Our Place

ACERA

Alameda County Employees' Retirement Association

A Pension Trust Fund of the County of Alameda (State of California) and Participating Employers

Comprehensive Annual Financial Report for the Years Ended December 31, 2006 and 2005

Your Place

my name is ____________________

first job ____________________

what I do now ____________________

what I like most about my job ____________________

what I like least about my job ____________________

fondest memory ____________________

songs that make me sing in the car ____________________

favorite vacation ____________________

I wish ____________________

proudest moment ____________________

biggest challenge ____________________

most people don't know that I ____________________

perfect day ____________________

guilty pleasure ____________________

I'm secretly a fan of ____________________

favorite book ____________________

favorite movie ____________________

person I'd love to meet ____________________

inspiration ____________________

dream retirement ____________________

Alameda County Employees' Retirement Association

A Pension Trust Fund of the County of Alameda (State of California) and Participating Employers

475-14th Street
Oakland, CA 94612

Issued By

Charles F. Conrad
Chief Executive Officer

Catherine E. Walker, CPA
Assistant Chief Executive Officer

My Place

my name is DIANE BELLAS

first job PET-SITTER

what I do now ALAMEDA COUNTY PUBLIC DEFENDER

what I like most about my job ADVOCATING FOR THE DISENFRANCHISED

what I like least about my job THAT THERE ARE DISENFRANCHISED AMONG US

fondest memory WALKING HOME FROM SCHOOL THROUGH MUSTARD GREEN FIELDS AND ORCHARDS IN BLOOM

songs that make me sing in the car JIMI HENDRIX, "MAY THIS BE LOVE" ALL MOTOWN AND ELLA FITZGERALD

favorite vacation REMIND ME TO BOOK IT SOON!

I wish FOR A WORLD OF COMPASSION

proudest moment WHEN MY 16 YEAR OLD DOES SOMETHING "BECAUSE IT'S THE RIGHT THING TO DO"

biggest challenge LIVING UP TO THOSE WORDS

most people don't know that I STILL BELIEVE THAT LOVE IS THE SOLUTION TO MOST PROBLEMS

perfect day BEGINS WITH BIRDS SINGING

guilty pleasure HWE KWE (KOREAN DISH OF RAW BEEF, RAW EGG AND RAW GARLIC—DELICIOUS!)

I'm secretly a fan of MY ADMIRATION IS NEVER A SECRET

favorite book COLLECTED POEMS OF WALLACE STEVENS

favorite movie FELLINI'S SATYRICON, SATURDAY NT. FEVER, CAROUSEL

person I'd love to meet ROBERT M. SAPOLSKY, STANFORD NEUROSCIENTIST

inspiration MY FAMILY, MY COLLEAGUES, MY HOMELESS COURT CLIENTS

dream retirement 2ND CAREER AS A PUBLIC HEALTH PSYCHIATRIST OR MEDICAL ETHICIST

Contents

Section 4 | Actuarial

Section 5 | Statistical

Section 6 | Compliance

my name is Wright L. Lassiter, III

first job Newspaper route @ age 10

what I do now CEO - Alameda County Medical Center

what I like most about my job ability to impact the community's health

what I like least about my job overcoming history

fondest memory our wedding day

songs that make me sing in the car Up beat R&B; Jazz Standards

favorite vacation Anywhere in the Caribbean (Aruba, Dominica)

I wish change wasn't so hard for most humans

proudest moment birth of our daughter

biggest challenge being patient

most people don't know that I played the guitar @ age 12 on TV

perfect day Playing golf in the a.m; snorkeling in the P.M. in Hawaii

guilty pleasure Barbeque potato chips

I'm secretly a fan of classical music and GameCube electronic games

favorite book 1st Break all the Rules

favorite movie Matrix (series) Godfather (series)

person I'd love to meet Martin Luther King

inspiration My parents and my daughter

dream retirement Owning a high end restaurant in a tropical locale

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 Executive Officer
Charles F. Conrad

Letter of Transmittal

Dear Board Members:

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the Alameda County Employees' Retirement Association for the years ended December 31, 2006 and 2005.

