%	6.70%	6.70%	3.00%	1.32%	0.88%	1.75%	0.14%	0.30%	0.23%	0.01%	1.66%
55	14.52%	8.66%	6.70%	6.70%	3.00%	1.00%	1.66%	1.66%	0.35%	0.67%	0.39%	0.01%	3.34%
60	14.52%	8.66%	6.70%	6.70%	3.00%	1.00%	0.63%	0.63%	0.70%	1.05%	0.68%	0.01%	8.00%
65	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.34%	0.34%	0.00%	0.00%	1.23%	0.01%	24.58%

GENERAL TIER 2 MEMBERS—FEMALE

25	10.00%	10.00%	10.00%	7.00%	6.00%	5.00%	0.89%	2.55%	0.01%	0.01%	0.03%	0.00%	0.00%
30	10.00%	10.00%	10.00%	7.00%	6.00%	4.00%	0.89%	2.55%	0.02%	0.07%	0.04%	0.00%	0.00%
35	10.00%	10.00%	10.00%	7.00%	5.00%	3.00%	0.70%	2.00%	0.02%	0.22%	0.05%	0.01%	0.00%
40	10.00%	10.00%	10.00%	6.00%	3.00%	2.00%	0.70%	2.00%	0.02%	0.30%	0.08%	0.01%	0.00%
45	10.00%	8.00%	8.00%	6.00%	3.00%	1.41%	0.70%	2.00%	0.03%	0.37%	0.10%	0.01%	0.00%
50	10.00%	8.00%	8.00%	6.00%	3.00%	1.00%	1.62%	1.62%	0.05%	0.42%	0.15%	0.01%	1.99%
55	10.00%	8.00%	8.00%	6.00%	3.00%	0.87%	1.05%	1.05%	0.10%	0.47%	0.25%	0.01%	4.72%
60	10.00%	8.00%	8.00%	6.00%	3.00%	0.40%	1.05%	1.05%	0.26%	0.50%	0.48%	0.01%	8.49%
65	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%	0.06%	0.00%	0.00%	0.93%	0.01%	32.93%

SAFETY TIER 1 MEMBERS—ALL

	Ordinary Withdrawal			Vested	Ordinary	Duty	Ordinary	Duty	Service
Age	0<X<3	3<=X<5	5<=X	Termination	Disability	Disability	Death	Death	Retirement
25	9.70%	9.70%	9.70%	10.00%	0.01%	0.01%	0.07%	0.04%	0.00%
30	6.90%	6.90%	6.90%	4.42%	0.02%	0.02%	0.09%	0.04%	0.00%
35	6.10%	6.10%	3.91%	0.76%	0.03%	0.30%	0.09%	0.04%	0.00%
40	4.00%	4.00%	0.91%	0.50%	0.06%	0.40%	0.12%	0.05%	0.00%
45	2.00%	2.00%	0.38%	0.18%	0.08%	0.50%	0.17%	0.06%	0.10%
50	0.00%	0.00%	0.00%	0.05%	0.10%	0.57%	0.28%	0.07%	6.70%
55	0.00%	0.00%	0.00%	0.00%	0.13%	0.90%	0.48%	0.08%	27.62%
60	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
65	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%

SAFETY TIER 2 MEMBERS—ALL

25	4.00%	3.00%	1.00%	0.85%	0.01%	0.01%	0.07%	0.04%	0.00%
30	4.00%	3.00%	1.00%	0.85%	0.02%	0.27%	0.09%	0.04%	0.00%
35	4.00%	3.00%	1.00%	0.85%	0.03%	0.42%	0.09%	0.04%	0.00%
40	4.00%	3.00%	1.00%	0.85%	0.06%	0.65%	0.12%	0.05%	0.00%
45	4.00%	3.00%	0.64%	0.85%	0.08%	0.90%	0.17%	0.06%	0.10%
50	0.00%	0.00%	0.00%	0.85%	0.10%	1.10%	0.28%	0.07%	4.25%
55	0.00%	0.00%	0.00%	0.00%	0.13%	1.10%	0.48%	0.08%	14.92%
60	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%
65	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%

Right, Abdul Nasser and Mark Pietrowski

"PRISM is ACERA's IT and Communications department. We are responsive to staff requests for computer services and we strive to upgrade and maintain our systems for optimum performance. This gives ACERA staff the infrastructure they need to provide courteous and expeditious service to our members."

