Here When You're Ready

Comprehensive Annual Financial Report
for the Year Ended December 31, 2005

ACERA

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and Participating Employers

Comprehensive Annual Financial Report for the Year Ended December 31, 2005

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

Issued By

Charles F. Conrad
General Manager

Catherine E. Walker, CPA
Deputy General Manager

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pp iv–1:
"It's a Wonderful Life," AP Photo
President Truman, Courtesy of the Harry S. Truman Library
Howdy Doody, MPTV.net
Chevrolet, unknown
Andrews Sisters, AP Photo
Women poster, NARA
Women riveters, NARA
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Swanson's TV dinner, Pinnacle Foods Corp./Swanson
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Tab bottle, Coca-Cola Corp.
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People's Park protest, © Bancroft Library. University Archives
Clock, The Canadian Clock Museum, Deep River, Ontario, Canada

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The Love Boat crew, MPTV.net
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The Village People, MPTV.net
Disco ball, © Robert Gooch, image from bigstockphoto.com
Sold out gas station, NREL/PIX
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Mother Teresa, AP Photo

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Michael Jackson, AP Photo/Doug Pizac
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Madonna, AP Photo, Barry Sweet
Princess Charles and Princess Diana, AP Photo/PA
Aerobics class, Michael McLaurie, Courtesy of *Murray State News*
Fall of the Berlin Wall, AP Photo/STF
Mt. St. Helens eruption, USGS/Cascades Volcano Observatory
Rubic's cube, Mats/bigstockphoto.com
USA for Africa recording "We Are the World," AP Photo

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President Clinton, William J. Clinton Presidential Library
"Toy Story," AP Photo/Library Of Congress
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Yahoo!®, Yahoo! is a registered trademark
Netscape Navigator, unknown
iMac, Terry Hefferman; Courtesy Apple Computer, Inc.
Lance Armstrong, AP Photo/Laurent Rebours
Oprah Winfrey, AP Photo/Chris Kasson
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Kurt Cobain, AP Photo
Cell phone, Kenneth Sponsier/bigstockphoto.com
Spice Girls, AP Photo/Doug Kanter

Contents

The Forties

1940
- Nylons hit the market
- Big bands dominate popular music
- "Fantasia" introduces a kind of stereo sound to movie goers
- The first of the six Bob Hope–Bing Crosby Road films

1941
- Japan attacks Pearl Harbor
- US starts the Manhattan Project
- The first television commercial is broadcast in New York

1942
- Dorothy Parker writes witty *Collected Stories*
- "Chattanooga Choo Choo" becomes the first "gold" record

1943
- The newest dance craze: The Jitterbug
- Comic book publishers are selling 25 million copies a month
- *Casablanca* wins at Oscars

1944
- Smokey the Bear starts fighting forest fires
- Aaron Copland composes *Appalachian Spring*; will win Pulitzer Prize

1945
- United Nations founded
- Microwave oven invented
- Adolph Hitler commits suicide
- U.S. drops atomic bombs on Nagasaki and Hiroshima

1946
- Dr. Benjamin Spock writes a best-seller on baby and child care
- The debut of The Cannes Film Festival in France.

1947
- "Howdy Doody" starts a 13-year run on television
- Tennessee Williams' play, *A Streetcar Named Desire* debuts on Broadway
- Polaroid camera invented
- *The Diary of Anne Frank* is published

1948
- The Bic Company invents the ballpoint pen
- Charlie Brown, Lucy, and the other Peanuts begin as "Li'l Folks"

1949
- George Orwell's dystopian novel of a bleak, fascist future: *1984*
- First non-stop flight around the world: the U.S. Air Force's "Lucky Lady II"
- RCA offers the 45 rpm record and player
- First "Pillsbury Bake-Off" contest
- Milton Berle hosts the first telethon

"It's a Wonderful Life"

Harry S. Truman

Howdy Doody

ALL PHOTO CREDITS APPEAR ON PAGE ii

Section 1
Introduction

Andrews Sisters

1948 ACERA is established by the County Board of Supervisors to provide retirement, disability, and death benefits to the employees of Alameda County and its member districts.

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, 2005.

ACERA's steadfast commitment to meeting its pension obligations is needed more than ever as baby boomers, Americans born during an almost 20-year-long spike in births that began immediately following the end of World War II, begin to retire in large numbers. Plan demands will increase both financially and in terms of member services.

The need for pension funds to plan for the future was emphasized by a string of natural disasters in the United States during 2005, including five hurricanes and one tornado, that brought great loss of life, untold suffering, and billions of dollars in property damage. California alone experienced the usual torrent of earthquakes, mudslides, and wild fires, as well as a record-breaking number of tornadoes. In light of this reality, we have completed the first phase of our disaster preparedness plan, which includes a "hot site." This is an off-site location at-the-ready with servers and materials that would allow us to operate in the event of an emergency. We are also pursuing the goal of becoming a paperless operation and have begun converting our paper records to automated digitized formats.

Atmospheric weather is not the only phenomenon that potentially impacts the operations of public retirement systems. The newly imposed Governmental Accounting Standards Board Statements 43 and 45 are designed to remove cloudiness about the long-term fiscal health of governmental entities responsible for providing or administering other postemployment benefits, such as healthcare. The goal is to provide the public with more complete information with which to assess the magnitude of future benefit commitments. In Sacramento, a new amendment has been introduced that provides for the mandatory closing of current defined benefit plans like ACERA's to new members and replaces them with hybrid and defined contribution plans for new employees.

This political climate will likely not allow for new benefits. However, benefits of current employees and retired members will continue to be legally protected. If all public pension plans were closed to new hires—with no replacement—ACERA would be here for many generations providing the legally guaranteed benefits that have already been earned.

Despite these forces of nature and politics, the national economic climate has improved. Our total fund market value is $4.6 billion. In 2005, we ranked in the upper 16th percentile for total investment return among public pension funds greater than $100 million. The Board's investment policies have produced impressive returns, consequently, our investment performance continues to meet our actuarial assumptions.

As we plan for the future, we also pause to reflect on the remarkable evolution of public retirement systems. Past struggles have prepared us to confidently move forward under any weather pattern, natural or man-made.

I encourage you to review the following narrative introduction as well as the analysis located in Management's Discussion and Analysis beginning on page 16.

THE COMPREHENSIVE ANNUAL FINANCIAL REPORT (CAFR)

The ACERA 2005 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 contains six sections:

Introductory Section: Letter of Transmittal, ACERA's Mission, Commitment and Goals, Members of the Board of Retirement, Member Services, Financial Reporting Summary, Actuarial Funding Summary, Investments Summary, Administrative Organizational Chart, Professional Consultants, and Certificate of Achievement for Excellence in Financial Reporting.

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

Investment Section: Chief Investment Officer's Report, Investment Consultant's Report, Investment Results, Asset Allocations, Investment Professionals, Investment Summary, Investment Manager Fees, and Brokerage Commissions.

Actuarial Section: Actuary's Certification Letter, results of the most recent annual actuarial valuation, overview of ACERA's funding status, 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 ACERA's members 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 employees of the County of Alameda, the employees of the Superior Court of California for the County of Alameda, and the employees of five other participating employers affiliated with the County ("special districts").

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.

Board of Retirement

The ACERA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan and managing the investment of the system's assets. The Board has nine regular members and two alternate members.

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.

After serving as the Safety Representative for seven years, Ms. Liz Koppenhaver returned to the board as the Alternate Retiree Representative. Ms. Koppenhaver was appointed to the board in May 2005 from a list of nominees provided by Retiree organizations.

MEMBER SERVICES

Business Continuity Plan

ACERA successfully completed the development of a comprehensive Business Continuity Plan. The first annual test was completed in October 2005 focusing on network, system, and application access and functionality. ACERA has secured an alternate facility for relocation of staff and the continuation of business systems in the event ACERA's primary location is inaccessible.

Document Management Project

With the support of ACERA's Board of Retirement, ACERA has initiated the development of an Enterprise Document Management Solution Project. This initiative is an enterprise-wide solution that will address document management and imaging for the entire agency. Due to the complexity of this project, it is estimated to take two to four years to complete. ACERA will utilize the services of external resources as well as internal staff to complete this project.

New Benefits Facilitator Position

The Benefits Department added a benefits facilitator position to our Supplemental Benefits Unit. This position is responsible for addressing and resolving health, dental, and vision plan issues from retirees. The facilitator also monitors the member's transition of health plan coverage from active to retiree status and assists in the transition from regular retiree coverage to Medicare coverage.

New Public Information Specialist Position

ACERA added a public information specialist. This position is responsible for overseeing all communications projects, such as handbooks, pamphlets, booklets, brochures, newsletter, website content, and other communiqué intended for membership or the public. The specialist works with all ACERA departments.

Active Member Survey

Results were released in the summer. Most respondents (79%) rate ACERA staff as knowledgeable or very knowledgeable and 72% have confidence in the accuracy of received information; 47% indicated they do not access our web site. In addition to web site review, we will use our new Mid-career Seminar and revised Pre-retirement Planning Seminar to direct members to our web site.

Newsletter

The *What's Up?,* ACERA's quarterly newsletter, added a Retiree Page to focus on the needs of retired and soon-to-be-retired members.

Enhanced Benefits for Safety Members

The last group of Safety members settled for 3% at 50, consequently, enhanced benefits for all active Safety members have been implemented.

Domestic Partnership

California's new domestic partnership legislation went into effect on January 1, 2005. Members are able to name their domestic partners for the unmodified option survivor continuance. Also, domestic partners of ACERA Members will have rights to ACERA benefits on termination of the domestic partnership or the Member's death that are similar to those of spouses at the time of divorce or the Member's death.

New Health Plan Providers

PacifiCare and Blue Cross are new health plan providers, replacing Health Net. Blue Cross is available exclusively to retirees 64-years-old or under and their eligible dependents and PacifiCare is available to retirees of all ages and their eligible dependents.

FINANCIAL REPORTING

ACERA's management is responsible for the accuracy, completeness, fair presentation of information, and all disclosures in this report, as well as for establishing and maintaining an internal control structure that ensures our 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 of material misstatements. Internal controls are reviewed to ensure that ACERA's operating policies and procedures are being adhered to and that the controls 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.

ACERA's financial statements 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 payment is made. Investments are reported at fair value.

The Financial Section of this report contains ACERA's financial statements, the notes to the financial statements, required supplementary schedules, and supporting schedules.

GASB 43 Other Postemployment Benefits

ACERA's senior management has been working closely with the senior management staff of Alameda County to plan the implementation of the new GASB Financial Reporting for Other Postemployment Benefits (OPEB), also known as GASB Statement No. 43. ACERA must implement this new GASB statement for the year ended December 31, 2006.

GASB 40 Investment Risk Disclosures

ACERA has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures. This establishes and modifies disclosure requirements for several types of risks that may affect ACERA's deposits and investments.

ACTUARIAL FUNDING STATUS

ACERA's funding objective is to satisfy all benefit commitments by following an actuarially prudent funding plan, by obtaining superior investment returns consistent with established risk controls and by minimizing employer contributions to the retirement fund.

ACERA engages an independent actuarial consulting firm to conduct an annual actuarial valuation of the plan. The purpose of the valuation is to reassess the magnitude of the benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and member contribution rates can be adjusted accordingly. The December 31, 2005 actuarial valuation will not be completed until after the publication of this CAFR, therefore, this CAFR presents the results of the actuarial valuation of December 31, 2004, ACERA's most recent valuation.

Triennial Actuarial Experience Study

We performed our triennial actuarial experience study to compare ACERA's actual experience during a three-year period with that expected under the actuarial assumptions in effect. The study focused on non-economic assumptions such as separation from active service and mortality. These were analyzed with the goal of maintaining adequate funding levels. This study reviewed the period from December 1, 2001 through November 30, 2004.

Funding Progress

The Schedule of Funding Progress on page 45 provides historical trend information about the actuarially determined funded status of the plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. This schedule shows that the actuarial accrued liability of ACERA at December 31, 2004 was $4,241 million; the actuarial value of assets at December 31, 2004 was $3,558 million; and that ACERA's funded ratio at December 31, 2004 was 83.9%.

Employer Contributions

The Schedule of Employer Contributions, also on page 45, shows historical trend information about the annual required contributions of the employers (ARC) and the contributions made by the employers in relation to the ARC. For the year ending December 31, 2004 the employers contributed 100% of the annual required contributions.

The Actuarial Section of this report contains a more detailed discussion of funding.

INVESTMENTS

The County Employees Retirement Act of 1937 and the California Constitution confer the authority and fiduciary responsibility for investing ACERA's funds on the Board of Retirement. In addition, Board members are legally required to 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.

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 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, 2005 and 2004, ACERA's investments provided an 8.8% and 12.3% rate of return, respectively. ACERA's annualized rate of return over the last three years was 15.7% and over the last five years, it was 7.0%.

The Investment Section of this report presents a summary of ACERA's investment results, asset allocation, investment holdings, and other investment-related information.

PROFESSIONAL SERVICES

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

This report includes an opinion from ACERA's independent auditors, a letter from its investment consultant, and a letter of certification from ACERA's actuary. The consultants and investment managers are listed on pages 10 and 59 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 to ACERA for its comprehensive annual financial report for the year ended December 31, 2004. The certificate is reproduced on page 11. This was the ninth 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 plan employers and to employee and retiree organizations. Their cooperation contributes significantly to the success of ACERA. The accompanying Popular Annual Financial Report is being mailed to all members. The complete CAFR is also available to members and to the general public. We hope our employers and 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
May 5, 2006

MEMBERS OF THE BOARD OF RETIREMENT

Dale E. Amaral

Second Vice-Chair

ELECTED BY SAFETY MEMBERS

Ophelia B. Basgal

First Vice-Chair

APPOINTED BY THE BOARD OF SUPERVISORS

L. Darryl Gray

Chair

ELECTED BY GENERAL MEMBERS

Liz Koppenhaver

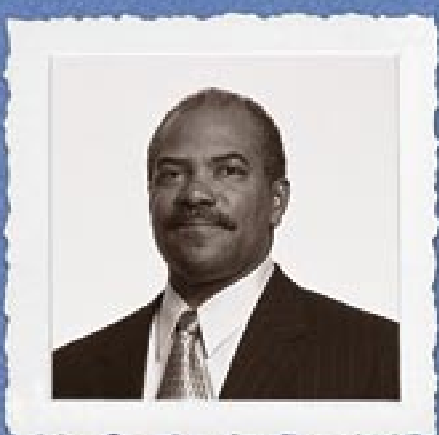
Alternate

ELECTED BY RETIRED MEMBERS

Darryl L. Walker

Alternate

ELECTED BY SAFETY MEMBERS



Donald R. White

EX-OFFICIO MEMBER
TREASURER-TAX COLLECTOR,
COUNTY OF ALAMEDA

AS OF JANUARY 1, 2006

Annette Cain-Darnes
APPOINTED BY THE BOARD OF SUPERVISORS

Keith Carson
APPOINTED BY AND MEMBER OF THE BOARD OF SUPERVISORS

David M. Safer
ELECTED BY RETIRED MEMBERS

Sandre R. Swanson
APPOINTED BY THE BOARD OF SUPERVISORS

Trevor S. White
ELECTED BY GENERAL MEMBERS

2005 MEMBERS of THE BOARD of RETIREMENT

Dale E. Amaral

Ophelia B. Basgal, SECOND VICE-CHAIR

Annette Cain-Darnes

Keith Carson, CHAIR

L. Darryl Gray, FIRST VICE-CHAIR

Liz Koppenhaver*

Dave M. Safer

Sandre R. Swanson

Darryl L. Walker*

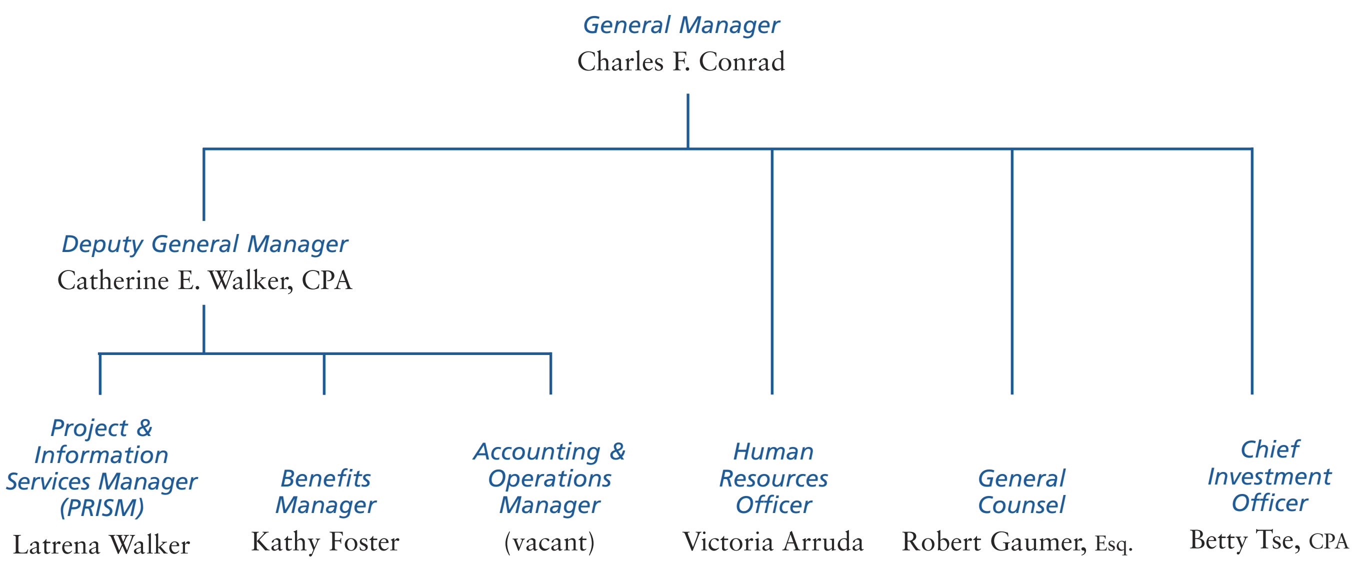
Donald R. White

Trevor S. White

* ALTERNATES

Administrative Organization Chart

As Of December 31, 2005



List of Professional Consultants[1]

Actuary
The Segal Company

Disability—Medical
Center for Occupational Psychiatry, Inc.
David L. Kneapler, MD
Howard Belfer, MD
Roger Nacouzi, MD

Independent Auditors
Williams, Adley & Co., LLP

Human Resources / Benefits
Lakeside Group
Mercer Human Resources Consulting
Rael & Letson Consultants and Actuaries

Legal
American Arbitration Association
Barbara Kong-Brown
Hanson, Bridgett, Marcus, Vlahos, Rudy, LLP
Liebert Cassidy Whitmore
Steefel, Levitt & Weiss
Tatro Tekosky Sadwick LLP

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

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[1] Investment Professionals are listed on page 59 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, 2004

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003

The Fifties

1950
- Earl Hilton invents the credit card
- Nielsen's Audimeter tracks television audiences
- Xerox photocopiers sold

1951
- Color television sets go on sale
- DJ Alan Freed introduces the term "rock 'n' roll"
- Salinger's *The Catcher in the Rye*
- Cinerama dazzles audiences
- Oscars: *An American in Paris*, Humphrey Bogart, Vivien Leigh

1952
- 3-D movies thrill audiences
- Telephone area codes established
- American Bandstand broadcasts get kids dancing
- *Charlotte's Web* by E. B. White

1953
- *Playboy* arrives with Marilyn Monroe stretched out on the cover
- Abstract expressionism by Jackson Pollock: "Blue Poles"
- With the 701, IBM starts building commercial computers

1954
- Nobel Prize in Literature: Ernest Hemingway
- Army vs. McCarthy hearings televised to captivated American viewers