Business, like life, is cyclical and the pension business is no exception. The past several years have witnessed ACERA's evolution from one large County employee entity, predominately, to a multi-employer structure. The political pressure on benefit plans like ACERA's has shifted to include an understandable concern with the cost and sustainability of retiree health care.

In the context of this evolution, a number of significant policy issues were resolved this year by the active participation of ACERA's Participating Employers and employee organizations, some of whom are profiled in this annual report. Accomplishments include completing our annual actuarial valuation, increasing fund assets by $590.9 million to $5.2 billion, reducing employer and employee contribution rates, and establishing Participating Employer and individual 401h accounts.

ACERA has also met the reporting requirements of the *Governmental Accounting Standards Board (GASB) Statement No.43* (financial reporting for post employment benefit plans other than pension plans) and adopted a disclosure format that incorporates *Statement No.43* into this CAFR.

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 CAFR contains six sections:

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

Financial Section: Independent Auditors' Report, Management's Discussion and Analysis, Basic Financial Statements, Notes to the Basic 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 Holdings, and Investment Fees and 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.

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 presents the assessment of the financial status of the Pension Plan, the Post Employment Medical Benefits, and the Non-Other Post Employment benefits (OPEB).

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 services.

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

ACERA was 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 also provides two supplemental benefit programs: (1) a Post Employment Medical Benefits; and (2) a supplemental cost of living (COLA) and death benefit program. The first program provides an insurance subsidy for medical premiums, and coverage under ACERA-sponsored dental and vision care plans. Both of these programs are funded by a separately maintained Supplemental Retiree Benefit Reserve (SRBR) in accordance with California Legislation under Article 5.5 of the County Employees Retirement Law of 1937 (the "CERL").

ACERA's mission is to provide ACERA members and employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services. ACERA's goal is to carry out our Mission through a competent, professional, impartial and open decision-making process.

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

MEMBER SERVICES

Administration

ACERA completed its annual actuarial valuation to determine whether assets and contributions are sufficient to fund the system. This report measures progress by summarizing actuarial data, establishing the funding requirements for the next fiscal year, and analyzing the preceding year's experience. ACERA's funded status continues to improve and as a result, employer and employee contributions declined.

Board of Retirement

ACERA's Board of Trustees consists of nine members. Four Board seats are filled by election and four are appointed by the Alameda County Board of Supervisors: The Alameda County Treasurer is an ex-officio member. An election was held in November for the Second seat representing ACERA General Members and Elizabeth Rogers was elected.

Directed Brokerage Program and Policy

This Board established a Directed Brokerage Program designed to recapture a portion of trade commissions paid to brokers by (1) seeking "Best Execution" through third-party administration and outside consultant monitoring; (2) recapturing 50% or more of commissions paid on a specific percentage of trades to correspondent brokers; (3) encouraging local and emerging broker participation through an open correspondent network program; and (4) constructing the percentage of trades subject to recapture to allow investment managers access to research.

Business Continuity Plan

Phase one of ACERA's Business Continuity Plan, which includes disaster recovery and relocation, is complete. It includes an alternate facility for staff relocation and business system continuation that will allow ACERA to operate, in the event ACERA's primary location is inaccessible or destroyed.

Disability Procedures

The disability application, processing, and adjudication processes have been completely revised, including the following: (1) the Disability Retirement Procedures (DRP) governing the filing, decision, and review of the disability applications and (2) the ACERA Disability Retirement Handbook, a member-friendly, plain-English companion document to the DRP.

Five-Year Business Plan

The current ACERA Five-Year Business Plan was finalized at the Board's strategic meeting. It contains ongoing or proposed initiatives sorted into three categories: (1) critical to the mission, (2) directly supports the mission, and (3) important to ACERA.

Investments

Fund assets grew to over $5 billion for the first time in the history of the fund.

Retired Member Survey

ACERA conducted a comprehensive retired member survey in order to learn what is most important to this constituent group. Results were released in the spring. Most respondents (98%) rate the quality of ACERA's services as good or excellent and 70% rank Medical Plan Coverage as the most important benefit. Most respondents have internet access and two thirds of these do so through faster connections, such as cable or DSL.