MARK PIETROWSKI

PC and Network Services Coordinator
PRISM

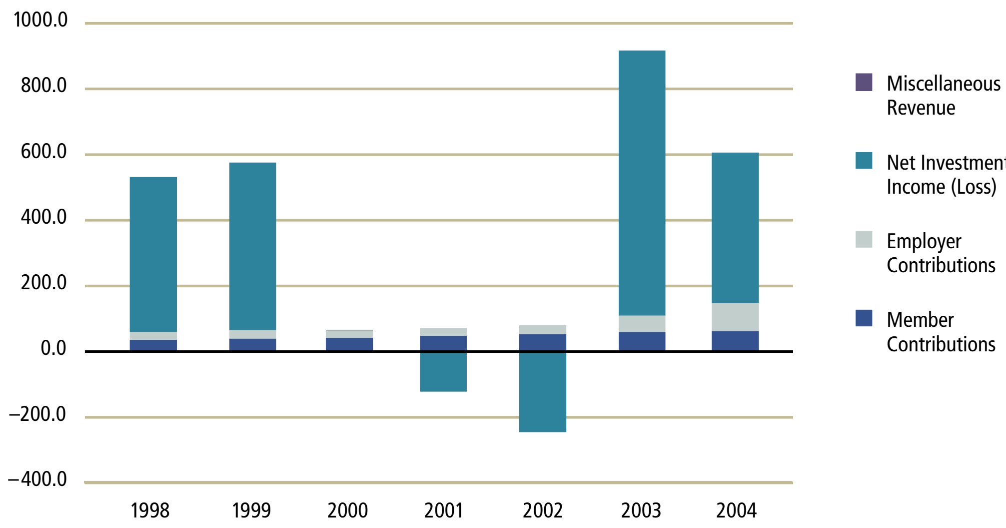
5

Statistical

From left; Abdul Nasser, PC Network Services Specialist; Marlon Montenegro, Communications Support Services Coordinator; Mark Pietrowski; and Latrena Walker, Project and Information Systems Manager

Additions to Plan Net Assets by Source

(Dollars in Millions)



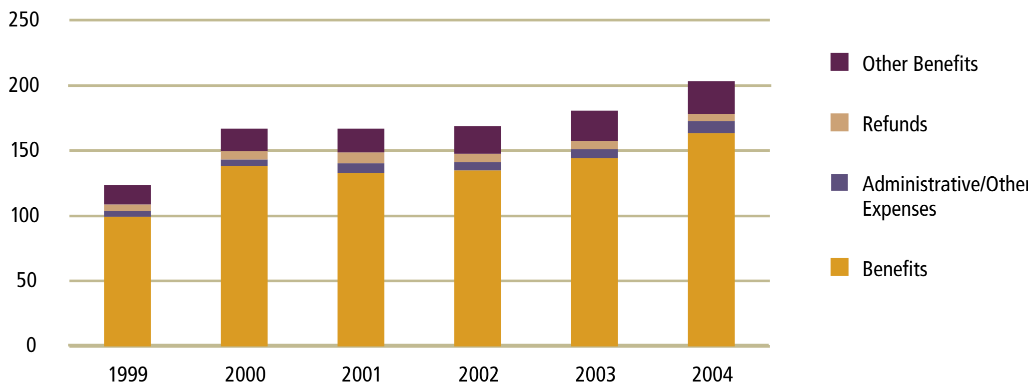
Additions to Plan Net Assets by Source

(Dollars in Millions)

Year Ended December 31	Member Contributions	Employer Contributions	Net Investment Income(Loss)	Other Income	Total Additions
1999	$ 39.3	$ 26.1	$ 510.7	$ 0.1	$ 576.2
2000	42.8	22.0	(4.2)	1.5	62.1
2001	47.6	23.3	(122.6)	0.9	(50.8)
2002	53.3	27.0	(246.6)	1.0	(165.3)
2003	60.2	49.1	807.7	0.9	917.9
2004	63.1	85.5	457.0	2.3	607.9

Deductions from Plan Net Assets by Type

(Dollars in Millions)



Deductions from Plan Net Assets by Type

(Dollars in Millions)