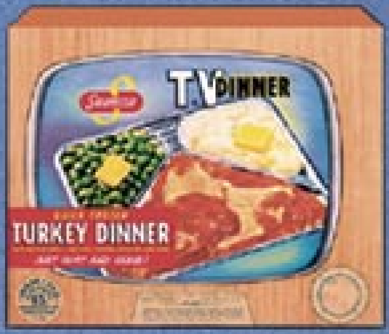
1955
- Esterbrook, England: felt-tip pens
- A TV program for children: "Kukla, Fran and Ollie"
- *Gunsmoke* starts along the trail to becoming the longest running TV western
- First #1 rock 'n' roll song: Bill Haley's "Rock Around the Clock"

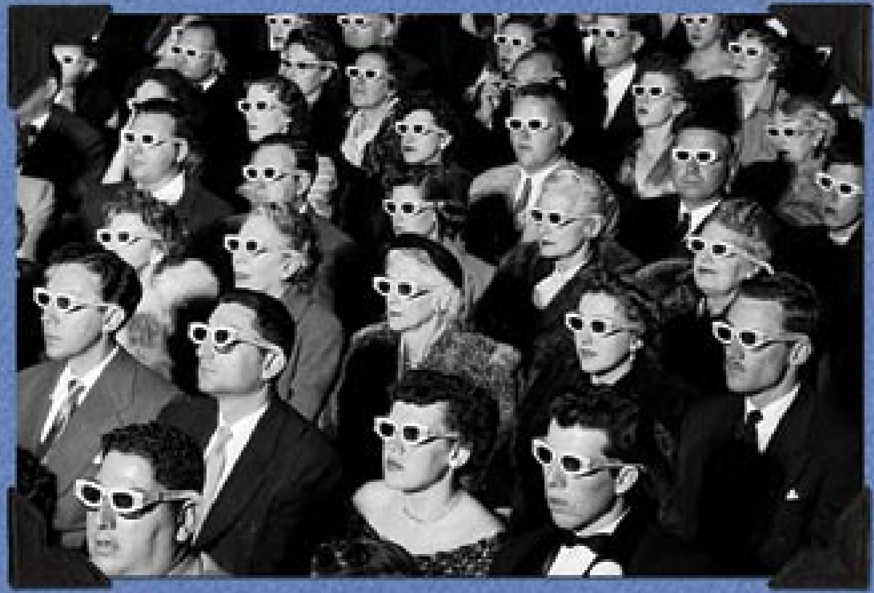
1956
- Elvis Presley rocks an international audience with first film, "Love Me Tender"
- Liquid Paper created by Dallas secretary, Bette Graham

1957
- Leonard Bernstein's *West Side Story*
- Jack Kerouac's novel *On the Road*
- Soviet *Sputnik 1* beeps from space
- *Quiz Show* fraud rocks U.S. television

1958
- Number of drive-in theaters in U.S. peaks near 5,000

1959
- *A Raisin in the Sun*, the first Broadway play written by a black woman
- Barbie dolls
- Microchip starts computer revolution
- Transistor radio fits into a shirt pocket
- Xerox makes a plain paper copier





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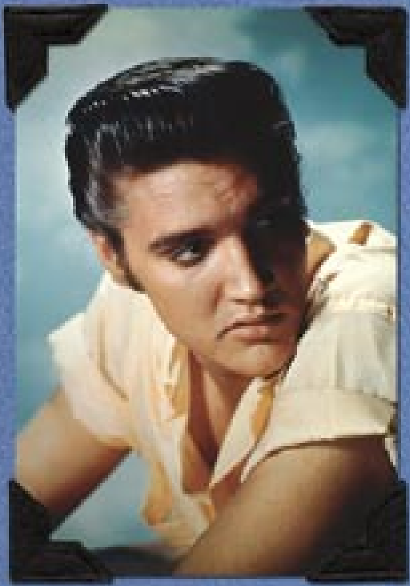


Section 2
Financial

Rosa Parks

Groucho Marx

1953 The 100th anniversary of Alameda County, created from portions of Contra Costa and Santa Clara counties. Alameda means "a place where poplar trees grow."

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

INDEPENDENT AUDITORS' REPORT

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, 2005 and 2004, 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ACERA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 opinions.

As described in note 1 to the financial statements, ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of December 31, 2005 and 2004, 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.

In accordance with *Government Auditing Standards,* we have also issued our report dated May 4, 2006 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the

1330 Broadway, Suite 1825 • Oakland, CA 94612 • (510) 893-8114 • Fax (510) 893-2603
5 Thomas Mellon Circle, Suite 104 • San Francisco, CA 94134 • (415) 656-1330 • Fax (415) 467-6106
www.wacllp.com

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

internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 16–22, and the schedules of funding progress and employer contributions on page 45 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 administration expense, investment expenses, and payments to consultants on page 47 and the 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 administration expense, 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

May 4, 2006

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 ACERA's financial position and results of operations for the years ended December 31, 2005 and 2004. The information presented here, in conjunction with the Notes to the Financial Statements beginning on page 25, provides a clear picture of ACERA's overall financial status and activities.

Financial Highlights

- ACERA's plan net assets at the close of 2005 were $4.6 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 $296.8 million more than the prior year, or an increase of 7%, primarily as a result of investment returns.
- ACERA's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2004, the date of ACERA's most recent actuarial valuation, the funded ratio for ACERA was 83.9%. In general, this indicates that for every dollar of benefit obligations, ACERA has about $0.84 of assets to cover it.
- Additions to plan net assets for the year were $523.0 million. These include employer contributions of $100.8 million, member contributions of $64.2 million, and net investment income of $358.0 million. Additions to plan net assets were $84.9 million less than those of the prior year mainly due to a 22% decline in net investment income.
- Deductions from plan net assets for the year were $226.2 million. These include $187.8 million for retirement benefit payments, $22.0 million for the retiree healthcare program, $6.1 million for member refunds, and $10.3 million for administration expense. Deductions for 2005 were $23.1 million larger then those for 2004 due to the combined effect of two factors: There was a net increase in the number of retirees and beneficiaries; also, the average retirement allowance of those added to the retirement payroll was much larger than the average allowance of those removed.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to ACERA's financial statements. These include the following three components:

- Statements of Plan Net Assets
- Statements of Changes in Plan Net Assets
- Notes to the Financial Statements

In addition to the financial statements, this report also contains required supplementary information and supporting schedules.

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 outstanding at year-end.

A Statement of Changes in Plan Net Assets in contrast, provides a summary view of the additions to and the deductions from the plan net assets that occurred over the course of the year.

The financial statements include all assets and liabilities, using the 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 reported as of the trade date, not the settlement date. Investments are reported at current fair value. Both realized and unrealized investment gains and losses are recognized. Each component of capital assets is depreciated over its useful life.

The financial statements report ACERA's net assets held in trust for pension benefits (plan net assets) as one way to measure the system's financial position. Although ACERA's funding ratio (valuation assets divided by actuarial liabilities) declined versus the prior year from 86.9% to 83.9%, the increase in ACERA's plan net assets for the year ended December 31, 2005 was 7%. This increase is a significant indicator that ACERA's overall financial position improved during the year. In fact, ACERA's total gross fund return of 8.8% for the year outpaced ACERA's current 7.8% actuarial assumed interest rate. Additionally, the outlook for the future has improved from an actuarial perspective because, instead of a net deferred investment loss of $8 million at the last valuation, ACERA now has a net deferred investment gain of $210 million that will be used to increase actuarial assets over the next four to five years.

ACERA's Statements of Plan Net Assets and Statements of Changes in Plan Net Assets appear on pages 23–24.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the financial statements. The Notes to the Financial Statements appear on pages 25–44.

Following the notes this report presents required supplementary information. This information shows ACERA's progress in funding its obligations to provide pension benefits to members as well as historical trend information showing how much employers have contributed in relation to their annual required contributions. Required supplementary information appears on pages 45–46 of this report.

The schedules of administration expense, investment expenses, and payments to consultants are presented immediately following the required supplementary information.

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

Analysis Of Financial Position

Plan Net Assets Held in Trust for Pension Benefits as of December 31, 2005 totaled $4.6 billion. This amount is $296.8 million or 7% more than the prior year amount. This result essentially reflects the 6% increase in the balance of ACERA's investments during 2005.

Plan net assets had increased 10% in 2004 due to a stronger stock market that year. The increase in plan net assets each year is a direct result of strict adherence to ACERA's *Investment Guidelines, Policies, and Procedures*. This disciplined investment approach, combined with the asset allocation and rebalancing program adopted by ACERA's Board, have enabled ACERA to maintain investment returns in excess of its policy benchmark and the returns of the average large public retirement fund on a long-term basis. The Investment Section provides further details about ACERA's investment performance.

Current Assets

Current assets grew from $478.0 million in 2004 to $793.7 million in 2005. The main components of current assets were securities lending cash collateral of $474.6 million, receivables for unsettled securities sales of $181.8 million, and cash collateral of $84.8 million related to ACERA's obligation to replace equity securities sold short (reported as an investment receivable). In the case of the securities lending cash collateral, an offsetting securities lending liability of an equal amount appears as part of ACERA's current liabilities.

Current assets increased $315.7 million during 2005. Over half of this increase arose from an increase in receivables for unsettled securities sales associated with the transition of one domestic equity portfolio to a new investment manager. Just under half of the growth in current assets for 2005 came from an increase in securities lending cash collateral reflecting a higher level of securities lending activity. Current assets had increased in 2004 by $123.9 million, almost entirely due to growth in securities lending cash collateral.

Investments

The fair value of ACERA's investments grew from $4,299.1 million in 2004 to $4,558.8 million in 2005, an increase of $259.7 million, or 6%. The increase in the balance of investments represented almost all of the increase in plan net assets for the year, as the increase in current assets was largely offset by the increase in current liabilities. The increase in the balance of investments reflected the fact that additions to plan net assets for 2005 exceeded deductions from plan net assets by $296.8 million. This excess (or shortfall in other years) largely depends on the magni-

Table 1: Plan Net Assets (Condensed)

As of December 31, 2005 and 2004 (Dollars in Millions)

	2005	2004	Increase (Decrease) Amount	Percent Change
Current Assets	$ 793.7	$ 478.0	$ 315.7	66%
Investments at Fair Value	4,558.8	4,299.1	259.7	6%
Capital Assets, net	4.3	6.1	(1.8)	–30%
Total Assets	**5,356.8**	**4,783.2**	**573.6**	**12%**
Current Liabilities	737.6	460.8	276.8	60%
Total Liabilities	**737.6**	**460.8**	**276.8**	**60%**
Plan Net Assets	**$4,619.2**	**$4,322.4**	**$296.8**	**7%**

As of December 31, 2004 and 2003 (Dollars in Millions)

	2004	2003	Increase (Decrease) Amount	Percent Change
Current Assets	$ 478.0	$ 354.1	$ 123.9	35%
Investments at Fair Value	4,299.1	3,896.6	402.5	10%
Capital Assets, net	6.1	9.8	(3.7)	–38%
Total Assets	**4,783.2**	**4,260.5**	**522.7**	**12%**
Current Liabilities	460.8	340.5	120.3	35%
Total Liabilities	**460.8**	**340.5**	**120.3**	**35%**
Plan Net Assets	**$4,322.4**	**$3,920.0**	**$402.4**	**10%**

Table 2: Changes In Plan Net Assets (Condensed)

For the Years Ended December 31, 2005 and 2004 (Dollars in Millions)

	2005	2004	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Employer Contributions	$ 100.8	$ 85.5	$ 15.3	18%
Member Contributions	64.2	63.1	1.1	2%
Net Investment Income (Loss)	358.0	457.7	(99.7)	–22%
Other Income	-	1.6	(1.6)	–100%
Total Additions	**523.0**	**607.9**	**(84.9)**	**–14%**
DEDUCTIONS				
Retirement Benefit Payments	187.8	169.1	18.7	11%
Health Insurance	22.0	19.6	2.4	12%
Member Refunds	6.1	5.2	0.9	17%
Administration	10.3	9.2	1.1	12%
Total Deductions	**226.2**	**203.1**	**23.1**	**11%**
Beginning Plan Net Assets	**4,322.4**	**3,920.0**	**402.4**	**10%**
Increase in Plan Net Assets (including adjustment for change in accounting principle in 2004)	**296.8**	**402.4**	**(105.6)**	**–26%**
Ending Plan Net Assets	**$4,619.2**	**$4,322.4**	**$ 296.8**	**7%**

For the Years Ended December 31, 2004 and 2003 (Dollars in Millions)

	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)	457.7	808.4	(350.7)	–43%
Other Income	1.6	0.2	1.4	700%
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%
Member Refunds	5.2	6.6	(1.4)	–21%
Administration	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 in Plan Net Assets (including adjustment for change in accounting principle in 2004)	**402.4**	**737.1**	**(334.7)**	**–45%**
Ending Plan Net Assets	**$4,322.4**	**$3,920.0**	**$ 402.4**	**10%**

tude of net investment income for the year, as the level of contributions and benefits is relatively more stable. (Net Investment Income is described below.) In 2004 the fair value of investments increased $402.5 million, or 10%, due to an excess of plan additions over deductions in that year of $402.4 million likewise due to favorable net investment income.

Capital Assets

The balance of ACERA's capital assets (net of accumulated depreciation and amortization) declined from $6.1 million in 2004 to $4.3 million in 2005. The $1.8 million decrease in the balance of capital assets (net) in 2005 was due to equipment and furniture additions of $0.2 million offset by scheduled depreciation and amortization of $2.0 million. Capital assets include information systems, equipment, furniture, leasehold improvements, and construction-in-progress. In 2005 there were no significant commitments made for capital expenditures.

ACERA's capital assets declined from $9.8 million in 2003 to $6.1 million in 2004. The major capital investment for 2004 served to enhance ACERA's technology infrastructure, particularly the retirement information system, with about $1.0 million of new spending. This 2004 spending was offset by scheduled depreciation and amortization of $2.4 million for the year, along with an additional $2.3 million in depreciation that arose from changing the depreciation method and reducing the estimated useful lives of information systems assets.

Current Liabilities

Current liabilities increased from $460.8 million in 2004 to $737.6 million in 2005. The main components of current liabilities were securities lending cash collateral of $474.6 million (as mentioned above), payables for unsettled securities purchases of $163.5 million, and the obligation to replace equity securities sold short of $84.7 million.

Current liabilities increased by $276.8 million for the year. This increase came from the same types of activity that had boosted current assets: Over half of the increase in current liabilities arose from an increase in payables for unsettled securities purchases associated with the transition of one domestic equity portfolio to a new investment manager. Just under half of the growth in current liabilities for 2005 came from an increase in the securities lending liability reflecting a higher level of securities lending activity, as mentioned above. Current liabilities had increased in 2004 by $120.3 million, also mainly due to an increase in the securities lending liability.

Analysis Of Results Of Operations

Changes in plan net assets consist of total additions reduced by total deductions. Table 2 on page 19 shows condensed information about this financial activity. Plan net assets increased by $296.8 million and $402.4 million for the years ended December 31, 2005 and 2004 respectively. The magnitude of these increases was largely due to the significant favorable net investment income earned for these two years.

Additions to Plan Net Assets

The primary sources of funding for ACERA member benefits are employer contributions, member contributions, and net investment income.

Additions to plan net assets for the years ended December 31, 2005 and 2004 totaled $523.0 million and $607.9 million respectively. For 2005, the $84.9 million decline in additions to plan net assets versus prior year additions was primarily due to a tapering off in net investment income as the stock market continued to cool off from the 2003 rebound. For 2004, overall additions to plan net assets versus prior year additions decreased by $310.0 million, also mainly due to reduced investment income.

Employer Contributions

Employer contributions for 2005 were $100.8 million, up $15.3 million over the prior year as a result of an increase in the average contribution rate along with a modest increase in aggregate payroll. The average employer rate increase was mainly due to changes in actuarial assumptions including changes in the actuarial assumed interest rate (from 8.00% to 7.80%), withdrawal, disability, and other demographic assumptions. Employer contributions for 2004 increased $36.4 million over 2003 due to a much larger percentage increase in the average contribution rate that went into effect that year. The steep 2004 contribution rate increase was a consequence of the low investment returns in the years 2000–2002.

Member Contributions

Member contributions for 2005 were $64.2 million. This was a $1.1 million increase over 2004 and arose from a modest increase in the average member contribution rate. The average member rate increase was due to the effect of changes in actuarial assumptions including changes in the actuarial assumed interest rate (from 8.00% to 7.80%), withdrawal, disability, and other demographic assumptions. Member contributions increased $2.9 million in 2004. This increase was due to an increase in the average member contribution rate. The largest factor in the contribution rate increase was the earlier reduction of the actuarial assumed interest rate from 8.25% to 8.00%.

Net Investment Income

For 2005, net investment income came to $358.0 million, a 22% decrease from the prior year amount. This reduction in investment income reflected the year-on-year decline in ACERA's total gross investment return from 12.3% in 2004 to 8.8% in 2005. Still, the 2005 experience was well above the plan's policy index return of 7.6%, above the average large public fund's 7.3% return, and exceeded ACERA's current 7.8% actuarial return expectation. The Investment Section of this report describes investment results in greater detail.

The dollar impact of the decline in ACERA's investment rate of return in 2005 was modestly offset by the favorable influence of the continued growth in the size of the investment portfolio. The $457.7 million in net investment income for 2004 showed a 43% decline from the high investment returns of 2003, when a major rebound in the stock market had occurred.

Other Income

Other income was zero in 2005. It was $1.6 million in 2004, mostly due to a one-time reimbursement of real estate fees.

Deductions from Plan Net Assets

The four main categories of deductions from ACERA's plan net assets are retirement benefits, the retiree healthcare program, member refunds, and the expense of administering the system.

Overall, deductions from plan net assets for 2005 totaled $226.2 million, an increase of $23.1 million or 11% over the prior year with roughly similar percentage increases for each main category of deductions. Deductions from plan net assets for 2004 increased $22.3 million or 12% over the prior year, largely due to increases in retirement benefits.

Retirement Benefits

Retirement benefits were $187.8 million in 2005, an increase of $18.7 million, or 11% over the prior year. Retirement benefits comprise service retirement allowances, disability allowances, death payments, and supplemental cost-of-living adjustments. Payments for service retirement and disability benefits, $180.5 million in 2005, represent the bulk of these benefit payments as well as the bulk of the increase in benefit payments. The growth in benefit payments was due to the combined effect of two factors: There was a net increase in the number of retirees and beneficiaries for the year and the average retirement allowance of those added to the retirement payroll was more than twice as large as the average retirement allowance of those removed from the retirement payroll.

Retirement benefit payments were $169.1 million in 2004, an increase of $18.5 million, or 12% over the prior year. The growth in retirement benefit payments in 2004 was for the same reasons as the growth in retirement benefits in 2005.

Retiree Healthcare Program

Retiree healthcare program expense for 2005 was $22.0 million, up $2.4 million or 12% over the prior year. This difference reflects the increase in the retiree monthly medical allowance benefits approved by the board of retirement. The healthcare program expense had increased 15% in 2004 for the same reason. Note 6—Postemployment Healthcare Benefits describes this program.

Member Refunds

Member refunds were $6.1 million in 2005, an increase of $0.9 million, or 17%, from 2004. The level of member refunds declined 21% in 2004. Member refunds arise from either member separation from service (termination) or retiree death (depending on the retirement allowance payment option chosen).

Administration Expense

Administration expense was $10.3 million for 2005. Administration expense covers the basic costs of operating the retirement system. These include staffing, professional fees, office expenses, systems, depreciation, and miscellaneous expense. Over half of this expense (51%) represents staffing (wages, fringe benefits, and temporary labor). Administration expense grew $1.1 million, or 12% over the prior year. The increase resulted primarily from filling vacant positions and adding staff to address an increased workload in various departments.

Administration expense was $9.2 million for 2004. Administration expense for 2004 increased 39% over 2003 mainly due to additional depreciation expense recorded in 2004 that arose from changing the depreciation method and reducing the estimated useful lives of information systems assets.