Retirement Seminars

ACERA now offers two seminars: (1) a Pre-Retirement Planning Seminar for members retiring within three years and (2) a Mid-Career Planning Seminar for those ready to start thinking ahead. The goal is to more narrowly tailor each seminar to meet the needs of two different employee populations.

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.

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

ACTUARIAL FUNDING STATUS

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

ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations of the pension plan and the supplemental benefits. The valuation purpose is to reassess the magnitude of the benefit commitments. This is compared to the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly. The December 31, 2006 actuarial valuation will not be completed until after the publication of this CAFR, therefore, this CAFR presents the results of the actuarial valuation as of December 31, 2005, ACERA's most recent valuation.

The actuarial funding status is determined from a long-term, ongoing plan perspective. The valuation determines the progress made in accumulating sufficient assets to pay benefits when due. The Pension Plan's actuarial accrued liability at December 31, 2005 was $4,548.2 million; the actuarial value of assets was $3,781.8 million; the unfunded actuarial accrued liability was $766.4 million; and the funded ratio was 83.2%. For the year ending December 31, 2006, Participating Employers contributed 100% of the annual required contributions to the Pension Plan. The Post Employment Medical and the Non-Other Post Employment Benefits (OPEB) Program's historical trend information regarding funded status is provided on the Schedule of Funding Progress and the Schedule of Employer Contributions on pages 48 and 49.

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 contractually bound to carry out their responsibilities in accordance with the Board of Retirement's investment policy and to follow specific contractual guidelines.

For the years ended December 31, 2006 and 2005, ACERA's investments provided a 14.4% and 8.8% rate of return, respectively. ACERA's annualized rate of return over the last three years was 11.8%, and over the last five years, it was 10.6%.

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 65 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, 2005. The certificate is reproduced on page 11. This was the tenth consecutive year 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.

Additionally, ACERA also received GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the year ended December 31, 2005.

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 mailed to all plan employers, as well as to employee and retiree organizations. Their cooperation contributes significantly to the success of ACERA. The complete CAFR, including the PAFR, 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 7, 2007