Year Ended December 31	Benefits	Administrative/Other Expenses	Refunds	Other Benefits	Total Deductions
1999	$ 99.2	$ 4.6	$5.0	$14.8	$123.6
2000	138.2	5.2	6.3	17.0	166.7
2001	132.9	7.2	8.3	18.5	166.9
2002	141.5	6.8	6.4	14.1	168.8
2003	150.6	6.6	6.6	17.0	180.8
2004	169.1	9.2	5.2	19.6	203.1

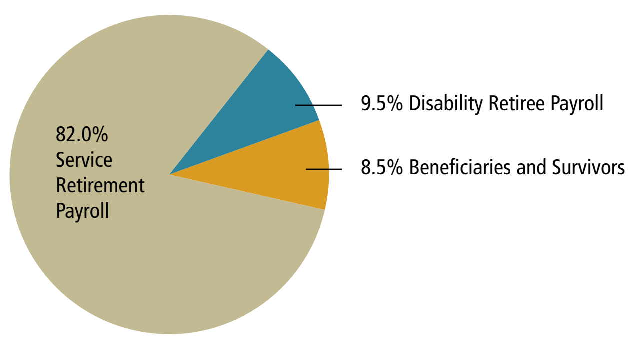
Benefit Expenses by Type[1]

	2004	2003	2002	2001	2000	1999
Service Retirement Payroll						
Basic	$105,648,412	$92,689,067	$82,721,678	$77,819,944	$74,128,258	$65,248,080
COLA	30,836,451	29,245,633	27,025,690	24,838,053	22,486,337	19,781,227
Total	**136,484,863**	**121,934,700**	**109,747,368**	**102,657,997**	**96,614,595**	**85,029,307**
Disability Retiree Payroll						
Basic	13,118,826	10,540,547	9,540,646	8,800,266	7,733,362	6,095,553
COLA	2,800,341	2,523,517	2,241,082	2,013,020	1,750,675	1,461,187
Total	**15,919,167**	**13,064,064**	**11,781,728**	**10,813,286**	**9,484,037**	**7,556,740**
Beneficiaries and Survivors						
Basic	8,686,288	8,289,339	7,550,165	6,576,312	5,651,133	5,273,837
COLA	5,426,939	5,234,278	4,617,487	4,038,493	3,510,459	3,298,252
Total	**14,113,227**	**13,523,617**	**12,167,652**	**10,614,805**	**9,161,592**	**8,572,089**
Total	**$166,517,257**	**$148,522,381**	**$133,696,748**	**$124,086,088**	**$115,260,224**	**$101,158,136**

[1] These benefit expense amounts were provided by the actuary and do not reflect year-end adjustments. For this reason these amounts will not directly match deductions for benefits as reported in the financial statements and associated schedules.

Benefit Expenses by Type

(Based on the month of November 30, 2004)



Average Benefit Payment Amounts

Retirement Effective Dates	Years Since Retirement 0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
PERIOD 1/1/99–12/31/99							
Average Monthly Benefit	$2,226	$1,971	$1,635	$1,136	$897	$692	$475
Number of Active Retirees	1,195	950	1,028	933	823	446	230
PERIOD 1/1/00–12/31/00							
Average Monthly Benefit	$2,394	$2,439	$1,810	$1,342	$1,000	$770	$512
Number of Active Retirees	1,304	1,023	964	872	862	441	233
PERIOD 1/1/01–12/31/01							
Average Monthly Benefit	$2,261	$2,047	$1,951	$1,455	$1,092	$861	$597
Number of Active Retirees	1,569	1,203	991	774	751	403	176
PERIOD 1/1/02–12/31/02							
Average Monthly Benefit	$2,365	$2,166	$2,014	$1,544	$1,210	$911	$649
Number of Active Retirees	1,571	1,304	1,004	755	744	430	188
PERIOD 1/1/03–12/31/03							
Average Monthly Benefit	$2,692	$2,223	$2,237	$1,582	$1,267	$943	$705
Number of Active Retirees	1,487	1,210	1,248	778	779	512	273
PERIOD 1/1/04–12/31/04							
Average Monthly Benefit	$2,903	$2,439	$2,241	$1,932	$1,371	$1,068	$709
Number of Active Retirees	1,661	1,302	1,036	945	688	529	314

Employer Contribution Rates (Percent)

As of December 31

	County of Alameda, ACMC, and First 5 Alameda County					Other Particpating Employers
	General		Safety			General
Year	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate[1]	Tier 1
1999	5.75	4.46	8.72	8.35	5.43	16.21
2000	6.28	2.83	4.78	5.48	4.03	17.30
2001	6.31	2.86	5.10	5.80	4.00	17.09
2002	5.90	3.37	5.96	7.16	4.37	16.21
2003	12.78	10.53	17.40	18.76	12.16	17.37
2004	14.63	12.10	21.51	20.91	13.95	19.21

[1] Aggregate is based on payroll as of same date.