The annual amount of administration expense is subject to legal and budgetary restrictions. Every year the ACERA Board adopts an administration expense budget for the following year in accordance with legal spending restrictions. Note 10 describes these restrictions. ACERA's actual administration expense for 2005 and for 2004 was in compliance with the legal and budgetary restrictions. There were no significant variations between original and final budget amounts or between the final budget amount and the actual expense incurred against budget in 2005 or in 2004.

Acera's Fiduciary Responsibilities

ACERA's Board and management staff are fiduciaries of the retirement system. Under the California Constitution and the County Employees Retirement Law of 1937, assets of the retirement system can be used only for the exclusive benefit of plan participants and their beneficiaries.

Requests for information

This 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, financial activities, and funding status. Questions concerning any of the information provided in this report or requests for additional information should be addressed to our office:

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

Respectfully submitted,

Catherine E. Walker, CPA
Deputy General Manager
May 4, 2006

Statements of Plan Net Assets

As of December 31, 2005 and 2004 (Dollars in Thousands)

	2005	2004
ASSETS		
Cash	$ 3,975	$ 1,845
Securities Lending Cash Collateral	474,589	353,491
Receivables		
Contributions	14,156	10,839
Investment Receivables	118,232	107,330
Investments Sold	181,808	3,515
Other Receivables	437	528
Total Receivables	**314,633**	**122,212**
Prepaid Expenses	491	449
Total Current Assets	**793,688**	**477,997**
Investments at Fair Value		
Short-Term Investments	108,628	74,526
Equity Securities	1,296,518	1,207,066
Equity Commingled Funds	1,650,836	1,529,410
Fixed Income Securities	1,260,697	1,255,237
Real Estate—Separate Properties	163,272	174,531
Real Estate—Commingled Funds	76,306	55,020
Futures Contracts—Equity Index	-	2,494
Currency Swaps	2,525	874
Total Investments	**4,558,782**	**4,299,158**
Capital Assets (Net of Accumulated Depreciation and Amortization)	4,272	6,125
Total Assets	**5,356,742**	**4,783,280**
LIABILITIES		
Securities Lending Liability	474,589	353,491
Investments Purchased	163,464	15,904
Investment-related Payables	89,467	84,361
Currency Swaps	4,526	3,998
Futures Contracts	1,112	-
Accrued Administration Expenses	1,326	1,054
Members Benefits & Refunds Payable	3,084	2,013
Retirement Payroll Deductions Payable	3	17
Total Liabilities	**737,571**	**460,838**
Net Assets Held in Trust for Pension Benefits	**$4,619,171**	**$4,322,442**

(A Schedule of Funding Progress is presented on page 45 of this report.)

The accompanying notes to the financial statements are an integral part of these financial statements.

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2005 and 2004 (Dollars in Thousands)

	2005	2004
ADDITIONS		
Contributions		
Member	$ 64,150	$ 63,066
Employer	100,801	85,498
Total Contributions	**164,951**	**148,564**
Investment Income		
From Investment Activities:		
Net Appreciation in Fair Value of Investments	250,375	365,717
Dividends, Interest, & Real Estate Operating Income (net)	128,328	106,412
Total Income from Investing Activities	378,703	472,129
Total Investment Expenses	(21,882)	(15,178)
Net Income from Investing Activities	**356,821**	**456,951**
From Securities Lending Activities:		
Securities Lending Income	14,791	5,151
Securities Lending Expenses		
Borrower Rebates	(13,262)	(4,099)
Management Fees	(381)	(316)
Total Securities Lending Activity Expenses	**(13,643)**	**(4,415)**
Net Income from Securities Lending Activities	1,148	736
Total Net Investment Income	**357,969**	**457,687**
Miscellaneous Income	71	1,648
Total Additions	**522,991**	**607,899**
DEDUCTIONS		
Benefits		
Service Retirement and Disability Benefits	180,480	161,411
Death Benefits	2,340	2,144
Supplemental Cost of Living Allowance	5,077	5,588
Retiree Healthcare Program	21,967	19,589
Total Benefits	**209,864**	**188,732**
Member Refunds	6,080	5,190
Administration	10,318	9,208
Total Deductions	**226,262**	**203,130**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	4,322,442	3,920,004
Adjustment for Change in Accounting Principle	-	(2,331)
Beginning of Year Adjusted	-	3,917,673
Excess of Additions Over Deductions	296,729	404,769
End of Year	**$4,619,171**	**$4,322,442**

The accompanying notes to the financial statements are an integral part of these financial statements.

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 financial statements are included in the County of Alameda's financial statements as a pension and other employee benefit 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. Security purchases and sales are recognized in the financial statements as of the trade date, not the settlement date. Retirement benefits and member refunds are recognized as liabilities 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 deposits in a pooled account managed by the Alameda County Treasurer. The reported amounts of deposits in the pooled account approximate fair value. All participants in the pool share proportionately in earnings and losses.

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 managed by the master custodian and securities lending agent are provided by the pool manager (based on market quotes). Fair value of investments in commingled funds of debt securities, equity securities, and real estate is based on the fund share price provided by the fund manager which is based on net asset value. Fair value of investments in real estate separate properties is based on prices in a competitive market as determined by specialists relying on periodic appraisals and is reported net of the outstanding balance of associated mortgages.

Investment Income

Interest income is recognized as it accrues. Dividend income is recognized when the dividends are declared. Realized gains and losses and unrealized gains and losses on investments are combined and reported together as the net appreciation (depreciation) in the fair value of investments.

Securities Lending Activity

Securities lending transactions are short-term collateralized loans of ACERA securities for the purpose of generating additional investment income. For each lending transaction, ACERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on ACERA's statement of plan net assets as if the lending transaction had not occurred.

Cash collateral held is separately reported on the statement of plan net assets among the current assets. A corresponding liability of an equal amount is reported as a liability.

Non-cash collateral held is not reported on the statement of plan net assets nor is there a corresponding liability reported on this statement.

Derivatives

ACERA's investments include two types of derivative contracts: stock index futures and currency swaps.

The fair value of derivative contracts having a fair value greater than or equal to zero is reported among investments. The fair value of derivative contracts with a fair value less than zero is reported as a liability.

Performance Bond and Margin Account

For the stock index futures, ACERA maintains a minimum performance bond ("security deposit") per contract in a commodity trading account. The amount of the performance bond required varies with movements in the price of the underlying stock index and the time remaining until settlement.

Likewise, for the long-short equity arbitrage investment program, ACERA maintains a balance in a brokerage margin account sufficient to cover the current cost of replacing the outstanding equities sold short (i.e., the current fair value). For financial reporting, the current cost of replacing the equity securities sold short is reported as an investment-related payable.

ACERA reports both the performance bond for the stock index futures and the balance in the margin account for the equity arbitrage program as investment receivables. There are no performance bond or margin requirements associated with ACERA's currency swaps.

Capital Assets

Capital assets are carried at cost, net of accumulated depreciation or amortization. Capital assets with an initial cost of $3,000 or more 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 all assets except information systems assets) over the estimated useful lives of the depreciable assets or over the term of the lease on leasehold improvements. The sum-of-the-years digits depreciation method is used for information systems assets.

For each asset, ACERA recognizes one-half year of 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; information systems assets: retirement information system—seven years, accounting information system—three years; office equipment—five years; business continuity assets—five years; computer hardware—five years; and computer software—three years.

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.

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 reported 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.

Implementation of New Accounting Principle

ACERA has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. GASB Statement No. 40 establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. This statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 40.

2. PLAN DESCRIPTION

ACERA is an independent public employees retirement system which operates a cost-sharing multi-employer defined benefit pension plan serving Alameda County and participating employers.

ACERA is governed by the California Constitution, the County Employees Retirement Law of 1937 ("1937 Act") found in Sections 31450-31898 of the California Government Code, and the bylaws, procedures and policies adopted by the ACERA Board of Retirement. ACERA began operations in its present form on January 1, 1948.

ACERA is not affiliated with the California Public Employees' Retirement System (CalPERS).

The 1937 Act dictates ACERA's plan structure and operation. The provisions of the 1937 Act detail requirements concerning membership, governance, contributions, benefits, service, retirement eligibility, disability, cost of living, financial provisions, optional allowances, and reciprocal benefits.

ACERA provides basic lifetime retirement, disability, and death benefits to members who meet the minimum age and length-of-service requirements. In addition, ACERA administers supplemental retiree health care, dental care, vision care, and cost-of-living programs. (In this report, "basic" benefits are benefits provided for in the 1937 Act, whereas "supplemental" benefits are additional non-vested benefits paid at the discretion of the Board of Retirement and subject to available funding.)

Defined Benefit Pension Plan

ACERA operates as a defined benefit pension plan, qualified under Section 401(a) of the Internal Revenue Code and is not subject to tax under current income tax laws. On an ongoing basis, all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any of the plan members or beneficiaries, as defined by the terms of the plan.

Funding

The funding for retirement benefits arises from three sources: member contributions, employer contributions, and the earnings on investments held by the plan. Contribution rates are determined annually on recommendation of the plan's actuary based on the funding method approved by the Board of Retirement.

Plan Membership

All full-time employees of Alameda County and of participating employers that are appointed to permanent positions are required by statute to become members of ACERA.

ACERA's Membership

As of December 31, 2005 and 2004

	2005	2004
Members Now Receiving Benefits		
Service Retirement	4,948	4,740
Disability Retirement	693	657
Beneficiaries and Survivors	950	937
Subtotal	**6,591**	**6,334**
Active Members		
Active Vested Members	7,280	6,928
Active Nonvested Members	3,234	3,629
Subtotal	**10,514**	**10,557**
Deferred Members	1,541	1,407
Total Membership	**18,646**	**18,298**

Safety and General Members

ACERA has two membership types, Safety and General, which are based on job classifications:

- Safety members are employees working in active law enforcement, firefighting, or positions that have been designated Safety positions by the Board of Retirement (e.g., Juvenile Hall Group Counselors, Probation Officers).
- General members are all other members.

County and Other Participating Employers

ACERA operates as a cost-sharing multi-employer defined benefit plan for Alameda County (the "County"), the Superior Court of California for the County of Alameda, and five other participating employers ("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. The participating employers are:

- Alameda County
- 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
- Superior Court of California for the County of Alameda

About 72% of active members are from Alameda County, 18% are from Alameda County Medical Center, and 8% are from Superior Court of California for the County of Alameda (as of December 31, 2005).

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.

In 2005 two alternate Board members were added: one alternate elected by Safety members and one alternate elected by retired members.

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

Membership Status, Vesting, Refunds

Members are considered to be "active" members so long as they remain employed full-time by the County or a participating employer (or employed non-full-time and continue to make contributions).

Members become vested in retirement benefits upon completion of five years of credited service.

Authority for Establishing and Amending Benefit Provisions

The 1937 Act provides the authority for the establishment of ACERA benefit provisions. In most cases where the law provides options concerning the allowance of credit for service, the offering of benefits, or the modification of benefit levels, the law generally requires approval of the employer(s) board of supervisors for the option to take effect.

Separately, in 1984 the Alameda County Board of Supervisors and the Board of Retirement approved the adoption of Article 5.5 of the 1937 Act. This adoption permitted the establishment of a Supplemental Retirees Benefit Reserve ("SRBR") for ACERA.

Article 5.5 provides for the systematic funding of the SRBR and stipulates that it be used only for the benefit of retired members and beneficiaries. The law grants discretionary authority over use of the SRBR funds to the Board of Retirement. Supplemental benefits currently provided through the SRBR include supplemental COLA, supplemental death benefits, and the retiree monthly medical allowance (described below). The payment of supplemental benefits from the SRBR is subject to available funding and must be annually re-authorized by the Board of Retirement. SRBR benefits are not vested.

Service Retirement

ACERA's regular ("service") retirement benefits are based on years of credited service, final average salary, and age at retirement, according to the applicable statutory formulae. Members who qualify for service retirement are entitled to receive monthly service retirement benefits for life.

Vested General members may retire at age 50 with 10 years of qualifying service, at any age with 30 years of qualifying service, or at age 70, regardless of service credit.

Vested Safety members may retire at age 50 with 10 years of qualifying service, or at any age with 20 years of qualifying service.

Death Benefits

ACERA provides specified death benefits to beneficiaries and survivors of the member. The death benefits provided depend on whether the member is active or retired.

The basic active member death benefit consists of retirement contributions plus interest plus one month's pay for each full year of service (up to a maximum of six month's pay). Other death benefits may be available based on years of service, marital status, and whether the member has minor children.

Tier 1 and Tier 2 Benefit Levels.

The structure of the plan provides for two benefit levels ("tiers") within each type of membership (General and Safety). The tiers differ mainly in the magnitude of contributions required and benefits received.

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. Most active ACERA members belong to Tier 2. Relative to the more senior Tier 1 members, active members in Tier 2 contribute somewhat less to the retirement plan as a percent of compensation and will receive somewhat lower retirement benefits. Note 3—Contributions explains retirement plan contribution rates.

Integration with Social Security.

The contributions and benefits associated with the federal Social Security program are completely separate from ACERA contributions and benefits. Most General members of ACERA are covered by Social Security while Safety members are mainly not covered by Social Security.

ACERA contributions and benefits are integrated with Social Security for members who are covered by Social Security. The purpose of integration is to reduce the degree to which ACERA's plan coverage overlaps Social Security coverage.

Basic Cost-of-Living Adjustment

Retirement allowances are indexed for inflation. Retirees receive automatic **basic** cost-of-living adjustments (COLAs) based upon the Consumer Price Index (CPI) for the San Francisco Bay Area. The adjustments go into effect on April 1 each year. Annual COLA increases are capped at 3% for Tier 1 and 2% for Tier 2 members under the 1937 Act. The expected impact of future basic cost of living adjustments is a factor in setting the contribution rates for members and employers. In any year that the basic COLA adjustment for a retiree falls short of the CPI increase for that year due to the statutory cap, the shortfall is carried over and applied in a future year to the extent that the CPI falls short of the statutory cap in the future year.

The actual 2005 COLA increase granted for Tier 1 members was the maximum 3% for all but the most recently retired members (who received at least 2%); the actual COLA increase for Tier 2 members was the maximum 2%.

Supplemental Cost-of-Living Adjustment

Separately from the basic cost-of-living adjustment described above, the Board of Retirement implemented an ad hoc **supplemental** cost-of-living adjustment (supplemental COLA) program, effective January 1, 1998 in its present form. The supplemental COLA is structured to maintain each retiree's purchasing power at no less than 85% of the purchasing power of the original benefit. Under this program, each retiree's current allowance is adjusted, as necessary, so that the adjusted allowance becomes at least 85% of the original benefit amount indexed to the CPI.

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

Disability allowances receive the same treatment as ordinary service retirement allowances for both basic and supplementary cost-of-living adjustments.

Actuarial Valuation

An actuarial valuation is normally performed annually for the pension trust fund as a whole. Note 5—Actuarial Valuation provides more information about this.

3. CONTRIBUTIONS

Authority for Establishing and Amending Obligations to Make Contributions

The 1937 Act establishes the basic obligations for employers and active members to make contributions to the pension trust fund. The member and employer contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The rates are based on membership type (General and Safety) and tier (Tier 1 and Tier 2).

Funding Objective.

The funding objective of the plan is to establish member and employer contribution rates which, over time, will remain level as a percentage of payroll, unless plan benefit provisions are changed.

Member Contributions

Active members are required by statute to contribute toward their retirement benefits. The member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. Member contributions along with credited interst are refundable upon termination of membership. Note 4—Reserves explains interest crediting.

Employer Contributions

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

Employer contribution rates vary from year to year and depend on the level of benefits established, the rate of return on investments, and the cost of administering benefits.

Member Rates based on Age-at-Date-of-Entry

The ranges of current member contribution rates based on age-at-date-of-entry are shown below (effective September 2005). Each pair of percentages ranges from youngest to oldest age-at-date-of-entry within the category.

Current Member Contribution Rates

Rates: Youngest to Oldest at Date of Entry

Tier 1 (entry date prior to July 1, 1983)	
General	10.64%–14.13%
Safety	16.45%–19.52%
Tier 2: (entry date July 1, 1983 or later)	
General	7.10%–10.46%
Safety	13.74%–17.77%

For members covered by Social Security the contribution rates shown apply to biweekly salary over $161 (a one-third reduction in the rates applies to the first $161 of biweekly salary).

Pension Obligation Bonds

In 1995 and 1996 Alameda County, the primary ACERA sponsor, issued pension obligation bonds and contributed the net bond proceeds to the ACERA pension trust fund. ACERA received aggregate net proceeds of $591 million in these transactions. These contributions allow ACERA to provide "pension obligation bond credits" to the County (thus reducing contributions otherwise payable) over the period of time used by ACERA to amortize its unfunded actuarial accrued liability. The County received pension obligation bond credits of approximately $32 million in the year ended December 31, 2005, and the same amount in the year ended December 31, 2004.

4. RESERVES

The reserves represent the components of ACERA's net assets. This means that the annual change in ACERA's reserves matches the annual change in ACERA's plan net assets.

Reserves

As of December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Member Reserve	$ 942,948	$ 909,497
Employers' Advance Reserve	350,375	447,141
Retired Member Reserve	2,496,905	2,208,850
Supplemental Retiree Benefit Reserve	503,530	498,005
Contingency Reserve	52,721	48,246
Market Stabilization Reserve	272,692	210,703
Total Reserves	**$4,619,171**	**$4,322,442**

Actuarial Smoothing

Net investment income reported on the statement of changes in plan net assets affects the reserves indirectly through an actuarial "smoothing" process approved by the Board of Retirement. This process operates semi-annually with calculation periods ending June 30 and December 31. It entails spreading the income over ten successive semi-annual periods.

Semi-annual Interest Crediting.

ACERA updates reserve balances on a semi-annual basis as of June 30 and December 31 each year. At these times, ACERA carries out a multi-step process to calculate new reserve balances as specified in Article 5.5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited at the actuarial assumed interest rate to specified components of reserves in a prescribed sequence and to the Contingency Reserve. Of any excess net earnings remaining, 50% is credited to the Supplemental Retiree Benefit Reserve and 50% is credited proportionally to the other reserves (except for the Contingency Reserve and the Market Stabilization Reserve).

While a member is active, ongoing member and employer contributions associated with that member are accumulated in two separate components of reserves—the Member Reserve and the Employers' Advance Reserve. At the time of the member's retirement, ACERA makes a one-time transfer of the associated contributions plus credited interest from these two components of reserves to the Retired Member Reserve.

Components of Reserves

The Member Reserve represents the total accumulated member contributions of current active and inactive (deferred) members. Additions include member contributions and credited interest; deductions include refunds of member contributions along with credited interest and transfers to the Retired Member Reserve made at the time the member retires.

The Employers' Advance Reserve represents the total accumulated employer contributions for future retirement payments to active and deferred members. Additions include contributions from the employers and credited interest; deductions include transfers to the Retired Member Reserve made at the time each member retires. When a terminating member elects to receive a refund of member contributions, there is no corresponding effect on the balance of the Employers' Advance Reserve because the employer contribution rates are based on an actuarial assumption that takes into account the expected rate of member terminations.

The Retired Member Reserve represents funds accumulated to pay retirement benefits to retired members. This reserve represents the total accumulated transfers from the

Member Reserve, the Employers' Advance Reserve (both made at the time each member retires) and credited interest, reduced by payments to retired members, beneficiaries, and survivors.

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

The Supplemental Retiree Benefit Reserve (SRBR) represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. The benefits that ACERA is currently funding from the SRBR include healthcare insurance subsidies, supplemental COLA, Medicare Part B reimbursement, vision, dental, and increased death benefits to retirees. The SRBR was established on January 1, 1985, upon adoption of Article 5.5 of the 1937 Act by the Board of Supervisors for Alameda County.