Members Of The Board of Retirement

Ophelia B. Basgal

Chair

APPOINTED BY THE BOARD OF SUPERVISORS

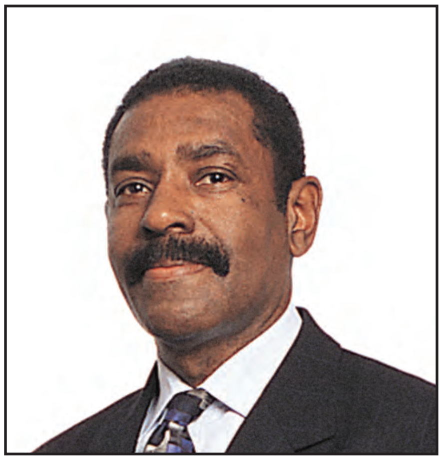
Dale E. Amaral

First Vice-Chair

ELECTED BY SAFETY MEMBERS

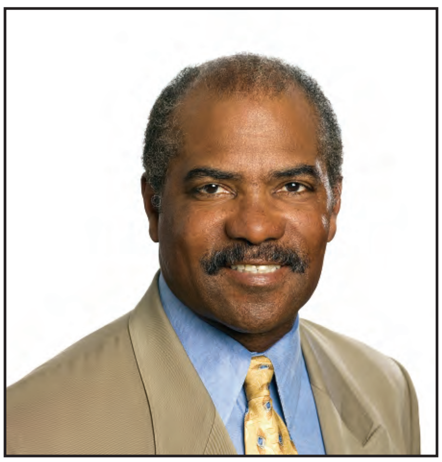
Annette Cain-Darnes

APPOINTED BY THE BOARD OF SUPERVISORS



Keith Carson

APPOINTED BY AND MEMBER OF THE BOARD OF SUPERVISORS



Donald R. White

Ex-Officio Member

TREASURER - TAX COLLECTOR, COUNTY OF ALAMEDA

Liz Koppenhaver

Alternate

ELECTED BY RETIRED MEMBERS

Trevor S. White
Second Vice-chair
elected by general members

L. Kenneth Brooks
appointed by the board of supervisors

Elizabeth Rogers
elected by general members

David M. Safer
elected by retired members

Darryl L. Walker
Alternate
elected by safety members

2006 MEMBERS OF THE BOARD OF RETIREMENT

Dale E. Amaral,
First Vice-Chair

Ophelia B. Basgal,
Chair

Annette Cain-darnes

Keith Carson

L. Darryl Gray

Liz Koppenhaver *

David M. Safer

Sandre R. Swanson

Darryl L. Walker *

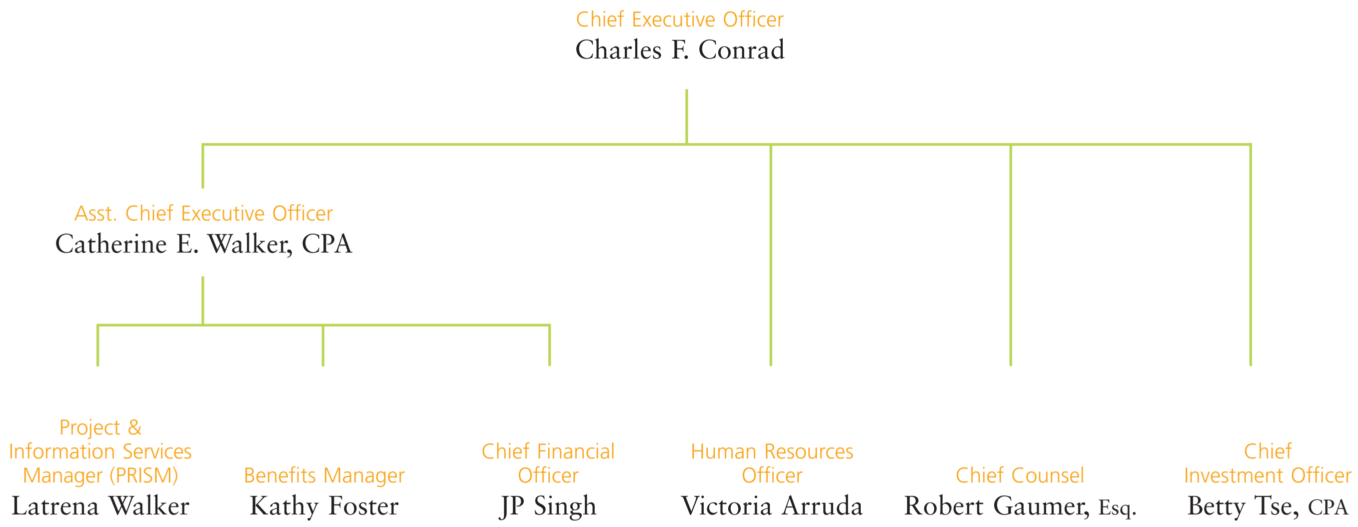
Donald R. White

Trevor S. White,
Second Vice-Chair

* Alternates

Administrative Organization Chart

As of December 31, 2006



List of Professional Consultants[1]

Actuary
The Segal Company

Disability—Medical
Center for Occupational Psychiatry, Inc.
Howard Belfer, MD
Jing W. Hsien, MD
Alan C. Roth, MD

Independent Auditors
Williams, Adley & Co., LLP

Human Resources / Benefits
CPS Human Resource Services
Lakeside Group
Rael & Letson

Legal
American Arbitration Association
County Counsel
Hanson, Bridgett, Marcus, Vlahos
Investor Responsibility Support Services, Inc.
Liebert Cassidy Whitmore
Steefel, Levitt & Weiss

Other Specialized Services
Accounting Systems & Solutions, Inc.
Bickmore Risk Services
Cortex Applied Research, Inc.
Levi, Ray & Shoup, Inc.
Linea Solutions, Inc.
Tobico LLC dba Tobi Designs
Laura Myers Design, Inc.
Siemons Mailing Services, Inc.