Retired Members by Type of Benefit

Summary of Monthly Allowances Being Paid for the Month of November 2004.

		Monthly Allowance		
	Number	Basic	Cost of Living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	3,902	$ 6,373,296	$ 1,987,290	$ 8,360,586
Option 1	98	119,024	52,948	171,972
Option 2, 3, & 4	195	281,144	75,330	356,474
Total	**4,195**	**6,773,464**	**2,115,568**	**8,889,032**
Ordinary Disability				
Unmodified	145	125,717	41,035	166,752
Option 1	9	4,778	3,354	8,132
Option 2, 3, & 4				
Total	**154**	**130,495**	**44,389**	**174,884**
Duty Disability				
Unmodified	343	600,535	97,652	698,187
Option 1	8	8,579	2,460	11,039
Option 2, 3, & 4	1	2,220	136	2,356
Total	**352**	**611,334**	**100,248**	**711,582**
Beneficiaries				
Ex-Spouse	68	43,241	13,100	56,341
Death	831	539,732	360,089	899,821
Total	**899**	**582,973**	**373,189**	**956,162**
Total General	**5,600**	**8,098,266**	**2,633,394**	**10,731,660**
SAFETY MEMBERS				
Service Retirement				
Unmodified	561	1,958,818	437,232	2,396,050
Option 1	2	4,267	2,097	6,364
Option 2, 3, & 4	28	67,432	14,808	82,240
Total	**591**	**2,030,517**	**454,137**	**2,484,654**
Ordinary Disability				
Unmodified	4	3,995	752	4,747
Option 1	–	–	–	–
Option 2, 3, & 4	–	–	–	–
Total	**4**	**3,995**	**752**	**4,747**
Duty Disability				
Unmodified	141	334,321	83,563	417,884
Option 1	4	8,329	1,469	9,798
Option 2, 3, & 4	3	4,761	2,941	7,702
Total	**148**	**347,411**	**87,973**	**435,384**
Beneficiaries				
Ex-Spouse	29	37,192	6,672	43,864
Death	103	103,692	72,383	176,075
Total	**132**	**140,884**	**79,055**	**219,939**
Total Safety	**875**	**2,522,807**	**621,917**	**3,144,724**
Total Retiree Members	**6,475**	**$10,621,073**	**$3,255,311**	**$13,876,384**

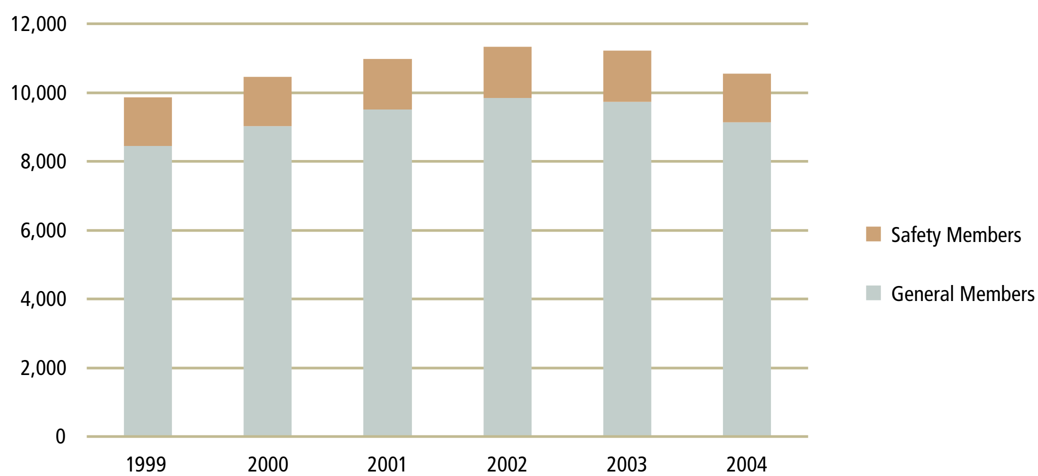
Participating Employers and Active Members