The Market Stabilization Reserve represents the deferred balance of investment earnings not yet credited to other reserves. This balance arises from the five-year actuarial smoothing process for investment earnings described above. The market stabilization reserve balance thus represents the difference between (1) the aggregate amounts initially deferred (smoothed) from the ten most recent semi-annual periods and (2) the amounts subsequently recognized for semi-annual interest crediting from these same ten periods.

Allocation of Earnings to Reserves for 2005

For the year ending December 31, 2005, ACERA's allocations of earnings to reserves were $285.7 million. Of this amount, $281.2 million in interest was credited to reserves at 3.07% and 3.76% at June 30, 2005 and December 31, 2005, respectively. Earnings for each semi-annual period in 2005 (resulting from the five-year smoothing process) were not sufficient to provide interest credits to the reserves at the actuarial assumed interest rate in effect during the year (4.00% semi-annually for the period ending 6/30/2005 and 3.90% for the period ending 12/31/2005). $4.5 million was allocated to the Contingency Reserve to maintain the Contingency Reserve balance at 1% of total assets. Separately, the Market Stabilization Reserve increased by $62.0 million as a result of applying the actuarial five-year smoothing process.

5. ACTUARIAL VALUATION

ACERA retains an independent actuarial firm to conduct an actuarial valuation of the pension trust fund to monitor ACERA's funding status and funding integrity. This valuation is updated annually for economic and non-economic assumptions. The purpose of the valuation is to reassess the magnitude of ACERA's benefit commitments in comparison with the assets expected to be available to support those commitments so that employer and members contribution rates can be adjusted accordingly.

The most recent actuarial valuation was completed as of December 31, 2004 and this valuation determined the plan's funded status to be 83.9%.

6. POSTEMPLOYMENT 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. This arrangement results in "blended" healthcare premium rates that allow retirees to purchase healthcare from one of these providers at rates lower than otherwise (an "implicit subsidy"). About 88% of eligible ACERA retirees purchased healthcare through this program during 2005.

For several years, ACERA retirees have been eligible to receive an explicit subsidy for healthcare premiums funded by ACERA's Supplemental Retiree Benefit Reserve. This explicit subsidy takes the form of a Monthly Medical Allowance based on the lowest average cost healthcare plan available among the contracts negotiated by the County. The allowance is subject to annual reauthorization by the Board of Retirement.

The actual amount of the allowance 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. Disability retirees are also eligible for the healthcare benefits program; the amount of the subsidy depends on the type of disability retirement (service-connected or non-service connected).

The program may be amended, revised or discontinued at any time.

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

Postemployment Healthcare Benefits

For the Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
County's Healthcare Premium Account Balance	$ 3,186	$ 2,594
Health Insurance Subsidies Paid	21,967	19,589
Number of Subsidized Retirees		
Medical	4,959	4,634
Dental	6,394	5,978
Vision	6,397	5,963

7. DEPOSITS AND INVESTMENTS

The 1937 Act gives the Board of Retirement exclusive control over ACERA's investment portfolio. Except as otherwise restricted by the California Constitution or other laws, the 1937 Act 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 1937 Act 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.

The Board of Retirement investment authority granted under the 1937 Act was also incorporated into the state constitution as the California Pension Protection Act of 1992 (Article 16, Section 17 of the California Constitution).

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.

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.

Investments

ACERA's asset classes include U.S. equity, international equity, fixed income (U.S. and international) and real estate. Investments in any class may be held in direct form, pooled form, or both.

As of December 31, 2005, 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 pooled short-term investment fund managed by the master custodian. This short term investment fund holds 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 in connection with the securities lending program in which ACERA participates is held in a different short-term investment pool.

These two investment pools are each held in a trust fund sponsored 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 investment pools is marked to market 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.

Securities Lending Activity

Board of Retirement Policies authorize ACERA to participate in a securities lending program. Securities lending transactions are short-term collateralized loans of ACERA securities for the purpose of generating additional investment income. ACERA has a securities lending agreement in place which authorizes the securities lending agent to lend ACERA securities to broker-dealers and banks pursuant to a loan agreement. For each securities loan, ACERA receives either cash or non-cash collateral. In the case of cash collateral, ACERA invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In contrast, when non-cash collateral is provided, the borrower also pays ACERA a loan premium.

For the years ended December 31, 2005 and 2004, on behalf of ACERA, the securities lending agent lent ACERA securities (government bonds, corporate stocks, corporate bonds, and international equities) to borrowers under the securities lending agreement and ACERA received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt or irrevocable bank letters-of-credit as collateral.

ACERA did not have the ability to pledge or sell collateral securities delivered absent a borrower default (therefore such non-cash collateral is not reported on the statements of plan net assets).

Borrowers were required to deliver collateral for each loan ("margin") equal to:

- In the case of loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, margin of at least 102% of the market value of the loaned securities;
- In the case of loaned securities not denominated in U.S. dollars, or whose primary trading market was not located

in the United States, margin of at least 105% of the market value of the loaned securities.

Moreover, borrowers were required to maintain the designated margin percentage of collateral on a daily basis.

ACERA did not impose any restrictions for the years ended December 31, 2005 and 2004 on the amount of the loans that the securities lending agent made on its behalf. The securities lending agent indemnified ACERA by agreeing to purchase replacement securities or supplement the amount of 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 ACERA for any income distributions on loaned securities. There were no losses during the years ended December 31, 2005 and 2004 resulting from a default of the borrowers or the securities lending agent.

For the years ended December 31, 2005 and 2004, 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 short term investment pool managed by the securities lending agent. As of December 31, 2005 and 2004, this investment pool had an average duration of 42 and 36 days, and an average weighted maturity of 456 and 446 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, 2005 and 2004, ACERA had no credit risk exposure to borrowers because, for each borrower, the value of borrower collateral held exceeded the value of the securities on loan to the borrower.

As of December 31, 2005 and 2004, ACERA had securities on loan with a fair value of $461.3 million and $344.0 million, respectively for cash collateral of $474.6 million and $353.5 million, respectively.

Deposit and Investment Risks

GASB Statement No. 40 requires the disclosure of specific risks that apply to ACERA's investments. GASB Statement No. 40 identifies the following risks:

- Custodial Credit Risk—Deposits
- Concentration of Credit Risk
- Credit Risk
- Interest Rate Risk
- Fair Value Highly Sensitive to Changes in Interest Rates
- Custodial Credit Risk—Investments
- Foreign Currency Risk

GASB Statement No. 40 also requires the disclosure of deposit or investment policies (or the lack thereof) that relate to the investment risks that are required to be disclosed.

Investment Policies

ACERA has chosen to manage the investment risks described by GASB Statement No. 40 by contractually requiring each portfolio investment manager to abide by restrictive investment guidelines specifically tailored to that individual manager rather than adopting across-the-board investment policies with respect to these investment risks. The guidelines stipulate the investment style, the performance objective, performance benchmarks, and portfolio characteristics.

For example, in the case of foreign currency risk, the policy guidelines for the U.S. dollar equity portfolios differ from those for the non-U.S. dollar equity portfolios. Likewise, in the case of credit risk, the guidelines for one fixed income manager stipulate a minimum acceptable credit rating for each debt instrument while the guidelines for a different fixed income portfolio merely require that the average of credit ratings for a certain fair value percentage of the portfolio meet a minimum requirement.

Each manager is likewise subject to a "manager standard of care" that establishes a fiduciary relationship requiring the manager to act prudently and solely in the best interest of ACERA.

Separately, ACERA's guidelines also require each manager's investment return performance to compare favorably with the performance of the relevant passive market index such as the Lehman Brothers Global Bond Index.

ACERA's investment staff continually monitors all investment managers for compliance with the respective guidelines.

Custodial Credit Risk—Deposits

The Custodial Credit Risk for Deposits is the risk that, in the event of the failure of a depository financial institution, ACERA will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. ACERA has no general policy on custodial credit risk for deposits.

By necessity, ACERA maintains small operational cash deposits to support day-to-day cash management requirements. Cash held with a financial institution in a pooled money market fund amounted to $3.4 million and $1.7 million as of December 31, 2005 and 2004 respectively. The cash held at the Alameda County Treasurer's investment pool was $0.6 million and $0.1 million as of December 31, 2005 and 2004 respectively. These deposits are uninsured

Credit Risk Analysis

As of December 31, 2005 (Dollars in Thousands)

		Adjusted Moody's Credit Rating[1]							
Debt Investments By Type	**Total**	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B**	**Caa**	**Not Rated**
Collateralized Mortgage Obligations	$ 126,464	$ 126,464	-	-	-	-	-	-	-
Convertible Bonds	25,324	-	-	-	$ 5,761	-	$ 8,844	$ 432	$ 10,287
Corporate Bonds	405,228	22,959	$ 9,788	$ 71,637	145,413	$ 66,584	50,717	16,766	21,364
Credit Card Securities	2,702	2,702	-	-	-	-	-	-	-
Federal Home Loan Mortgage Corp.	45,072	45,072	-	-	-	-	-	-	-
Federal National Mortgage Assn.	108,555	108,555	-	-	-	-	-	-	-
Government Issues	515,072	422,313	26,189	27,705	3,780	10,240	-	-	24,845
Government National Mortgage Assn. I, II	7,215	7,215	-	-	-	-	-	-	-
Other Asset-Backed Securities	60,737	40,497	2,019	2,447	4,276	4,203	-	-	7,295
Subtotal Debt Investments	**1,296,369**	**775,777**	**37,996**	**101,789**	**159,230**	**81,027**	**59,561**	**17,198**	**63,791**
External Investment Pools of Debt Securities									
Securities Lending Cash Collateral Fund	474,589	-	-	-	-	-	-	-	474,589
Master Custodian Short-term Investment Fund	75,579	-	-	-	-	-	-	-	75,579
AFL-CIO Housing Investment Trust	53,614	-	-	-	-	-	-	-	53,614
Subtotal External Investment Pools	**603,782**								**603,782**
Total	**$1,900,151**	**$775,777**	**$37,996**	**$101,789**	**$159,230**	**$81,027**	**$59,561**	**$17,198**	**$667,573**

[1] **Adjusted Moody's Credit Rating:** This schedule displays the fair value of investments by credit rating in increasing magnitude of risk. Investments are classified by Moody's credit rating, or by the Moody's rating that corresponds to the S&P rating if the investment has an S&P rating but not a Moody's rating. Also, whenever both ratings for an investment exist and the S&P rating for the investment indicates a greater degree of risk than the Moody's rating, then the investment's Moody's credit rating is adjusted, solely for the purpose of this disclosure, to the Moody's rating corresponding to the greater degree of risk.

and uncollateralized and subject to custodial credit risk.

ACERA's investment receivables include collateral associated with derivatives activity. This collateral takes the form of a performance bond for the equity index futures contracts ($11.2 million as of December 31, 2005) and cash in a margin account for the long-short equity arbitrage investment program ($84.8 million as of December 31, 2005). The futures performance bond is maintained in a commodity trading account at a financial services firm that provides brokerage services. The margin account for the equity arbitrage program is maintained separately at the same financial services firm. Each account is uninsured and uncollateralized and subject to custodial credit risk.

Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of ACERA's investment in a single issuer of securities. The individual investment guidelines for each fixed income manager forbid concentrations greater than 5% in the securities of any one issuer (excepting issues issued by or explicitly guaranteed by the U.S. government). As of December 31, 2005 ACERA had no investments in a single issuer that equaled or exceeded 5% of ACERA's net assets.

Credit Risk

Credit Risk is the risk that the issuer of a debt security or other counterparty to an investment will not fulfill its obligations. The individual investment guidelines for each fixed income investment manager describe applicable restrictions on credit risk. The credit risk restrictions by investment portfolio (with portfolio style) are as follows:

- A minimum of 51% of the market value of the portfolio must be rated BBB– or higher by Standard & Poor's (S&P) or Baa3 or higher by Moody's Investor Services (Moody's). (Medium-Grade Fixed Income)
- Investments must be rated Baa/BBB or better by Moody's/S&P at time of purchase. (Enhanced Index Fixed Income).
- The average credit quality of the portfolio shall be grade "A" or better based on Moody's and/or S&P. Individual securities shall be of investment-grade quality, i.e., Baa3/BBB– and above. (Global Fixed Income)

The credit quality ratings of a security, (e.g., from Moody's or S&P) give an indication of the degree of credit risk for that security.

The Credit Risk Analysis schedule on the preceding page discloses credit ratings of ACERA's debt investments by type and external investment pools as of December 31, 2005.

Interest Rate Risk

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

Interest Rate Risk Analysis—Duration

As of December 31, 2005 (Dollars in Thousands)

Debt Investments by Type	Fair Value	Duration in Years
Collateralized Mortgage Obligations	$ 126,464	3.4
Convertible Bonds	4,081	7.5
Convertible Bonds (duration not available)	21,243	-
Corporate Bonds	405,228	6.1
Credit Card Securities	2,702	0.0
Federal Home Loan Mortgage Corp.	45,072	2.3
Federal National Mortgage Assn.	108,555	2.6
Government Issues	458,189	5.1
Government Issues (duration not available)	56,883	-
Government National Mortgage Assn. I, II	7,215	3.6
Other Asset-Backed Securities	60,737	6.8
Total Debt Investments	**$1,296,369**	

External Investment Pools of Debt Securities	Fair Value	Duration
Securities Lending Cash Collateral Fund	$ 474,589	42 days
Master Custodian Short-term Investment Fund	75,579	24 days
AFL-CIO Housing Investment Trust	53,614	4.4 years
Total External Investment Pools	**$ 603,782**	

ACERA has investments in three fixed-income portfolios containing individual debt securities as well as investments in three external investment pools containing debt securities. All of these investments are subject to interest rate risk. ACERA has no general policy on interest rate risk for the fixed income portfolios nor for the investments in external investment pools. ACERA manages interest rate risk for the three fixed-income portfolios by setting limits on portfolio duration for each portfolio. The duration restrictions by investment portfolio (with portfolio style) are as follows:

- Duration Band: Lehman Brothers Baa Credit Index duration +/- 2 years (Medium Grade Fixed Income)
- Duration: Match the Lehman Brothers Aggregate Bond Index duration (Enhanced Index Fixed Income)
- Duration Band: 2–10 years duration (Global Fixed Income)

The Interest Rate Risk Analysis—Duration schedule discloses the duration of ACERA's debt investments by type and the duration of each of the external investment pools of debt securities. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present values of cash flows, weighted for those cash flows as a percentage of the investment's full price.

Fair Value Highly Sensitive to Changes in Interest Rates

The terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The Interest Rate Risk Analysis—Duration schedule on the previous page discloses the degree to which ACERA's investments are sensitive to interest rate changes due to the distribution in time of the investments' future cash flows. In contrast, ACERA's investments with fair values that are highly sensitive to interest rates due to other factors are disclosed on the Interest Rate Risk Analysis—Highly Sensitive schedule. ACERA has no general investment policy with respect to investments with fair values that are highly sensitive to changes in interest rates.

The fair value of a mortgage pass-through security is considered to be highly sensitive to changes in interest rates due to both prepayment risk and extension risk: Mortgage borrowers typically prepay loans and refinance when the level of interest rates declines thus forcing investors in pass-through securities to reinvest the mortgage proceeds at the lower rates; conversely, when interest rates increase, the average mortgage life is extended as borrowers avoid refinancing thus reducing the mortgage proceeds otherwise available for security holders to reinvest at the higher rates.

Interest Rate Risk Analysis—Highly Sensitive

Fair Value of Investments with Fair Values Highly Sensitive to Changes in Interest Rates
As of December 31, 2005 (Dollars in Thousands)

Investment Type	Investment Description	Interest Rates	Fair Value
Federal Home Loan Mortgage Corp.	Mortgage Pass-through Securities	5 to 6.5%	$ 8,965
Federal National Mortgage Assn.	Mortgage Pass-through Securities	5 to 6 %	59,704
Government National Mortgage Assn. I, II	Mortgage Pass-through Securities	5 to 6.5%	3,530
AFL-CIO Housing Investment Trust (Real Estate)—FHA, FHLMC, FNMA, GNMA securities	Various Mortgage-related Securities	Various	53,614
Total			**$125,813**

Custodial Credit Risk—Investments Analysis

Fair Value of Securities Lending Non-Cash Collateral
As of December 31, 2005 (Dollars in Thousands)

Type of Non-Cash Collateral and Custodial Arrangement	Fair Value
U.S. Corporate Bonds, U.S. Equity, and Non-U.S. Equity Collateral—Held at Securities Lending Agent	$ 7,100
Total Securities Lending Non-Cash Collateral	**$ 7,100**

Foreign Currency Risk Analysis

Fair Value of Investments Exposed to Foreign Currency Risk by Currency
As of December 31, 2005 (Dollars in Thousands)

	Investment Type						
Currency	Common Stock and Depository Receipts	International Equity Mutual Funds	Corporate Bonds and Convertible Bonds	Foreign Currency	Government Issues	Currency Swaps	Total Exposure Net of Currency Swaps
Australia Dollar	$ 42,446	$ 17,500	-	-	$ 23,792	$(23,795)	$ 59,943
Brazil Real	-	-	$ 4,427	-	-	-	4,427
Canada Dollar	-	31,956	4,081	$ 1,068	65,683	-	102,788
Colombia Peso	-	-	-	-	371	-	371
Denmark Krone	-	2,283	-	-	-	-	2,283
Euro Currency	155,276	203,911	-	252	24,881	(23,230)	361,090
Hong Kong Dollar	11,515	10,652	-	-	-	-	22,167
Japan Yen	62,579	244,237	-	-	-	67,310	374,126
Korea Won	-	12,935	-	-	-	-	12,935
Mexico Peso	-	9,130	-	670	15,406	-	25,206
New Zealand Dollar	7,387	-	6,477	-	19,090	(7,332)	25,622
Norway Kroner	-	3,043	-	-	-	-	3,043
Philippines Peso	2,206	-	-	-	-	-	2,206
Poland Zloty	-	-	-	-	15,563	-	15,563
Singapore Dollar	5,145	3,043	301	-	25,117	-	33,606
South Africa Rand	-	8,369	-	-	-	-	8,369
Sweden Krona	-	9,891	-	-	7,773	-	17,664
Switzerland	-	57,825	-	-	-	-	57,825
Taiwan New Dollars	-	3,804	-	-	-	-	3,804
Thailand Baht	-	-	7,325	-	-	-	7,325
UK Pound Sterling	109,713	130,868	5,953	1,700	8,919	(22,204)	234,949
Various Currencies	-	57,626	-	-	-	-	57,626
Total	**$396,267**	**$807,073**	**$28,564**	**$3,690**	**$206,595**	**$(9,251)**	**$1,432,938**

Custodial Credit Risk—Investments

The Custodial Credit Risk for Investments is the risk that, in the event of the failure of a counterparty to a transaction, ACERA will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The individual investment guidelines for each investment manager require that managed investments be held and maintained with the master custodian in the name of ACERA. The master custodian may rely on sub-custodians. The custodial requirement does not apply to real estate investments and investments in commingled pools. As of December 31, 2005 ACERA had no investments that were exposed to custodial credit risk.

Cash collateral held for securities lending transactions is invested in a pooled short-term investment fund maintained by the securities lending agent.

With respect to the custodial credit risk pertaining to the underlying securities where ACERA holds non-cash collateral, the Custodial Credit Risk—Investments Analysis schedule discloses the fair value of the non-cash collateral by type of custodial arrangement.

Foreign Currency Risk

Foreign Currency Risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment or deposit. ACERA has no general investment policy with respect to foreign currency risk.

Foreign Currency Risk—Investments

The Foreign Currency Risk Analysis schedule shows the fair value of investments that are exposed to this risk by currency denomination and investment type. This provides an indication of the magnitude of foreign currency risk for each currency.

Foreign Currency Risk—Currency Swaps

The outstanding currency swaps are also subject to foreign currency risk. The currency swaps generally serve to hedge, or offset, the impact that changes in foreign currency exchange rates have on the reported U.S. dollar fair value of investments denominated in foreign currencies.