[1] Investment Professionals are listed on page 65 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, 2005

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, 2004

my name is PAT O'CONNELL

first job JUNIOR ACCOUNTANT

what I do now AUDITOR-CONTROLLER

what I like most about my job THE PEOPLE I WORK WITH

what I like least about my job NOT ENOUGH HOURS IN THE DAY TO GET EVERYTHING DONE

fondest memory SEEING EACH OF MY CHILDREN BEING BORN

songs that make me sing in the car SHOUT, CELEBRATION

favorite vacation 5 WEEKS IN CANADA WITH MY FAMILY

I wish I COULD SING

proudest moments WHEN MY THREE CHILDREN GRADUATED FROM COLLEGE

biggest challenge SPLITTING TIME BETWEEN WORK & FAMILY

most people don't know that I AM SHY

perfect day SPRING SKIING AT LAKE TAHOE

guilty pleasure CHOCOLATE

I'm secretly a fan of CHER

favorite book THE GOOD EARTH

favorite movie THE AFRICAN QUEEN

person I'd love to meet WARREN BUFFET

inspiration MY FAMILY

dream retirement TO TRAVEL AND LIVE IN DIFFERENT COUNTRIES FOR TWO-THREE MONTHS AT A TIME.

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of plan net assets of the Alameda County Employees' Retirement Association (ACERA), as of December 31, 2006 and 2005, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of December 31, 2006 and 2005, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in note 1 to the basic financial statements, ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an Amendment of NCGA Statement 1,* for the year ended December 31, 2006.

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www.wacllp.com

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

In accordance with *Government Auditing Standards*, we have also issued our report dated May 7, 2007 on our consideration of ACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 16–25 and the schedules of funding progress and employer contributions on pages 48–49 are not required parts 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 this information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements taken as a whole. The schedules of investment expenses, payments to consultants, and administration expense on page 51 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 investment expenses, payments to consultants, and administration expenses 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 7, 2007

ACERA

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

Management's Discussion and Analysis

We are pleased to provide this overview and analysis of ACERA's financial position and combined results of its operations for the Pension Plan, the Post Employment Medical Benefits, and the Non-OPEB Benefits for the years ended December 31, 2006 and 2005. The information presented here, in conjunction with the Notes to the Basic Financial Statements beginning on page 26, provides a fair presentation of ACERA's overall financial status and the results of its operation.

Financial Highlights

- ACERA's net assets at the close of 2006 were $5.2 billion (net assets held in trust for pension, Post Employment Medical Benefits, and Non-OPEB Benefits). ACERA's net assets are available to meet ACERA's specific ongoing program obligations to plan participants and their beneficiaries.
- ACERA's net assets, at the close of the year, were $590.9 million more than the prior year, an increase of 13%, 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, 2005, the date of ACERA's most recent actuarial valuation, the funded ratio for ACERA's Pension Plan was 83.2%. In general, this indicates that for every dollar of benefit obligations, ACERA has about $0.83 of assets to cover it.
- Additions to ACERA's net assets for the year were $860.8 million. These include employer contributions of $127.1 million, member contributions of $70.2 million, and net investment income of $638.2 million (includes miscellaneous income of $0.4 million). Additions to ACERA's net assets were $337.8 million high than those in 2005 primarily due to an exceptionally high net investment income of $637.8 million, an increase of 78% from the prior year, an increase of $26.3 million in employer contributions, and a $6.0 million increase in member contributions.
- Deductions from plan net assets for the year were $269.9 million. These include $199.4 million for pension benefit payments, $6.4 million for Non-OPEB benefits payments, $22.2 million for the post employment medical benefit payments, $5.8 million for member refunds, and $10.8 million for administration expense. In addition, there were total transfers

of $25.3 million from the Post Employment Medical Benefits Plan to the Pension Plan, including $19.0 million for medical benefits and $6.3 million for the implicit subsidy. Deductions for 2006 were $43.7 million larger than for 2005 primarily due to the combined effect of two factors: a net increase in the number of retirees and beneficiaries; and 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 basic financial statements. These include the following three components:

- Statements of ACERA's Net Assets
- Statements of Changes in ACERA's Net Assets
- Notes to the Basic Financial Statements

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

A Statement of ACERA's 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 ACERA's 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, Post Employment Medical Benefits, and Non-OPEB Benefits (plan net assets) as one way to measure the system's financial position. The Pension Plan's funding ratio (valuation assets divided by actuarial liabilities) improved from 82.1% in 2004 to 83.2% in 2005. According to the actuarial valuation completed as of December 31, 2005, the Post Employment Medical Benefits, and the Non-OPEB Benefits were 79.1% and 36.8% funded, respectively. The increase in ACERA's net assets for the year ended December 31, 2006 was 13%. 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 14.4 % for the year outpaced ACERA's current 7.9% actuarial assumed interest rate. Additionally, ACERA has a net deferred investment gain of $459.3 million that will be used to increase actuarial assets over the next four to five years.

Statement of ACERA's Net Assets and Statement of Changes in ACERA's Net Assets appear on pages 23–25.

The Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the financial statements. The Notes to the Basic Financial Statements appear on pages 26–47.

Required Supplementary Information follow the notes showing ACERA's funding progress with obligations to provide pension, post employment medical benefits, and Non-OPEB benefits to members, as well as historical trend information reflecting how much employers have contributed in relation to their annual required contributions. Required supplementary information appears on pages 48–49 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

ACERA's Net Assets Held in Trust for Pension and Other Post Employment Benefits as of December 31, 2006 totaled $5.2 billion. This amount is

$590.9 million or 13% more than the prior year amount. This result essentially reflects the 14% increase in the fair value of ACERA's investments from 2005 to 2006.

Plan net assets had increased 7% in 2005 due to a modest 6% increase in the fair value of investments during the year. The Investment Section provides further details about ACERA's investment performance, and its strict adherence to ACERA's *Investment Guidelines, Policies, and Procedures*.

Current Assets

Current assets grew from $793.7 million in 2005 to $852.2 million in 2006. The main components of current assets were as follows: (1) securities lending cash collateral of $687.3 million, (2) receivables for unsettled securities sales of $6.9 million, (3) cash collateral of $106.7 million related to ACERA's obligation to replace equity securities sold short (reported as an investment receivable); and (4) $31.8 million in other investment receivables. The remaining balance in current assets represents cash of $2.5 million, contributions receivable of $16.3 million, prepaid expenses of $0.5 million, and other receivables of $0.2 million. Regarding the securities lending cash collateral, an equal amount of offsetting securities lending liability was reported as part of ACERA's current liabilities.

The net increase in current assets was only $58.5 million during 2006. The growth of $212.7 million in securities lending cash collateral reflects a higher level of securities lending activity. This was partially offset by a decline in receivables for unsettled securities sales, due to a one time event of a domestic equity portfolio transition in 2005. Current assets increased by $315.7 million in 2005.

Table 1: ACERA's Net Assets (Condensed)

As of December 31, 2006 and 2005 (Dollars in Millions)

	2006	2005	Increase (Decrease) Amount	Percent Change
Current Assets	$ 852.2	$ 793.7	$ 58.5	7%
Investments at Fair Value	5,184.3	4,558.8	625.5	14%
Capital Assets, net	3.1	4.3	(1.2)	–28%
Total Assets	**6,039.6**	**5,356.8**	**682.8**	**13%**
Current Liabilities	829.5	737.6	91.9	12%
Total Liabilities	**829.5**	**737.6**	**91.9**	**12%**
ACERA's Net Assets	**$5,210.1**	**$4,619.2**	**$590.9**	**13%**

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%**
ACERA's Net Assets	**$4,619.2**	**$4,322.4**	**$ 296.8**	**7%**

Table 2: Changes In ACERA's Net Assets (Condensed)

For the Years Ended December 31, 2006 and 2005 (Dollars in Millions)