	2004	2003	2002	2001	2000	1999
County of Alameda						
General Members	7,020	7,367	7,550	7,266	7,077	6,787
Safety Members	1,418	1,495	1,499	1,472	1,429	1,414
Total	**8,438**	**8,862**	**9,049**	**8,738**	**8,506**	**8,201**
Participating Employers (General Members)						
Alameda County Medical Center (ACMC) [1]	1,926	2,201	2,133	2,086	1,814	1,527
Alameda County Office of Education	2	5	5	5	5	5
First 5 Alameda County [2]	47	–	–	–	–	–
Housing Authority of the County of Alameda	74	74	75	69	66	65
Livermore Area Recreation & Park District	69	78	76	76	65	61
Total	**2,118**	**2,358**	**2,289**	**2,236**	**1,950**	**1,658**
Total Active Membership						
General Members	9,138	9,725	9,839	9,502	9,027	8,445
Safety Members	1,418	1,495	1,499	1,472	1,429	1,414
Total	**10,556**	**11,220**	**11,338**	**10,974**	**10,456**	**9,859**

[1] The ACMC became a participating employer of ACERA in 1999; prior to 1999 its members were general members of the County of Alameda.

[2] First 5 Alameda County became a participating employer of ACERA in 2004; prior to 2004 its members were general members of the County of Alameda.

Total Active Membership



Below, Julie Crane and Angela Bradford.

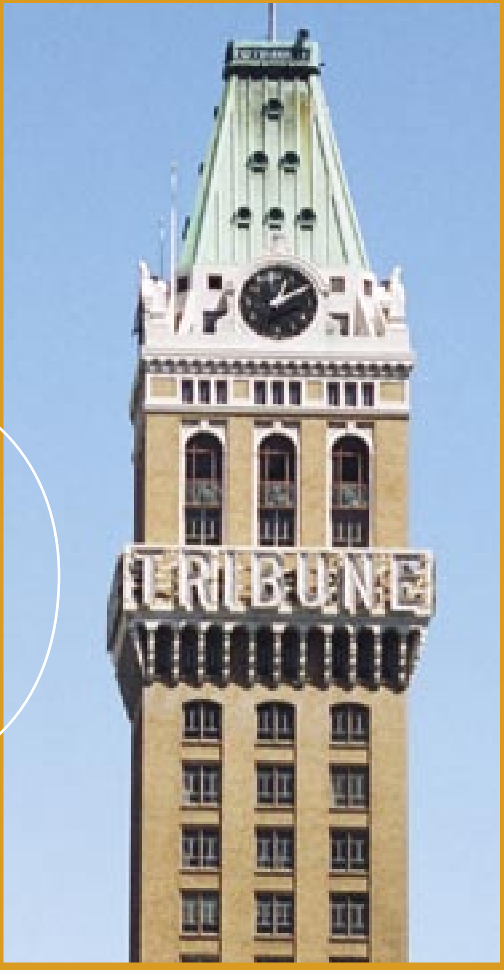
Opposite page, from left; Angela Bradford, Secretary II; Bob Pickus, Associate Counsel; Susan Weiss, Associate Counsel; and Julie F. Crane, General Counsel

"Working in ACERA's legal department, I know how critical contracts are. A large part of what we do here every day helps ensure that ACERA fulfills all its contractual promises to employees and retirees."

ANGELA BRADFORD

Secretary II
LEGAL

6 Compliance



79

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
Management Consultants

Board of Retirement
Alameda County Employees' Retirement Association
Oakland, California

We have audited the financial statements of the Alameda County Employees' Retirement Association (ACERA) as of and for the years ended December 31, 2004 and 2003, and have issued our report thereon dated April 8, 2005. 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.

Internal Control over Financial Reporting

In planning and performing our audits, we considered ACERA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether ACERA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, the Board of Retirement, management, and the Controller of the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

Williams, Adley & Company, LLP

April 8, 2005

1330 Broadway, Suite 1825 • Oakland, CA 94612 • (510) 893-8114 • Fax (510) 893-2603

Design: Tobi Designs www.tobidesigns.com Copywriting: Virginia Kean, Kean Communications Photography: Richard Morgenstein Photography (portraits) David Sanger, Sam Bloomberg-Rissman, Steve Jenner (buildings)