The dollar impact that currency swaps have on foreign currency risk equals the foreign currency settlement amounts translated in the same manner as the investments (i.e., at the December 31, 2005 spot exchange rate). The impact appears in the column labeled Currency Swaps on the schedule. The total column of the schedule indicates the net foreign currency risk, i.e., the gross risk associated with the investments less the risk hedged by the outstanding currency swaps.

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.

As of December 31, 2005 and December 31, 2004, the remaining balances of real estate-related debt outstanding relating to the acquisition of separate properties were $46.6 million and $55.2 million, respectively.

Real Estate Investment Income—Separate Properties

For the Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Real Estate Investment Income	$ 29,760	$ 34,627
Real Estate Expenses		
Non-Operating Expenses[1]	3,423	5,505
Operating Expenses	10,452	13,099
Total Expenses	**13,875**	**18,604**
Real Estate, Net Income	**$15,885**	**$16,023**

[1] Non-operating expenses include interest expense resulting from loans on properties.

Capital Assets and Accumulated Depreciation

For the Years Ended December 31, 2005 and 2004 (Dollars in Thousands)

	January 1, 2005	Additions	Deletions/ Transfers/ Additions	December 31, 2005
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 2,856	$ 219	$ (6)	$ 3,069
Information Systems	10,240	-	(59)	10,181
Leasehold Improvements	852	-	-	852
Subtotal	**13,948**	**219**	**(65)**	**14,102**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction-in-Progress	$ 27	-	$ (27)	-
Total Capital Assets (Cost)	**13,975**	**219**	**(92)**	**14,102**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,268)	(193)	4	(2,457)
Information Systems	(5,536)	(1,816)	56	(7,296)
Leasehold Improvements	(46)	(31)	-	(77)
Total Accumulated Depreciation and Amortization	**(7,850)**	**(2,040)**	**60**	**(9,830)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 6,125**	**$ (1,821)**	**$ (32)**	**$ 4,272**

	January 1, 2004	Additions	Deletions/ Transfers/ Additions	December 31, 2004
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 2,683	$ 173	-	$ 2,856
Information Systems	8,486	1,755	-	10,241
Leasehold Improvements	835	19	$ (2)	852
Subtotal	**12,004**	**1,947**	**(2)**	**13,949**
CAPITAL ASSETS - NON DEPRECIABLE				
Construction-in-Progress	941	1,271	(2,186)	26
Total Capital Assets (Cost)	**12,945**	**3,218**	**(2,188)**	**13,975**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,033)	(235)		(2,268)
Information Systems	(1,117)	(2,087)	(2,332)	(5,536)
Leasehold Improvements	(15)	(31)		(46)
Total Accumulated Depreciation and Amortization	**(3,165)**	**(2,353)**	**(2,332)**	**(7,850)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 9,780**	**$ 865**	**$ (4,520)**	**$ 6,125**

8. CAPITAL ASSETS

ACERA's investment in capital assets includes information systems, equipment, furniture, leasehold improvements, and construction-in-progress.

Depreciation expense for capital assets was $2.0 million and $2.4 million for the years ended December 31, 2005 and 2004, respectively. 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.

9. 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 $53,000 and $34,000 for the years ended December 31, 2005 and 2004, respectively.

ACERA leases photocopy machines and mailing equipment to support operations. Equipment rental expense was $29,000 and $16,000 for the years ended December 31, 2005 and 2004, respectively. The future minimum rental payments for these leases are as follows:

Future Minimum Rental Payments

As of December 31 (Dollars in Thousands)

	Year	Amount
	2006	$ 29
	2007	29
	2008	29
	2009	29
	2010	29
Total		**$145**

10. ADMINISTRATION EXPENSE

ACERA's Board of Retirement annually adopts an administration expense budget covering expenses to be incurred in the following fiscal year. The administration expense is charged against investment earnings and is normally limited to 0.18% of the assets of the retirement system in accordance with Section 31580.2 of the 1937 Act. Only a portion of the Administration expense is actually subject to the statutory limit (based on exclusions specified in the 1937 Act). ACERA's policy is to assess compliance with the 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 provision of the 1937 Act (Section 31580.3) that provides additional budgeting discretion. For a limited period (until January 1, 2007) the Board may elect to adopt an administration 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 2005 and 2004 administration expense budgets in accordance with the Section 31580.3 limitation.

During the year ended December 31, 2005 the Board adopted a provision of the 1937 Act (Section 31522.6) that allows ACERA to exclude business continuity-related expense from that portion of administration expense subject to the statutory limit. This exclusion, combined with

Application of Statutory Limit on Administration Expense

For the Years Ended December 31, 2005 and 2004 (Dollars in Thousands)

	2005	2004
Plan Net Assets at March 31, 2000	$3,947,312	$3,947,312
Limit: Maximum Allowable fraction of Plan Net Assets (0.23%) times Plan Net Assets	9,078	9,078
Portion of Administration Expenses for the Fiscal Year subject to the Statutory Limit	8,879	8,221
Excess of Limit over Portion of Administration Expense Subject to Limit	**$ 199**	**$ 857**
Portion of Administration Expense Subject to Limit as a Percentage of Plan Net Assets	**0.22%**	**0.21%**

other existing exclusions of the same nature permitted for legal and certain investment-related expenses, totaled $2.8 million for the year ended December 31, 2005 and $2.5 million for the year ended December 31, 2004.

11. RELATED PARTY TRANSACTIONS

ACERA is involved in various business transactions with the County of Alameda, the primary plan sponsor. These include reimbursement to the County for the salary and benefits of ACERA staff members paid through the County and reimbursement to the Alameda County Human Resources Department for personnel consulting services. Also, 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. Lastly, ACERA reimburses the County for the cost of services provided in the following areas: insurance/risk management, information technology, and telecommunications.

The balance of such costs at December 31, 2005 not yet reimbursed to the County was approximately $519,000, mainly for the salary and benefits of ACERA staff members.

ACERA leases office space from Oakland 14th St. Office, a title holding company controlled by ACERA. Note 10—Leases describes this arrangement.

Related Party Transactions

For the Years Ended December 31, 2005 and 2004 (Dollars in Thousands)

	2005	2004
Reimbursed Cost of ACERA staff members	$ 5,938	$ 5,006
Reimbursed Costs of County Services	170	138
State-Mandated Benefit Replacement Program (415(m))	16	-
Personnel Services, Other	64	103
Partial Salary/Benefits Reimbursement for Elected Board Members	155	260
Total	**$6,343**	**$5,507**

Required Supplementary Schedules

Schedule of Funding Progress[1]

(Dollars in Thousands)

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
12/31/99	2,997,932	2,762,524	(235,408)	108.5	487,986	(48.2)
12/31/00	3,169,178	2,936,631	(232,547)	107.9	532,305	(43.7)
12/31/01	3,321,794	3,140,216	(181,578)	105.8	590,392	(30.8)
12/31/02	3,294,053	3,559,613	265,560	92.5	640,777	41.4
12/31/03	3,381,757	3,890,043	508,286	86.9	714,344	71.2
12/31/04	3,557,918	4,240,553	682,635	83.9 [4]	694,626	98.3

[1] This schedule is based on the actuarial valuation as of 12/31/2004, ACERA's most recent actuarial valuation.

[2] Exludes Assets for SRBR and other non-valuation reserves.

[3] Exludes liabilities for SRBR and other non-valuation reserves.

[4] Excludes Safety 3%-at-50 formula improvement. If the Safety formula improvement is included, the total UAAL is $778,205,000 and the funded ratio is 82.1%.

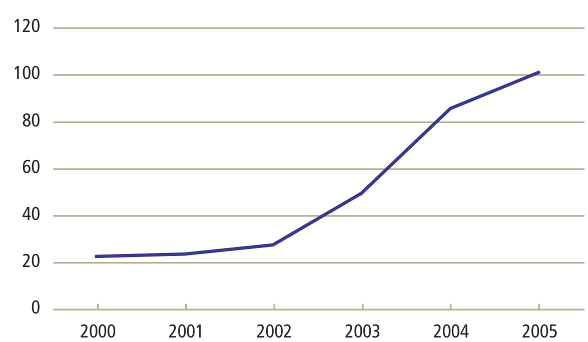
Schedule of Employer Contributions

(Dollars in Millions)

Year Ended December 31	Annual Required Contribution	Percentage (%) Contributed
2000	$ 22	100
2001	23	100
2002	27	100
2003	49	100
2004	85	100
2005	101	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 dates indicated. Additional information as of the most recent actuarial valuation date, December 31, 2004 is as follows:

Actuarial Cost Method:
Entry Age Normal Cost Method

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 such as the Supplemental Retirees Benefit Reserve.

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 actuarial assumed interest 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 ACERA) assuming a constant number of active members. To remain as a level percentage of payroll, amortization payments are scheduled to increase by the assumed annual inflation rate plus the assumed across-the-board salary increase percent (the total of these two is 4.25% per annum).

The entire UAAL of ACERA is being funded over a declining 28-year period following December 31, 2004.

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 28 years following December 31, 2004.

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.

Actuarial Assumed Interest Rate:
7.80% per annum

Assumed Salary Increases:
General: 4.98 % - 7.93% per annum and Safety: 4.51% - 7.86% per annum.

Assumed Inflation Rate:
4.00% per annum

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

Supporting Schedules

Administration Expense

For the Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Personnel Services		
Staff Wages	$ 3,335	$ 2,818
Fringe Benefits	1,529	1,151
Temporary Sevices	378	518
Total Personnel Services	**5,242**	**4,487**
Professional Services		
Computer Services	283	132
Audit	64	61
Specialized Services	56	50
Total Professional Services	**403**	**243**
Communications		
Printing	264	267
Communication	51	51
Postage	78	61
Total Communications	**393**	**379**
Rental / Utilities		
Office Space	41	34
Equipment Leasing	23	16
Total Rentals / Utilities	**64**	**50**
Other		
Training	115	58
Supplies	57	48
Maintenance-Equipment	75	81
Insurance	141	146
Software Maintenance and Support	300	435
Depreciation and Amortization	1,580	1,825
Miscellaneous	509	469
Total Other	**2,777**	**3,062**
Subtotal: Administration Expense (subject to Statutory Limit)	**8,879**	**8,221**
Legal Expenses	1,199	839
Actuarial Expenses	232	148
Business Continuity	8	-
Total Administration Expense	**$10,318**	**$9,208**

Investment Expenses

For the Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Investment Manager Fees[1]	$ 17,787	$ 11,913
Investment Custodians	293	286
Investment Consultants	535	517
Brokerage Commissions	1,649	1,271
Investment Allocated Costs	1,618	1,191
Total Investment Expenses	**$21,882**	**$15,178**

[1] The Investment Section of this report provides a breakdown of Investment Manager Fees by type of investment manager.

Payments to Consultants

For the Years Ended December 31, 2005 and 2004
(Dollars in Thousands)

	2005	2004
Actuarial & Audit Services	$ 301	$ 212
Disability Medical	161	199
Human Resources Consulting	149	177
Legal Services	210	160
Other Specialized Services	860	1,617
Total Payments to Consultants	**$ 1,681**	**$ 2,365**

The Sixties

1960
- Luther Simjian invents the ATM
- Laser invented
- Mattel's Chatty Cathy doll speaks 11 phrases in random order

1961
- Berlin Wall built
- Peace Corps founded
- *West Side Story* wins Oscar

1962
- "Dr. No" begins the James Bond series
- Touch-tone phones are a hit at the Seattle World's Fair

1963
- JFK is assassinated
- Martin Luther King Jr. makes his famous "I Have a Dream" speech
- The Emergency Broadcast System, with periodic air tests, keeps the U.S. prepared
- Betty Friedan's *The Feminine Mystique* energizes the feminist movement
- On TV: "The French Chef" with Julia Child

1964
- Hasbro launches GI Joe action figure
- Cassius Clay (a.k.a. Muhammad Ali) becomes World Heavyweight Champion
- With "Peyton Place," televised soap operas move to prime time
- Nobel Prize in Literature: Jean-Paul Sarte, who declines it

1965
- Los Angeles riots
- New York City Great Blackout
- Kodak offers Super 8 film for home movies
- Oscars*: The Sound of Music* wins Best Picture

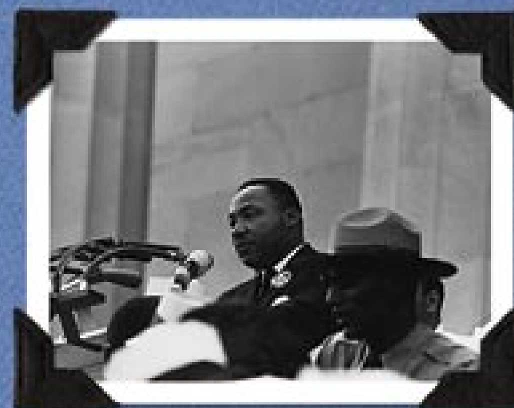
1966
- Mass draft protests in U.S.
- Star Trek lands on TV
- In China, the Cultural Revolution

1967
- First heart transplant
- Dolby eliminates audio hiss
- Super Bowl I: Green Bay 35, Kansas City 10

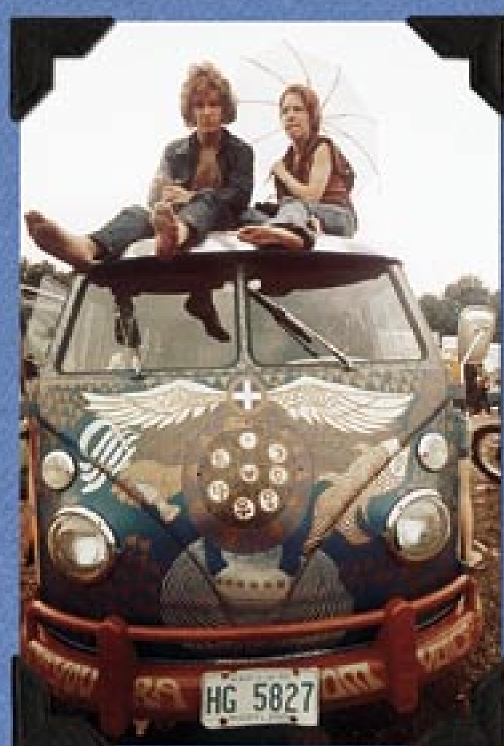
1968
- Têt Offensive
- *60 Minutes* starts ticking at CBS

1969
- Charles Manson and "family" arrested
- Neil Armstrong becomes first man on the moon
- Yasser Arafat becomes leader of the Palestine Liberation Organization
- Children can visit "Sesame Street"
- The Woodstock Music and Art Festival

Cesar Chavez



1966 The Black Panther Party for Self Defense is founded in Oakland.



Woodstock

Section 3 Investment

Sonny and Cher

Sproul Plaza March

1966 Frank Ogawa is the first Japanese American elected council member to a major U.S. city (Oakland) in the continental U.S. He serves for 28 years.

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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

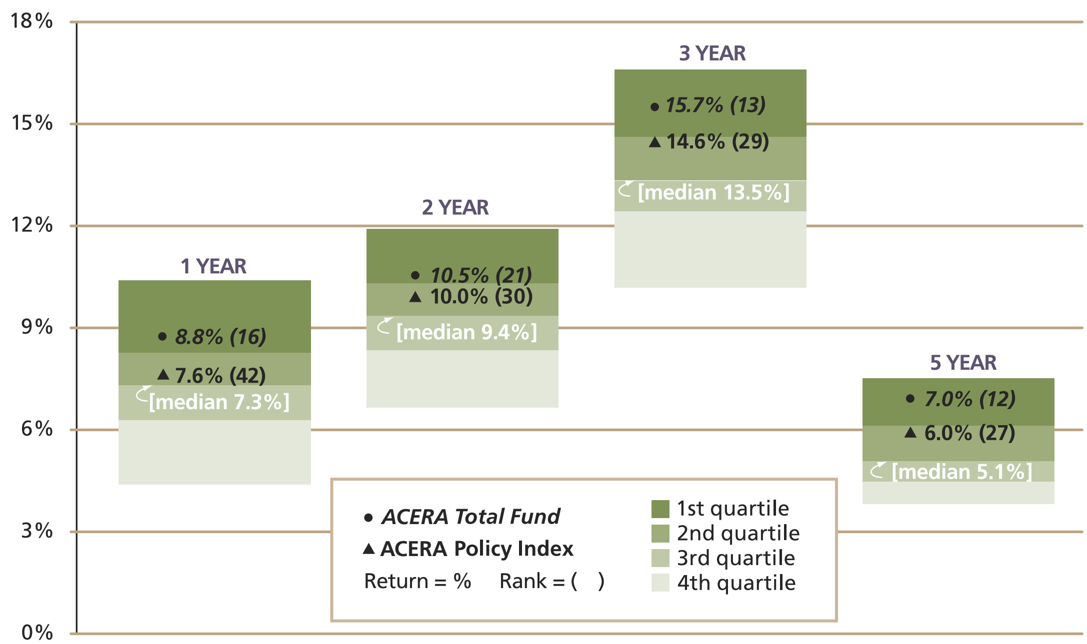
Chief Investment Officer's Report

Highlighted Performance of the ACERA Investment Portfolio for 2005

Total Fund Return	8.8%
Domestic Equity Return	5.3%
International Equity Return	18.6%
Fixed Income Return	2.8%
Real Estate Return	23.3%
Year-end Fund Value	$4.6 billion

ACERA Total Fund Returns Versus Total Public Funds (Above $100 Million) Returns[1]

Periods Ended December 31, 2005



[1] Source of data: Strategic Investment Solutions, Inc.

Summary of Portfolio Results

Another year of outstanding performance for the ACERA Fund ended December 31, 2005, with the Fund returning 8.8% and ranking in the upper 16th percentile among all public pension funds greater than $100 million. (Please refer to the chart on the previous page for more performance results.) The performance surpassed the upper quartile performance peer ranking stated in the ACERA General Investment Guidelines, Policies and Procedures (Policy). It also outperformed the policy index (a weighted average of the Fund's asset classes and their respective benchmarks) and median fund by 120 and 150 basis points (100 basis points equal one percentage point), respectively. The Fund's return exceeded ACERA's actuarial investment return assumption of 7.8% for 2005. Over the longer term, the Fund's three- and five-year returns beat its policy index returns by 110 basis points and 100 basis points, thus ranking it in the upper 13th and 12th percentiles, respectively. After paying all benefits and expenses of the Association, the year-end value of the Fund reached $4.6 billion.

Another indicator of consistent long-term performance was the Fund's annualized risk-adjusted return, which outperformed its policy index on a five-year basis, ranking it in the upper 13th percentile in the universe of public pension funds greater than $100 million. This means that ACERA's Fund achieved higher investment returns than the policy index for every unit of risk it took in the last five years.

ACERA's 8.8% return in 2005 also beat the performance of the Wilshire 5000, a broad index of stock prices which rose only 5.5%. This result indicates that ACERA's Fund outperformed the broader investment market in 2005. Many academic studies suggest that about 80-90% of a portfolio's investment results are derived from its asset allocation and that a well-diversified investment portfolio is more likely to produce better performance relative to its indexes. Our success can be attributed to the well-thought-out asset allocation strategy adopted by ACERA's Board of Retirement (Board) and to ACERA investment staff's timely implementation and rigorous monitoring of this plan in collaboration with outside consultants.

Analysis of Factors Affecting Our Portfolio in 2005

The prudent leadership of ACERA's Board is undoubtedly the most important factor in the continued success of our portfolio. Our Board understands that ACERA's portfolio requires a sound and stable strategy for meeting investment goals over the long-term. To that end, ACERA's Board began reviewing ACERA's asset/liability structure in late 2005 in an effort to evaluate the appropriateness of the portfolio's assumptions and asset mix. The asset/liability study, followed by the asset allocation and manager structure studies are expected to be completed in mid 2006. In the past, ACERA's asset allocation targets and management structures made material contributions to our portfolio's performance. 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. Last year was no exception. Similar to the U.S. stock market, ACERA's portfolio enjoyed a steadier and healthier performance in the second half of the year. The U.S. capital markets ended the year with modest gains (see economic performance highlights below for specific index returns). In 2005, market sentiment as well as performance were helped by the following positive developments: (1) healthy GDP growth fueled by robust productivity growth; (2) sustained corporate profitability and strong cash flow; (3) relatively low long-term interest rates; (4) positive consumer confidence and spending (despite late summer slumps); (5) healthy employment figures; and (6) the absence of a broad inflation in the consumer market.