	2006	2005	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 70.2	$ 64.2	$ 6.0	9%
Employer Contributions	127.1	100.8	26.3	26%
Net Investment Income	637.8	358.0	279.8	78%
Other Income	0.4	-	0.4	-
Post Employment Medical Benefits Transfers on Behalf of Employers	19.0	-	19.0	-
Employer Implicit Subsidy from Post-Employment Medical Benefits	6.3	-	6.3	-
Total Additions	**860.8**	**523.0**	**337.8**	**65%**
DEDUCTIONS				
Retirement Benefit Payments	205.8	187.8	18.0	10%
Post Employment Medical Benefits	22.2	22.0	0.2	1%
Post Employment Medical Benefits Transfers to Pension Plan on Behalf of Employers	19.0	-	19.0	-
Member Refunds	5.8	6.1	(0.3)	–5%
Employer Implicit Subsidy to Pension Plan	6.3	-	6.3	-
Administration	10.8	10.3	0.5	5%
Total Deductions	**269.9**	**226.2**	**43.7**	**19%**
Beginning ACERA's Net Assets	**4,619.2**	**4,322.4**	**296.8**	**7%**
Increase in ACERA's Net Assets	**590.9**	**296.8**	**294.1**	**99%**
Ending ACERA's Net Assets	**$5,210.1**	**$4,619.2**	**$590.9**	**13%**

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

	2005	2004	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 64.2	$ 63.1	$ 1.1	2%
Employer Contributions	100.8	85.5	15.3	18%
Net Investment Income	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%
Post Employment Medical Benefits	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 ACERA's Net Assets	**4,322.4**	**3,920.0**	**402.4**	**10%**
Adjustment for change in accounting principle in 2004	-	(2.4)	2.4	–100%
Increase in ACERA's Net Assets	**296.8**	**402.4**	**(105.6)**	**–26%**
Ending ACERA's Net Assets	**$4,619.2**	**$4,322.4**	**$ 296.8**	**7%**

This was mainly due to the increased receivable for unsettled securities sales and increased securities lending activity.

Investments

The fair value of ACERA's investments grew from $4,558.8 million in 2005 to $5,184.3 million in 2006, an increase of $625.5 million, or 14%. The increase in the balance of investments represented almost all of the increase in ACERA's 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 ACERA's net assets for 2006 exceeded deductions from ACERA's net assets by $590.9 million. This excess (or shortfall in other years) largely depends on the magnitude of net investment income for the year, as the level of contributions and benefits is relatively stable. (Net Investment Income is described on page 21). In 2005, the fair value of investments increased $259.7 million, or 6%, due to an excess of plan additions over deductions in that year of $296.8 million likewise due to favorable net investment income.

Capital Assets

ACERA's capital assets (net of accumulated depreciation and amortization) balance declined from $4.3 million in 2005 to $3.1 million in 2006. The $1.2 million 2006 capital assets (net) balance decrease was due to $0.3 million equipment and furniture additions offset by $1.5 million scheduled depreciation and amortization. Capital assets include information systems, equipment, furniture, leasehold improvements, and construction-in-progress. In 2006, there were no significant commitments made for capital expenditures.

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 predominately due to scheduled depreciation and amortization of $2.0 million which was offset by $0.2 million addition in equipment and furniture.

Current Liabilities

Current liabilities increased from $737.6 million in 2005 to $829.5 million in 2006. The main components of current liabilities were securities lending cash collateral of $687.3 million (as mentioned above), payables for unsettled securities purchases of $25.2 million, payables for equity securities sold short of $107.5 million, other investment related payables of $3.4 million, and a combined total of $6.1 million for other payables, including accrued administrative expenses, member benefits, refunds, and other.

Current liabilities increased by $91.9 million for the current year. The net increase in current liabilities of $91.9 million was primarily due to an increase of $212.7 million in security lending cash collateral that was partially offset by investment payables related to unsettled trades. Current liabilities increased by $276.8 million for 2005, mainly due to the increase in payables for unsettled securities purchased and an increase in securities lending activity.

Analysis Of Results Of Operations

Changes in ACERA's net assets consist of total additions reduced by total deductions. Table 2 on page 19 shows condensed information about this financial activity. ACERA's net assets increased by $590.9 million and $296.8 million for the years ended December 31, 2006 and 2005 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 funding sources for ACERA member benefits are employer contributions, member contributions, and net investment income.