The stable performance of the market over the long-term effectively masked some brief periods of volatility in 2005. Several events threatened and eventually did affect capital markets in a negative way. Notable of such events were the following: hurricane Katrina and the destruction of many neighborhoods in the City of New Orleans as a consequence of major levee breaks; spikes in energy prices including gas prices surpassing the $3.00 mark for regular grade fuel; eight consecutive quarter-point short-term interest rate hikes; the continued rise in health benefit costs and thus business costs; and the projected slowing of the housing market. These events and the corresponding markets sentiments will undoubtedly continue to exert negative influences in 2006.

Inflation pressures increased in 2005 to a large degree attributable to the sharply rising energy costs and related business and commodity costs. In fact, both the price and the global demand for fossil fuels rose rapidly. The price per barrel of crude oil reached an all time high of $69.81—an historical record. However, the increase in prices for personal consumption expenditures was limited with goods and energy spending as exceptions. Residential housing investment also expanded considerably in 2005 and the real estate market remained strong. In fact, ACERA's real estate investments were the best performing asset class in the portfolio last year.

In 2005, the Board began a gradual controlled liquidation program to redeploy ACERA's real estate investments from its separately managed accounts to selective commingled accounts designed to enhance the total returns for the real estate asset class. The ultimate goal of the Board is to prudently allocate assets to fulfill the real estate targets set forth in the asset allocation policy.

Geopolitical risks remained throughout the world in 2005 and the Iraq war was on top of that list. With its persistent insurgency and political instability, Iraq presented a source of great discomfort and uncertainty in the U.S. economy. In addition to exerting upward pressure on energy prices, the economic cost of the war continued to represent a great burden to U.S. taxpayers. The intensifying debate over the war throughout the year led to calls for troop reductions in the face of what some have labeled a civil war among religious factions. To make matters worse, the neighboring country of Iran began to defy restrictions on the enrichment of nuclear fuel. Further instability is expected with world reaction to the Palestinian election of the Hamas party into power. The Middle East will undoubtedly remain a hotbed of drama and a focus of the Bush Administration into 2006.

In general, international equity markets were in positive territory during 2005. In particular, the Japanese, Korean, and Latin American markets posted significant gains, and emerging markets as a whole continued to perform strongly.

The following are economic performance highlights of 2005:

- The U.S. real gross domestic product (GDP) increased a bit more than 3% in 2005, building on the sustained expansion starting in the middle of 2003.
- Corporate profit growth remained brisk in 2005. According to the Commerce Department, corporate earnings increased 16.4% in 2005, compared with an increase of 12.6% in 2004.
- Payroll employment rose by 2 million in 2005 and the unemployment rate fell to

4.9% at the end of the year. With the exception of August and October of 2005, the last time unemployment dropped to this level was in August of 2001.

- Interest rates advanced to 4.25% at the end of 2005, through a series of 0.25 basis point rate hikes by the Federal Reserve Bank. The moves reflected the Federal Reserve's measured attempt to control inflation.
- The price of oil rose more than 40% during 2005. Higher energy costs pushed up the Consumer Price Index (CPI), reaching 3.4%. The core CPI, which excludes volatile food and energy prices, rose about 2.2%.
- After dipping twice in May and September of 2005, consumer confidence ended about where it began in the beginning of 2005: real personal consumption expenditures were 3.6% decreasing from 2004's 3.9%.
- The housing sector remained strong throughout 2005 and achieved its fifth straight record year for home sales with a projected 7.10 million units for 2005. New home sales of 1.29 million units in 2005 was also a record.
- The trade deficit for U.S. goods and services in 2005 was $725.8 billion. As a percentage of U.S. GDP, the goods and services deficit increased from 5.3% in 2004 to 5.8% in 2005.
- For 2005, the S&P 500 Index returned 4.9%. The Dow Jones Industrial Average moved up 1.7% after converting dividend returns. The Nasdaq Composite Index returned 2.1% in 2005.

Economic Outlook for 2006

U.S. economic growth (GDP) is expected to continue in 2006 although it will likely slow as the mature phase of economic expansion is nearing its end. Many of the same factors, including interest rate hikes, high energy costs, and geopolitical instability will remain in 2006.

The condition of balance sheets in the business sector has been generally strong. We expect this trend to continue. We should see modest increases in corporate earnings in 2006 due to sustained enhanced productivity and technology innovations. Given rebounding business investment in high-tech equipment, expanding sales, favorable conditions in financial markets, and the hurricane-induced rebuilding efforts in the Gulf Coast, we expect the job market to remain strong in 2006.

The Federal Reserve's cycle of monetary tightening is expected to continue for a brief period in early 2006, then slow. Under the new Federal Reserve Chairman Ben Bernanke's leadership, more specific expectations and transparency will characterize the Federal Reserve.

One of the more probable villains for the capital markets in 2006 will be volatile energy prices. This factor may create a domino effect and threaten various key economic life streams such as inflation, consumer spending, investor sentiment, and thus the stock markets. Energy prices reached a record high of $72.00 per barrel in April 2006. Oil prices are expected to remain high, particularly in view of new instability in Iran.

Domestic spending such as homeland security expenditures, hurricane relief, and increasing entitlement costs are likely to modestly push up the federal deficit in 2006. The U.S. trade deficit is likely to reach a new high given the globalization of the economy and continuing outsourcing activities.

Global economic growth seems to be solidly on track. Japan's recovery is expected to continue. Expansion in the European arena has been modest in the past years but is expected to gain more positive momentum in 2006. Emerging markets in Asia and South Africa are likely to continue to experience significant growth although the speed of expansion may slow.

The economy and capital markets are volatile. Nevertheless, the ACERA Board remains committed to a long-term investment strategy that emphasizes prudent diversification, active rebalancing to maintain appropriate asset allocation, and vigorous supervision of 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 activity of these managers and assist the Board with the implementation of investment policies and long-term strategies. ACERA's goal is to achieve a level of performance that will rank the Fund in the upper quartile of comparable pension funds on a risk-adjusted basis. We also seek 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 General Investment Guidelines, Policies and Procedures

The Board, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the Fund, has adopted the ACERA Investment Guidelines, Policies and Procedures (Policy) for the management of ACERA's investments. The Policy is subject to the Board's annual review to ascertain that the goals, guidelines, and expectations set forth in the document are consistent with the Board's expectations. 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 that a particular asset class may experience in a given period. Both traditional assets (cash, domestic equities, domestic fixed income, and mortgages) and non-traditional assets (real estate, international equities, and international fixed income) are included in the mix.

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 so as 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 the ACERA 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 Board incorporated the International Proxy Voting Guidelines into the ACERA Proxy Voting Guidelines and Procedures in 2005.

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 in accordance with the ACERA Proxy Voting Guidelines and Procedures so as to advance the overall good of the plan participants.

Specific Investment Results by Asset Classification

As of December 31, 2005, ACERA's fund was over-weighted in total equities, with 65.0% in total equities versus the target of 61.0%. Domestic equities were slightly under-weighted at 38.5% versus the target of 39.0%, while international equities were over-weighted at 26.5% versus the target of 22.0%. Fixed income was 29.8%, slightly under the target of 30.0%. Real estate was under its 9.0% target at 5.2%.

For 2005, ACERA's U.S. equity composite returned 5.3%, trailing its benchmark Russell 3000 by 80 basis points and the median equity manager by 220 basis points. Two reasons for this result are:
1) 50% of ACERA's U.S. equity allocation was invested in the S&P 500 index which underperformed the Russell 3000 index as well as the U.S. Equity median; and
2) ACERA's U.S. large cap active equity composite underperformed its benchmark—Russell 1000 index. On the other hand, ACERA's international equity composite returned 18.6%, outperforming its benchmark MSCI-ACWI ex-U.S. and the median international equity manager by 150 basis points and 330 basis points, respectively. ACERA's all fixed income composite returned 2.8%, single-handedly beating its benchmark, 75% Lehman Aggregate/15% Citigroup WGBI ex-U.S./10% Lehman High Yield, by 210 basis points and in line with the return of median U.S. fixed income manager. ACERA's real estate composite returned 23.3% while its benchmark, NCREIF Property Index, returned 20.1%.

The investment returns presented herein are based on a time-weighted rate of return methodology based upon market values.

Respectfully Submitted,

Betty Tse
Chief Investment Officer, ACERA
May 4, 2006

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

The year 2005 provided modest but positive returns for world capital markets and for U.S. pension portfolios. After spending most of the first half of 2005 with flat to slightly negative returns, pension portfolios again this year enjoyed a strong finish to end the year with total plan returns near their long-term return expectations. Real Estate and International Equities were the best performing asset classes during the year, while U.S. Stocks and U.S. Bonds managed positive, but far lower returns. The ACERA total portfolio performed well in 2005, posting a return of 8.8% for the year. The 2005 experience was well above the plan's policy index return of 7.6%, the average large public fund's 7.3% return, and exceeded the Association's 7.8% actuarial return expectation.

The year was marked by natural disasters, including the aftermath of the south Asian tsunami and the hurricane-induced devastation of the U.S. Gulf coast and the city of New Orleans. The U.S. economic expansion matured during 2005 while the Federal Reserve pursued a policy regime of "measured" tightening. In the face of Fed tightening and a general compression of earnings multiples, equity instruments managed to achieve a third straight positive year.

International equity far surpassed domestic equity, returning 17.1%, despite the head wind of a generally strong U.S. dollar. Japan and the Emerging Markets were particular areas of strength for the asset class. During 2005, large capitalization U.S. stocks, as measured by the Russell 1000 Index, returned 6.3%. Smaller U.S. companies performed broadly in line with large ones, as the Russell 2000 Index returned 5.9% for the year. Against the backdrop of a continuing Fed tightening regime, investment grade bonds struggled to achieve a positive total return of 2.4%, as measured by the Lehman Aggregate Index. High-yield bonds also struggled in 2005, returning less than their yield at 2.7%.

The Plan's three bond managers all performed well again in 2005, as each outperformed its performance benchmark by a wide margin during the year. The performance of Loomis Sayles in 2005 was particularly impressive. Active manager returns were mixed in the Plan's U.S. Equity composite. While the small cap growth manager, Next Century, posted an extraordinary year, each of the other active U.S. managers achieved returns below their respective performance benchmarks, and the U.S. Equity composite lagged the Russell 3000 asset class proxy. The Plan's International Equity managers together exceeded the return of the MSCI All Country World Ex. US Index benchmark. Capital Guardian, after a period of difficulty in recent years, recorded strong performance.

Investment Guidelines, Policies and Procedures

During 2005, ACERA completed an asset liability study that will lead to a slightly increased total equity allocation and a higher commitment to small cap U.S. equity. The Plan replaced its large cap value U.S. equity manager in 2005. The Plan also refined the structure of its real estate investment program and began implementing a directed brokerage program.

As a follow on to the strategic work completed at the end of 2005, the Plan will reassess its manager structures for each asset class. Apart from the replacement of the large cap value U.S. equity manager, no other changes were made to the Plan's roster of investment managers during the year.

Investment Objectives

The Plan met or exceeded its three primary management goals of ensuring the availability of sufficient funds to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, while adding marginal value over its policy index.

In aggregate, robust active management and a disciplined rebalancing process combined to produce a total plan return a healthy 120 basis points over policy index performance. Once again in 2005, the Plan's healthy allocation to international equities contributed to the plan's high absolute return during the year.

Investment Results*

		Annualized	
	Year 2005	3 Years	5 Years
DOMESTIC EQUITY			
Total Domestic Equities	5.3%	16.1%	2.9%
Median Equity	7.5	18.3	4.6
Benchmark: Russell 3000	6.1	15.9	1.6
INTERNATIONAL EQUITY			
Total International Equities	18.6	23.9	6.0
Median International Equity	15.3	25.0	8.7
Benchmark: MSCI ACWI ex US	17.1	26.2	7.0
FIXED INCOME			
Total Fixed Income	2.8	8.4	8.6
Median Fixed Income	2.8	4.2	6.3
Benchmark: Hybrid Index	0.7	5.1	6.6
REAL ESTATE			
Total Real Estate	23.3	13.9	10.7
Median Real Estate	16.3	13.5	10.6
Benchmark: NCREIF	20.1	14.4	11.4
TOTAL FUND			
ACERA Total Fund	8.8	15.7	7.0
Median Total Fund	7.3	13.7	5.1
Benchmark: Policy Index	7.6	14.6	6.0

* Returns for periods greater than one year are annualized. Returns for all publicly-traded investments are presented based on a time-weighted rate of return methodology based on market values.

In a difficult investment environment during 2005, the ACERA plan return for the year exceeded its policy benchmark, the median large public fund, and its actuarial return expectation. Overall, 2005 was another very successful year for ACERA.

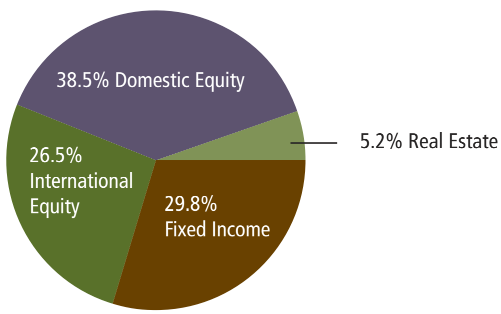
Patrick Thomas, CFA
Vice President
May 5, 2006

Asset Allocation

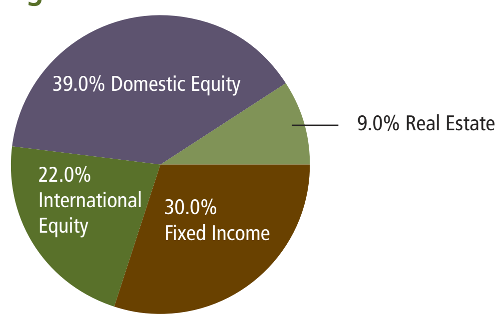
As of December 31, 2005

Investment Manager Type	Actual Asset Allocation	Target Asset Allocation	Actual Allocation Over/Under Target Allocation
Domestic Equity	38.5%	39.0%	–0.5%
International Equity	26.5%	22.0%	4.5%
Fixed Income	29.8%	30.0%	–0.2%
Real Estate	5.2%	9.0%	–3.8%
Total	**100.0%**	**100.0%**	**0.0%**

Actual Asset Allocation



Target Asset Allocation



Investment Professionals

For the Year Ended December 31, 2005

INVESTMENT MANAGERS

Domestic Equity

Bank of New York—Index Fund
Brandywine Asset Management, Inc.
Next Century Growth
Pacific Financial Research[1]
Salus Capital Management Co.
Trust Company of the West

International Equity

Capital Guardian Trust Company
Mondrian Investment Partners Ltd.

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
State Street Global Markets—Transition Management
The Townsend Group—Real Estate Investment

MASTER INVESTMENT CUSTODIAN AND SECURITIES LENDING AGENT

State Street Corporation

[1] Pacific Financial Research was replaced by Pzena Investment Management effective January 1, 2006

Investment Summary

As of December 31, 2005 (Dollars in Thousands)

Investment Type	Fair Value	Percentage of Total Fair Value
Short-Term Investments	$ 108,628	2.4%
Equity Securities	1,296,518	28.4
Equity Commingled Funds	1,650,836	36.2
Fixed Income Securities	1,260,697	27.6
Real Estate - Separate Properties	163,272	3.6
Real Estate - Commingled Funds	76,306	1.7
Currency Swaps	2,525	0.1
Total Investments at Fair Value	**$4,558,782**	**100.0%**

Largest Stock Holdings[1]

As of December 31, 2005 (Dollars in Thousands)

Rank	Shares	Issuer	Fair Value
1	197,400,000	Progressive Corp Ohio	$ 35,020
2	414,473,000	Amazon Com Inc	24,773
3	1,393,767,000	Ebay Inc	23,632
4	1,418,736,000	Yahoo Inc	23,210
5	1,054,512,000	Genetech Inc	20,073
6	1,653,212,000	Qualcomm Inc	16,017
7	3,609,997,492	Toyota Motor Corp	15,260
8	199,503,000	Google Inc	14,976
9	523,405,000	Rwe Ag (NEU)	14,780
10	4,921,130,397	Telefonica SA	14,021
Total Of Largest Stock Holdings			**$201,762**

Largest Bond Holdings

As of December 31, 2005 (Dollars in Thousands)

Rank	Par Value	Issuer	Security	Description	Fair Value
1	$77,675	Federal National Mortgage Association	7.250%	15-Jan-2010	$ 84,783
2	68,900	United States Treasury Bonds	6.250%	15-Aug-2023	82,292
3	36,365	United States Treasury Bills	0.010%	18-May-2006	35,673
4	25,250	United States Treasury Bonds	9.250%	15-Feb-2016	35,003
5	24,835	United States Treasury Bills CDs	0.000%	26-Jan-2006	21,210
6	20,090	Federal National Mortgage Association	4.000%	23-May-2007	19,856
7	19,715	Federal Home Loan Banks	4.000%	25-Apr-2007	19,495
8	17,200	General Electric Cap Corp.	3.750%	15-Dec-2009	16,514
9	49,410	Poland Republic Of	5.750%	24-Jun-2008	15,563
10	20,295	Singapore Republic Of	2.625%	1-Oct-2007	12,199
Total Of Largest Bond Holdings					**$342,588**

[1] The Holdings Schedules pertain to holdings of individual securities; they do not reflect ACERA's investments in commingled funds. A complete list of portfolio holdings is available upon request.

Investment Assets Under Management (Fair Value)[1]

For the Years Ended December 31, 2005 and 2004 (Dollars in Thousands)

Investment Manager Type	2005	2004
Domestic Equity	$ 1,771,675	$ 1,734,099
International Equity	1,220,441	1,031,192
Fixed Income	1,370,391	1,306,795
Real Estate	242,278	231,649
Total Investment Assets Under Management	**$4,604,785**	**$4,303,735**

[1] Unallocated short-term investment funds (about one-half million dollars as of December 31, 2005) are classified as Fixed Income on this schedule.

Investment Manager Fees

For the Years Ended December 31, 2005 and 2004 (Dollars In Thousands)

Investment Manager Type	2005	2004
Domestic Equity	$ 5,049	$ 4,634
International Equity	3,437	3,021
Fixed Income	2,512	2,265
Real Estate	6,789	1,993
Total Investment Manager Fees	**$ 17,787**	**$ 11,913**

Brokerage Commissions

For the Year Ended December 31, 2005

Brokerage Firm	Rank	Commissions (in Thousands)	Shares/Par Value Traded (in Thousands)	Commission Per Share
State Street	1	$ 400	$ 16,329	$ 0.024
Merrill Lynch International	2	204	8,253	0.025
UBS Financial Services Inc	3	144	4,054	0.036
BNY Brokerage & Co	4	76	3,441	0.022
Morgan Stanley	5	68	3,947	0.017
Pershing LLC	6	67	2,179	0.031
Cantor Fitzgerald & Co.	7	67	2,083	0.032
Investment Technology Group Inc.	8	35	1,975	0.018
B-Trade Services LLC	9	30	1,515	0.020
Liquidnet Inc.	10	29	1,398	0.021
Intercapital Securities LLC	11	28	896	0.031
Bear Stearns Companies Inc	12	25	533	0.047
Jones & Associates Inc	13	21	579	0.036
Credit Suisse	14	19	588	0.032
Jefferies & Company Inc	15	14	302	0.046
ISI Group Inc.	16	14	310	0.045
Keinwortbenson Securities Limited	17	12	523	0.023
Thinkequity Partners LLC	18	12	261	0.046
Citigroup Global Markets Inc	19	12	841	0.014
Capital Institutional Services Inc.	20	12	235	0.051
Top 20 Firms by Commission Dollars		**1,289**	**50,242**	**0.026**
All Other Brokerage Firms		360	29,329	0.012
Total Brokerage Commissions		**$ 1,649**	**$ 79,571**	**$ 0.021**

the Seventies

1970
- Introduction of the computer floppy disk
- Students protesting war at Kent State shot
- Canadian filmmakers invent giant projector IMAX system

1971
- Texas Instruments sells a popular portable electronic calculator
- ARPANET, Internet forerunner, has 22 university, government connections
- Oscars: *The French Connection,* Gene Hackman, Jane Fonda.

1972
- Hit TV series M*A*S*H premieres
- Swimmer Mark Spitz wins seven gold medals at Olympics
- "Pong," first home video game
- Sony sells a videotape system for the home, the Betamax.

1973
- U.S. retreats from Vietnam
- IBM's Selectric typewriter is now "self-correcting"
- Erica Jong's *Fear of Flying*
- Watergate exposure by press leads to Nixon's resignation the next year

1974
- Dancer Mikhail Baryshnikov defects
- Punk rock music emerges in Britain, with themes of nihilism, anarchy
- Patty Hearst kidnapping

1975
- Arthur Ashe becomes first black man to win at Wimbledon
- Bill Gates and Paul Allen start a company they call "Micro-Soft"
- On TV, "Saturday Night Live"

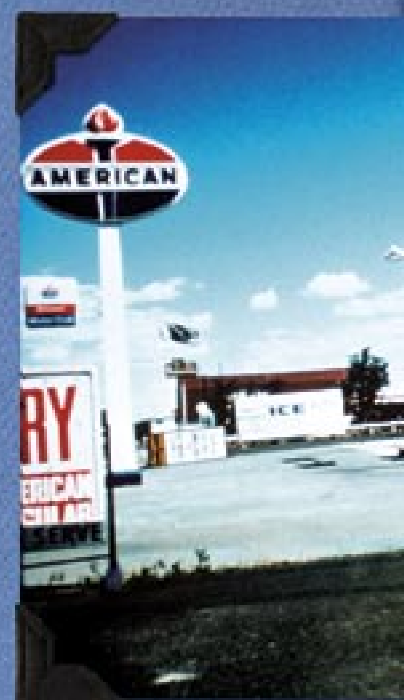
1976
- Alex Haley's search for his ancestors is published as *Roots*
- Gymnast Nadia Comaneci scores seven perfect "10"s in Montreal
- Viking II sends color photos from Mars

1977
- *Star Wars* released in Dolby Stereo
- Disco music becomes the rage

1978
- Born: Louise Brown, the first baby conceived outside the womb
- John Paul II becomes 264th Pope
- Jonestown Massacre

1979
- Margaret Thatcher first woman Prime Minister of Great Britain
- Mother Theresa is awarded the Nobel Peace Prize
- Iran takes American hostages
- Nuclear accident at Three Mile Island

The Love Boat



Betamax

SECTION 4 ACTUARIAL

1970 Ron Dellums is the first African American elected to Congress from Northern California.

STAR WARS

ALL PHOTO CREDITS APPEAR ON PAGE ii

Actuary's Certification Letter

SEGAL

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

April 26, 2006

Board of Retirement
Alameda County Employees' Retirement Association
475 14th Street, Suite 1000
Oakland, California 94612-1900

Dear Members of the Board:

The Segal Company prepared the December 31, 2004 actuarial valuation of the Alameda County Employees' Retirement Association. We certify that the valuation was performed in accordance with generally accepted actuarial principles and practices. In particular, the assumptions and methods used for funding purposes meet the parameters of the Governmental Accounting Standards Board Statement No. 25.

As part of the December 31, 2004 actuarial valuation, The Segal Company (Segal) conducted an examination of all participant data for reasonableness. Summaries of the employee data used in performing the actuarial valuations over the past several years are provided in our valuation report. We did not audit the Association's financial statements. For actuarial valuation purposes, Plan assets are valued at Actuarial Value. Under this method, the assets used to determine employer contribution rates take into account market value by recognizing the differences between the total return at market value and the expected investment return over 10 six-month periods.

The funding objective of the Plan is to establish rates which, over time, will remain level as a percentage of payroll unless Plan benefit provisions are changed. Actuarial funding is based on the Entry Age Normal Cost Method. Under this method, the employer contribution rate provides for current cost (normal cost) plus a level percentage of payroll to amortize any unfunded actuarial accrued liability (UAAL). Actuarial gains and losses are incorporated into the UAAL and are amortized over the same period.

The UAAL is amortized as a level percentage of payroll over a 28-year period. The progress being made towards meeting the funding objective through December 31, 2004 is illustrated in the Schedule of Funding Progress.

Board of Retirement
April 26, 2006
Page 2

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

Schedules of active member valuation data;

Retirees and beneficiaries added to and removed from retiree payroll;

Solvency test;

Actuarial analysis of financial experience;

Schedule of average benefit payments for retirees and beneficiaries;

Schedule of participating employers and active member statistics;

Schedule of benefit expenses by type;

Schedule of retired members by type of benefit;

Schedule of funding progress.

The valuation assumptions included in the Actuarial Section were adopted by the Retirement Board based on our recommendations following the December 31, 2004 Experience Analysis. It is our opinion that the assumptions used in the December 31, 2004 valuation produce results, which, in the aggregate, reflect the future experience of the Plan. Actuarial valuations are performed on an annual basis. An experience analysis is performed every three years. The next experience analysis is due to be performed as of December 31, 2007.

In the December 31, 2004 valuation before reflecting the Safety improvement, the ratio of the valuation assets to actuarial accrued liabilities decreased from 86.9% to 83.9%. The employer's rate has increased from 14.02% of payroll to 17.14% of payroll, while the employee's rate has increased from 8.27% of payroll to 8.68% of payroll. If the Safety improvement is reflected in the December 31, 2004 valuation, the funding ratio is 82.1%. The employer and employee rates are 18.07% and 8.81%, respectively.

Sincerely,

Andy Yeung

Andy Yeung, ASA, EA, MAAA
Associate Actuary

Paul Angelo

Paul Angelo, FSA, EA, MAAA, FCA
Vice President & Actuary

SUV/dvb
Enclosures

SEGAL

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Board as of December 31, 2004.

Assumptions

Actuarial Assumed Interest Rate		7.80%
Inflation Rate		4.00%
Real Across-the-Board Salary Increase		0.25%
Projected Salary Increases		
	General:	4.98% to 7.93%
	Safety:	4.51% to 7.86%
These rates include inflation and real across-the-board salary increases.		
Retiree Cost-of-Living Adjustment (Basic)		
	for Tier 1 members:	3.00%
	for Tier 2 members:	2.00%
Employee Contribution Crediting Rate		7.80%

ACERA operates under the Alternate Financial Provisions of Article 5.5 of the 1937 Act. The employee contribution crediting rate is the assumed actuarial investment rate to the extent that "net earnings" as defined in Article 5.5 are available. In addition, whenever there is a remaining balance of "net earnings" after all other required crediting, a portion of that remaining balance is also credited, as described in Article 5.5.

Retirement Age and Benefit for Deferred Vested Members

For current deferred vested members, retirement assumptions are as follows:

General	Age 58
Safety	Age 55

We assume that 40% of future General and Safety deferred vested members will continue to work for a reciprocal employer. For these, we assume 5.65% compensation increases per annum.

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.

Post-Retirement Mortality

The following post-retirement and pre-retirement demographic experiences and salary assumptions are based on the plan's actuarial experience through December 31, 2004. These were adopted by the Retirement Board and effective as of January 1, 2005.

(A) HEALTHY

General Members and Beneficiaries	1994 Group Annuity Mortality Table
Safety Members and Beneficiaries	1994 Group Annuity Mortality Table

(B) DISABILITY

General Members	1981 General Disability Mortality Table set back seven years
Safety Members	1981 Safety Disability Mortality Table set back two years

(C) FOR EMPLOYEE CONTRIBUTION RATE PURPOSES

General Members	1994 Group Annuity Mortality Table weighted 30% male and 70% female
Safety Members	1994 Group Annuity Mortality Table weighted 75% male and 25% female

Unknown Data for Members

Where data for a member is unknown, it is assumed to be the same as that exhibited by members with similar known characteristics. If not specified, members are assumed to be male.

Inclusion of Deferred Vested Members

All deferred vested members are included in this valuation.

Percent of Members Married

80% of male members and 55% of female members.

Age of Spouse

Females are 3 years younger than their spouses; males are 3 years older.

Net Investment Return

7.8%, net of administration and investment expenses (approximately 1% of assets).

Employee Contribution Crediting Rate

7.8%, compounded semi-annually, subject to the availability of net earnings as described in Article 5.5 of the 1937 Act.

Salary Increases

The annual rate of compensation increase has three components: inflation, across-the-board salary increases (other than inflation), and merit/longevity increases based on age:

Inflation: 4.00%

Across-the-board Salary Increase: 0.25%

Merit/Longevity Increases based on Age:

Age	General	Safety
25	3.68%	3.61%
30	2.82%	2.70%
35	2.31%	1.57%
40	1.99%	1.15%
45	1.69%	1.13%
50	1.40%	0.95%
55	1.12%	0.73%
60	0.86%	0.26%
65	0.73%	0.00%

Consumer Price Index (San Francisco Bay Area)

Increase of 4.00% per year, retiree COLA increases due to CPI subject to 3% maximum change per year for General and Safety Tier 2 and 2% maximum change per year for General and Safety Tier 1.

Actuarial Value of Assets

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

Actuarial Cost Method

Entry Age Normal Actuarial Cost Method. Entry Age is the age at the member's date of entry. Actuarial Accrued Liability is calculated on an individual basis and is based on costs allocated as a level percentage of compensation. The Normal Cost is calculated on aggregate basis by taking the Present Value of Future Normal Costs divided by the Present Value of Future Salaries to obtain a normal cost rate. This normal cost rate is then multiplied by the total of current salaries. The total unfunded Actuarial Accrued Liability is amortized over a declining 28-year period (i.e., outstanding UAAL from last year, in addition to actuarial gains and losses from this year).

Terminal Pay Assumptions

Additional pay elements are expected to be received during a member's final average earnings period. The percentages, added to the final year salary, used in this valuation are:

Membership Category	Service Retirement	Disability Retirement
General Tier 1	8.8%	7.0%
General Tier 2	3.0%	2.8%
Safety Tier 1	9.5%	8.5%
Safety Tier 2	3.0%	2.8%

Active Member Valuation Data

As of November 30

Year	Plan Type	Number	Annual Payroll	Annual Average Pay	Percent Increase in Average Pay[1]
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%**
2005[5]	General	9,135	596,631,000	65,313	3.01%
	Safety	1,368	113,491,000	82,961	2.06%
	Total	**10,503**	**$710,122,000**	**$67,611**	**2.75%**

[1] The Percent Increase in Average Pay represents the change between 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 agencies in 2004. The schedule of Participating Employers and Active Members in the Statistical Section shows historical membership information for participating employers.

[5] Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by one year of inflation.

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
2000	381		(287)		5,699	115,261	13.94%	20,225
2001	303	$10,548 [2]	(135)	$(1,723)	5,867	124,086	7.66%	21,150
2002	335	12,671	(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 [3]	(383)	(1,195)	6,475	166,517	12.12%	25,717
2005	500	23,171 [3]	(257)	(4,362)	6,718	185,326	11.30%	27,586

[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.

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)
12/31/1999	$ 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%
12/31/2004	789,556	2,092,355	1,358,642	4,240,553 [2]	3,557,918	100%	100%	50%

[1] This schedule includes actuarial funded liabilities and assets. The non-valuation reserves such as Supplemental Retirees Benefit Reserve, Death Benefit Reserve, and Market Stabilization Reserve, etc., are not included.

[2] Excludes Safety 3%-at-50 formula improvement. If the safety formula improvement is included, the total aggragate liability will increase to $4,336,123

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

12/31/2003—Inflation assumption decreased from 4.5% to 4.0%; across-the-board salary increase

12/31/2004—Change in non-economic assumptions. Investment return assumption reduced from 8% to 7.80%.

Actuarial Analysis of Financial Experience[1]

(Dollars in Millions)

	2004	2003	2002	2001	2000	1999
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability	$508	$266	$(182)	$(233)	$(235)	$(217)
Expected Increase from Prior Valuation						
Salary Increase Greater (Less) than Expected	(33)	93	17	10	(5)	5
Asset Return Less (Greater) than Expected	74	133	207	34	(5)	26
Other Experience (Including Scheduled UAAL Payment)	31	26	20	13	12	12
Ventura Litigation	-	-	-	-	-	(69)
Conversion of Sick Leave Service	-	-	-	-	-	8
Actuarial Value of Assets Method Change	-	-	-	-	-	-
Economic Assumption Changes	-	-	190	-	-	-
Non-economic Assumption Changes	103	(10)	14	35	-	-
Data Corrections	-	-	-	(41)	-	-
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$683[2]	$508	$266	$(182)	$(233)	$(235)

[1] This schedule is based on the actuarial valuation of 12/31/2004, ACERA's most recent actuarial valuation.

[2] Excludes Safety 3%-at-50 formula improvement. If Safety formula improvement is included, the total unfunded Actuarial Accrued liability is $778.

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, 2004, and as adopted by Alameda County.

Membership Eligibility

Each person appointed to a full-time, permanent position with the County of Alameda or participating employer is eligible and required to become a member of ACERA. Membership with ACERA usually begins with the second pay period following appointment. ACERA members who change from full-time to part-time may elect to continue membership at ACERA (with future contributions and benefits adjusted accordingly).

Tiers (Benefit Levels)

General and Safety Tier 1 include all General and Safety members hired on or before June 30, 1983. General and Safety Tier 2 include all General and Safety members hired after June 30, 1983.

Final Compensation for Benefit Determination ("Final Average Salary")

Final Average Salary (FAS) is defined as the highest 12 consecutive months of compensation earnable for General and Safety Tier 1 and the highest 36 consecutive months for General and Safety 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 vested member may elect to leave his or her contributions on deposit and receive a deferred vested benefit when eligible for retirement.

Eligibility for Service Retirement

General members are eligible to retire: At age 50 with 10 years of service; at age 70 regardless of years of service, or at any age with 30 years of service. Safety members are eligible to retire: At age 50 with 10 years of service; or at any age with 20 years of service.

Eligibility for Deferred Service Retirement

Vested deferred members (i.e., terminated members who have completed five years of service and leave accumulated contributions in the retirement fund) become eligible to retire at any time at which the member could have retired, had the member remained an active member in a full-time position.

Service Retirement Benefit

The monthly service retirement benefit depends on age at retirement and is based on a percentage of the Final Average Salary (divided by 12 to get a monthly amount) multiplied by years of service. It is illustrated below for selected age-at-retirement figures.

For members integrated with Social Security, the benefit is reduced by one-third of the percentage shown below times the first $350 of monthly Final Average Salary per year of service credited after January 1, 1956.

Percentage of Final Average Salary for Selected Age-at-Retirement Figures

	General		
Age-at-Retirement	Tier 1	Tier 2	Safety
50	1.34%	1.18%	3.00%
55	1.77%	1.49%	3.00%
60	2.34%	1.92%	3.00%
62	2.62%	2.09%	3.00%
65 and over	2.62%	2.43%	3.00%

Maximum Benefit

The maximum basic benefit payable to a member or beneficiary is 100% of Final Average Salary.

Disability Benefit

Members with five years of service, regardless of age, are eligible for non-service connected disability benefits. As with the service retirement benefit, the disability benefit is based on a percentage of Final Average Salary.

The disability benefit is 1.8% per year of service for General Tier 1 members and 1.5% per year of service for General Tier 2 members. If this benefit does not exceed one-third 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 and age 65 for Tier 2 General members.

The disability benefit is 1.8% per year of service for Safety members. If this benefit does not exceed one-third of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 55.

In each case where the disability benefit has been increased as described above, the total benefit cannot exceed one-third of the FAS, unless the benefit calculated from the member's age, years of service, and salary is greater.

If the disability is service-connected ("line of duty"), there is no age or service requirement and the benefit 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 with credited interest, a 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.

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 under the option 2 provision.

The funding of the ADEB benefit (the difference in the benefit between the 60% continuance under the unmodified option and 100% continuance provided under option 2) 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.

If a member dies in the performance of duty, the eligible surviving spouse may elect to receive 50% of the member's FAS (or 100% of the service retirement benefit, if greater).

Death Benefit (After Retirement)

If a member dies after retirement, a lump sum amount of $5,000 is paid to the beneficiary or estate. (A portion of this death benefit is not vested and is funded through the Supplemental Employees Benefit Reserve, subject to board approval and available funding.)

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.

Basic Cost-of-Living Adjustments (COLA)

The basic Cost-of-Living adjustments are based on the change in the San Francisco Bay Area Consumer Price Index (CPI) for the calendar year prior to the April 1 effective date. The basic COLA increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. For any year in which the CPI exceeds the COLA percentage cap for a member, the excess percentage is accumulated ("banked") for that member and subsequently applied as an increase to the allowance in a later year when the CPI figure falls short of the relevant cap.

Supplemental Benefits Excluded from Actuarial Valuation

Non-vested supplemental COLA and the retiree healthcare program benefits are also paid from the Supplemental Retiree Benefit Reserve to eligible retirees and survivors. These supplemental benefits have been excluded from this valuation.

Contribution Rates

Basic member contribution 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 $\frac{1}{100}$ of FAS for General members under Tier 1, at age 60 of $\frac{1}{120}$ of FAS for General members under Tier 2, and at age 50 of $\frac{1}{100}$ 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 contribution rates are actuarially determined to pay for one-half of future cost-of-living liabilities.

For members whose benefits are integrated with Social Security, the above contributions are reduced by one-third of that portion of such contribution payable with respect to the first $161 of biweekly 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.

Exemption from Contributions After Thirty Years of Service

Safety members with 30 or more years of service are exempt from paying member contributions. General Members hired on or before March 7, 1973 with 30 or more years of service are exempt from paying member contributions.

Termination and Retirement Rates

The following schedules indicate the termination rates before retirement for disability, withdrawal, and mortality, as well as retirement rates.

The rates shown for each cause of termination or retirement represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the rate of disability for a General Member age 25 is 0.01, then we are assuming that 0.01 percent of the General Members in this age bracket will receive disability retirement during the year.

Retirement Rates

Rates (%)

Age	General Tier 1	General Tier 2	Safety Tier 1 (2%-at-50 Formula)	Safety Tier 1 (3%-at-50 Formula)[1]	Safety Tier 2[1]
50	3.00	2.00	7.00	33.00	4.00
51	2.00	2.00	4.00	25.00	2.00
52	2.00	2.00	4.00	25.00	2.00
53	3.00	2.00	6.00	33.00	3.00
54	3.00	2.00	15.00	33.00	8.00
55	7.00	3.00	30.00	50.00	15.00
56	7.00	4.00	30.00	50.00	12.00
57	8.00	5.00	30.00	50.00	25.00
58	10.00	6.00	30.00	50.00	11.00
59	15.00	6.00	60.00	50.00	27.00
60	20.00	8.00	100.00	100.00	100.00
61	20.00	10.00	100.00	100.00	100.00
62	30.00	20.00	100.00	100.00	100.00
63	25.00	16.00	100.00	100.00	100.00
64	25.00	20.00	100.00	100.00	100.00
65	30.00	25.00	100.00	100.00	100.00
66	25.00	20.00	100.00	100.00	100.00
67	25.00	35.00	100.00	100.00	100.00
68	25.00	45.00	100.00	100.00	100.00
69	50.00	55.00	100.00	100.00	100.00
70	100.00	100.00	100.00	100.00	100.00

[1] Under the 3%-at-50 formula, the retirement rate is 100% after a member earns a benefit equal to 100% of FAS.

Termination Rates Before Retirement

DISABILITY

Age	Rate (%) Disability General[1]	Rate (%) Disability Safety[2]
20	0.00	0.00
25	0.01	0.00
30	0.07	0.24
35	0.22	0.46
40	0.36	0.62
45	0.46	0.94
50	0.56	1.16
55	0.78	1.20
60	1.02	0.48

WITHDRAWAL

Rate (%) Withdrawal (< 5 Years of Service)

Years of Service	General	Safety
0	12.00	5.00
1	10.00	5.00
2	9.00	5.00
3	7.00	4.00
4	4.00	4.00

Withdrawal (5+ Years of Service)[3]

Age	General	Safety
20	4.00	3.00
25	4.00	3.00
30	4.00	3.00
35	4.00	2.10
40	3.40	1.20
45	2.40	1.00
50	2.00	1.00
55	2.00	1.00
60	1.40	0.40

MORTALITY[4]

Rate (%)

	General		Safety	
Age	Male	Female	Male	Female
25	0.07	0.03	0.07	0.03
30	0.08	0.04	0.08	0.04
35	0.09	0.05	0.09	0.05
40	0.11	0.07	0.11	0.07
45	0.16	0.10	0.16	0.10
50	0.26	0.14	0.26	0.14
55	0.44	0.23	0.44	0.23
60	0.80	0.44	0.80	0.44
65	1.45	0.86	1.45	0.86

[1] 80% of General disabilities are assumed to be duty disabilities. The other 20% are assumed to be ordinary disabilities.

[2] 100% of Safety disabilities are assumed to be duty disabilities.

[3] 25% of all terminated members will choose a refund of contributions and 75% will choose a deferred vested benefit. No withdrawal is assumed after a member is eligible for retirement.

[4] All pre-retirement deaths are assumed to be non-service connected.

The Eighties

1980
- Eruption of Mount St. Helens spews ash for miles
- From 3M, Post-it notes

1981
- Sandra Day O'Connor first woman appointed to U.S. Supreme Court
- Royal Wedding televised; millions watch worldwide
- Mysterious new plague: AIDS
- On Broadway, "Cats"
- MTV, a music video channel, goes on cable 24/7

1982
- Reverend Sun Myung Moon of the Unification Church marries 2,075 couples at Madison Square Garden
- Alice Walker writes *The Color Purple*

1983
- Cabbage Patch Kids
- First American woman in space: Sally Ride
- Vanessa Williams is first black woman to win the Miss America Pageant

1984
- Major poison gas leak found in Bhopal, India
- Vietnam War Memorial opens in Washington, DC
- Apple Macintosh and IBM PC AT are introduced
- Portable compact disc players

1985
- "New" Coke enters the marketplace... and fizzles
- Discovery of hole in the ozone layer
- Wreck of the Titanic found
- "We Are the World" is recorded by music giants to help USA for Africa relieve Ethiopian famine

1986
- Space Shuttle Challenger explodes on liftoff
- Chernobyl Nuclear Accident
- Iran-Contra Scandal

1987
- Stock markets across the world crash on "Black Monday"; the largest one-day drop for NYSE
- *The Simpsons* animated cartoon, introduced on Fox TV

1988
- Salman Rushdie's novel, *The Satanic Verses*, enrages Muslims

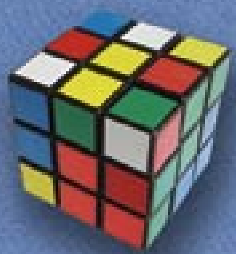
1989
- Fall of the Berlin Wall
- The Exxon Valdez spill
- Hundreds killed in Tiananmen Square Massacre

Madonna

ALL PHOTO CREDITS APPEAR ON PAGE ii

SECTION 5 STATISTICAL

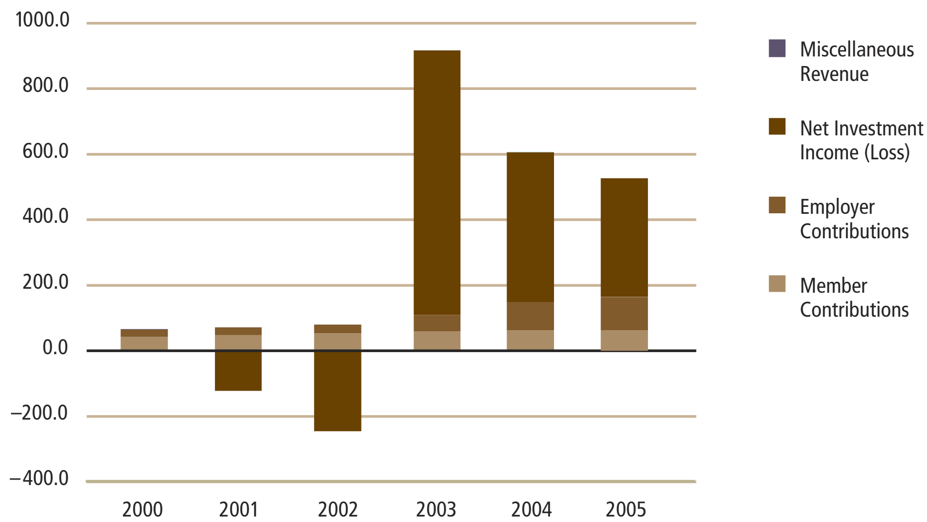
Fall of the Berlin Wall



1989 A 7.1 magnitude earthquake strikes the Bay Area causing an estimate $6 billion in damage; Oakland's double decker Cypress freeway collapses.

Additions to Plan Net Assets by Source

(Dollars in Millions)



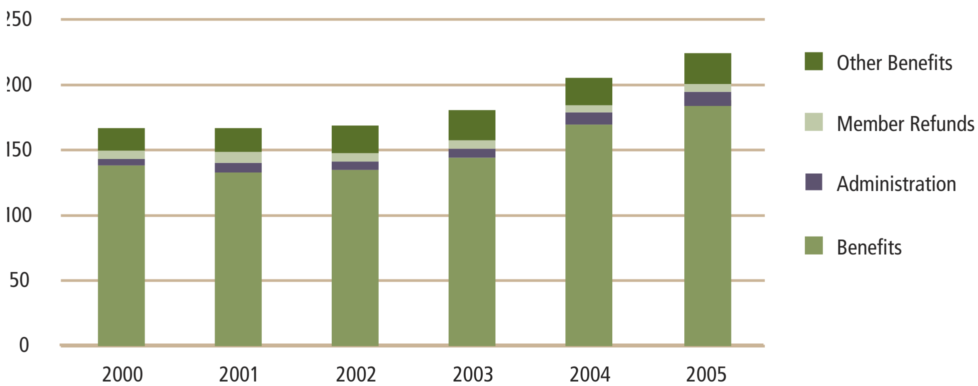
Additions to Plan Net Assets by Source

(Dollars in Millions)

Year Ended December 31	Member Contributions	Employer Contributions	Net Investment Income(Loss)	Other Income	Total Additions
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	808.4	0.2	917.9
2004	63.1	85.5	457.7	1.6	607.9
2005	64.2	100.8	358.0	-	523.0

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	Administration	Member Refunds	Other Benefits	Total Deductions
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
2005	187.8	10.3	6.1	22.0	226.2

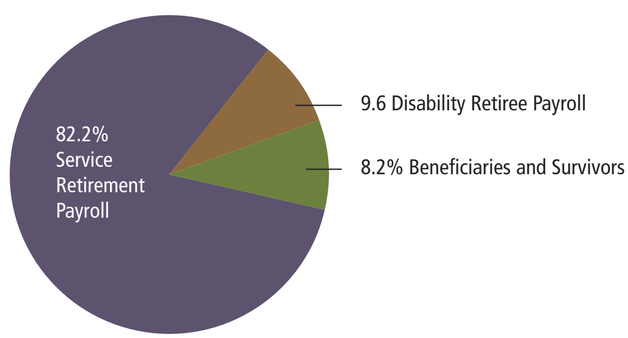
Benefit Expenses by Type[1]

	2005	2004	2003	2002	2001	2000
Service Retirement Payroll						
Basic	$ 119,237,822	$ 105,648,412	$ 92,689,067	$ 82,721,678	$ 77,819,944	$ 74,128,258
COLA	33,211,334	30,836,451	29,245,633	27,025,690	24,838,053	22,486,337
Total	**152,449,156**	**136,484,863**	**121,934,700**	**109,747,368**	**102,657,997**	**96,614,595**
Disability Retiree Payroll						
Basic	14,576,027	13,118,826	10,540,547	9,540,646	8,800,266	7,733,362
COLA	3,148,063	2,800,341	2,523,517	2,241,082	2,013,020	1,750,675
Total	**17,724,090**	**15,919,167**	**13,064,064**	**11,781,728**	**10,813,286**	**9,484,037**
Beneficiaries and Survivors						
Basic	9,396,077	8,686,288	8,289,339	7,550,165	6,576,312	5,651,133
COLA	5,756,507	5,426,939	5,234,278	4,617,487	4,038,493	3,510,459
Total	**15,152,584**	**14,113,227**	**13,523,617**	**12,167,652**	**10,614,805**	**9,161,592**
Total	**$185,325,830**	**$166,517,257**	**$148,522,381**	**$133,696,748**	**$124,086,088**	**$115,260,224**

[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, 2005)



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 1/1/00–12/31/00							
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
PERIOD 1/1/05–12/31/05							
Average Monthly Benefit	$2,929	$2,561	$2,420	$2,035	$1,524	$1,180	$773
Number of Active Retirees	1,922	1,475	1,029	850	653	520	269

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
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
2005	17.91	14.96	36.81	29.09	18.07	22.74

[1] The aggregate rate 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 2005

	Number	Monthly Allowance Total
GENERAL MEMBERS		
Service Retirement		
Unmodified	4,106	$ 9,223,021
Option 2, 3, & 4	199	388,275
Total	4,305	9,611,296
Ordinary Disability		
Unmodified	158	185,319
Option 2, 3, & 4	-	-
Total	158	185,319
Duty Disability		
Unmodified	378	784,199
Option 2, 3, & 4	4	12,058
Total	382	796,257
Beneficiaries		
Ex-Spouse	70	62,351
Death	849	954,427
Total	919	1,016,778
Total General	**5,764**	**11,609,650**
SAFETY MEMBERS		
Service Retirement		
Unmodified	625	2,999,809
Option 2, 3, & 4	31	92,991
Total	656	3,092,800
Ordinary Disability		
Unmodified	4	5,020
Option 2, 3, & 4	-	-
Total	4	5,020
Duty Disability		
Unmodified	154	482,478
Option 2, 3, & 4	3	7,933
Total	157	490,411
Beneficiaries		
Ex-Spouse	31	49,342
Death	106	196,596
Total	137	245,938
Total Safety	**954**	**3,834,169**
Total Retiree Members	**6,718**	**$15,443,819**

Participating Employers and Active Members

As of November 30

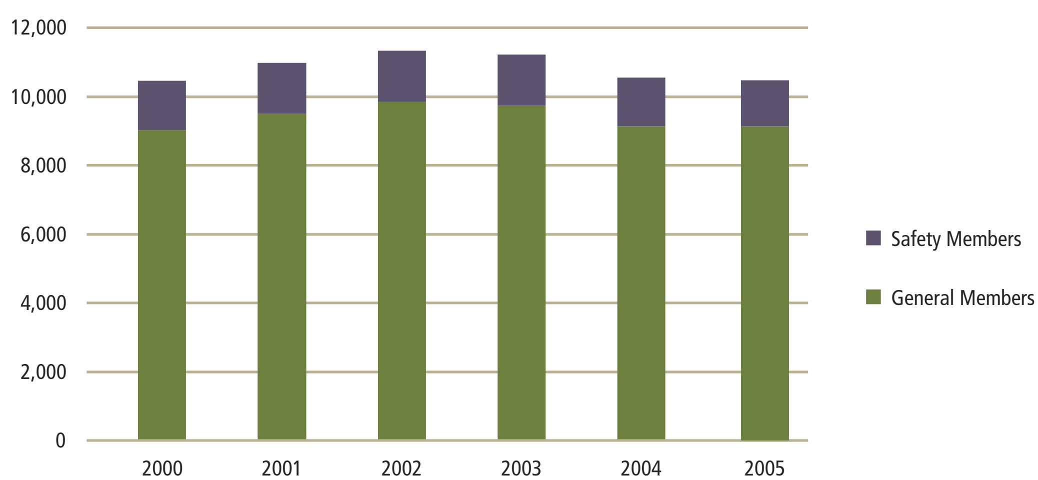
	2005	2004	2003	2002	2001	2000
County of Alameda						
General Members	6,177	7,020	7,367	7,550	7,266	7,077
Safety Members	1,368	1,418	1,495	1,499	1,472	1,429
Total	**7,545**	**8,438**	**8,862**	**9,049**	**8,738**	**8,506**
Participating Employers (General Members)						
Alameda County Medical Center (ACMC) [1]	1,961	1,926	2,201	2,133	2,086	1,814
Alameda County Office of Education	2	2	5	5	5	5
First 5 Alameda County [2]	53	47	–	–	–	–
Housing Authority of the County of Alameda	68	74	74	75	69	66
Livermore Area Recreation & Park District	62	69	78	76	76	65
Superior Court of California for the County of Alameda [3]	812	–	–	–	–	–
Total	**2,958**	**2,118**	**2,358**	**2,289**	**2,236**	**1,950**
Total Active Membership						
General Members	9,135	9,138	9,725	9,839	9,502	9,027
Safety Members	1,368	1,418	1,495	1,499	1,472	1,429
Total	**10,503**	**10,556**	**11,220**	**11,338**	**10,974**	**10,456**

[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.

[3] Superior Court of California for the County of Alameda became a participating employer of ACERA in 2005; prior to 2005 its members were general members of the County of Alameda.

Total Active Membership



THE NINETIES

1990
- Lech Walesa becomes first Polish president; Solidarity Movement
- Nelson Mandela freed

1991
- Operation Desert Storm
- The start of grunge music
- Oscars: *The Silence of the Lambs*, Anthony Hopkins, Jodie Foster

1992
- Rioting in Los Angeles after the Rodney King verdict
- The Michelangelo virus, originating in Europe, disables computers worldwide

1993
- HTML introduced as the code for web design
- From Intel, the Pentium chip
- Rumors fly that cell phones cause brain cancer; sales continue to soar

1994
- Chunnel Tunnel opens; connects France and Great Britain
- Lorena Bobbit takes matters into her own hands
- Nelson Mandela elected president of South Africa

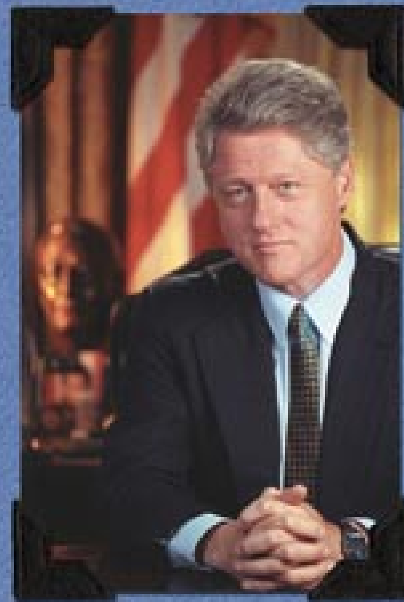
1995
- Ebola virus in Zaire
- The Oklahoma City Bombing
- *Toy Story* is the first totally digital feature-length film

1996
- Mad Cow Disease hurts Britain
- Prince Charles and Lady Di get divorced
- Unabomber Ted Kaczynski is caught

1997
- Hong Kong returns to China
- The Hale-Bopp Comet
- Scientists successfully clone sheep
- Tiger Woods wins the Masters golf tournament: by a record 12 stroke margin

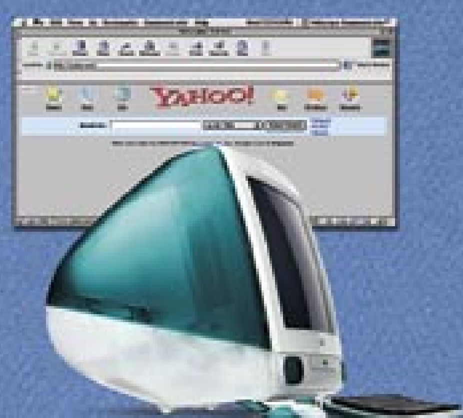
1998
- Megapixel cameras available at consumer level
- President Bill Clinton impeached
- Viagra enters the market

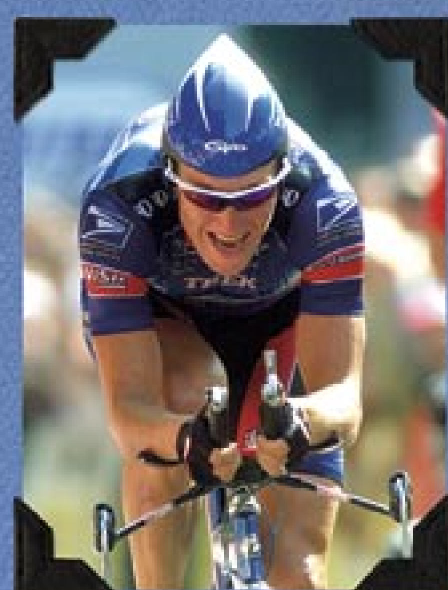
1999
- The Euro replaces national currencies of many European countries
- The Y2K scare
- Massive shooting at Columbine High School
- Lance Armstrong wins Tour de France shortly after hard-fought battle with testicular cancer



1991 East Bay Hills Fire strikes the Oakland and Berkeley hills, destroys 3,000 homes

TOY STORY





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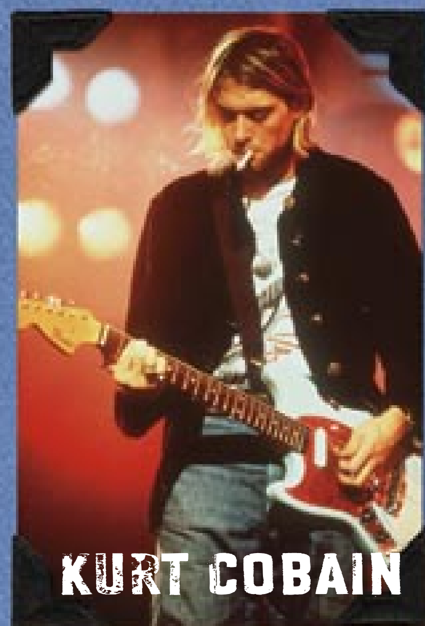
SECTION 6 COMPLIANCE

1998 ACERA's Plan Net Assets pass $3 billion mark to $3,386,801,975

EVERYTHING.COM



KURT COBAIN

SPICE GIRLS

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, 2005 and 2004, and have issued our report thereon dated May 4, 2006. Our report on the financial statements was modified to indicate that ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement No. 3*. 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

May 4, 2006

1330 Broadway, Suite 1825 • Oakland, CA 94612 • (510) 893-8114 • Fax (510) 893-2603
5 Thomas Mellon Circle, Suite 104 • San Francisco, CA 94134 • (415) 656-1330 • Fax (415) 467-6106
www.wacllp.com

ACERA is a pension trust fund, organized under ?e County Employees Retirement Law of 1937, which provides retirement, disability, and dea? benefits to ?e employees, retirees and former employees of ?e County of Alameda, and certain o?er participating public employers.

ACERA's primary responsibilities include: Administration of ?e trust fund, delivery of retirement, disability and dea? benefits to eligible members, administration of heal? care and cost-of-living programs, and assistance in retirement and related benefits.

ACERA

ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

475 14th Street, Suite 1000 Oakland, CA 94612-1900
800 838-1932 510 628-3000 510 268-9574 fax www.acera.org