Additions to ACERA's net assets for the years ended December 31, 2006 and 2005 totaled $860.8 million and $523.0 million respectively. For 2006, the $337.8 million increase in additions to ACERA's net assets versus prior year additions was primarily due to an increase in net investment income of $279.8 million or an increase of 78%, and continued strength of the capital markets in 2006. For 2005, overall additions to plan net assets versus prior year additions decreased by $84.9 million, mainly due to a decline in net investment income.

Employer Contributions

Total employer contributions for 2006 were $127.1 million, up $26.3 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 resulted from an actuarial investment return less than the 7.8% assumed in the 2004 valuation coupled with less than expected compensation increases, as well as other demographic assumptions. Total employer contributions for 2005 were $15.3 million higher than in 2004 due to an increase in the average contribution rate along with the aggregate payroll increase. The average employer rate increase was mainly due to changes in actuarial assumptions, including changes in the actuarial interest rate from 8% to 7.8% along with other changes in demographic assumptions.

Member Contributions

Total member contributions for 2006 were $70.2 million. This $6.0 million increase over 2005 was due to higher compensation and a modest increase in the average member contribution rate. The average member rates were higher for the first nine months of the year. The rates modestly dropped effective the month of September, due to changes in actuarial assumptions. Total member contributions increased by $1.1 million in 2005 over 2004 and resulted from a modest increase in member contribution rates. The average member rate increase was due to changes in actuarial assumptions, including the interest rate (from 8.00% to 7.80%), withdrawal, disability, and other demographic assumptions.

Net Investment Income

For 2006, the net investment income of $637.8 million was 78% higher compared to 2005. This investment income increase reflected the year-on-year increase in ACERA's total gross investment return of 14.4% in 2006 compared to 8.8% in 2005. The 2006 investment return was 80 basis points below the plan's policy index return of 15.2%. However, it was 60 basis points above the average large public fund return, and exceeded ACERA's current 7.9% actuarial return expectation. The Investment Section of this report describes investment results in greater detail.

For 2005, net investment income came to $358.0 million, a 22% decrease from the prior year amount. This investment income reduction reflected the year-on-year decline in ACERA's total gross investment return from 12.3% in 2004 to 8.8% in 2005.

Other Income

Other income was $0.4 million in 2006 compared to zero over the prior year. The other income predominantly resulted from class action litigation settled during the year.

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 ACERA's Net Assets

The four main categories of deductions from ACERA's net assets are retirement benefits, the retiree Post Employment Medical Benefits, member refunds, and the expense of administering the system.

Overall, deductions from ACERA's net assets for 2006 totaled $269.9 million, an increase of $43.7 million or 19% over the prior year. The majority of this increase was a result of retirement benefits going up 10%. As discussed earlier there was a total of $25.3 million transfer in 2006 for Post Employment Medical Benefits ($19.0 million) and for implicit subsidy ($6.3 million) from the Post Employment Medical Benefits to the Pension Plan. Deductions from plan net assets for 2005 increased $23.1 million or 11% over the prior year, also largely due to increases in retirement benefits.

Retirement Benefits

Retirement benefits were $205.8 million, an increase of $18.0 million, or 10% over the prior year. Retirement benefits include service retirement allowances, disability allowances, death payments, and supplemental cost of living adjustments. The growth in benefit payments was due to the combined effect of two factors: (1) Net increase in the number of retirees and beneficiaries for the year and (2) the average retirement allowance of those added to the retirement payroll being much larger than the average retirement allowance of those removed from the retirement payroll.

Retirement benefit payments were $187.8 million in 2005, an increase of $18.7 million, or 11% over the prior year. The growth in retirement benefit payments in 2005 was for the same reasons as the growth in retirement benefits in 2004.

Post Employment Medical Benefits

The Post Employment Medical Benefits expense for 2006 was $22.2 million, up $0.2 million or 1% over the prior year. There was no change in the retiree monthly medical monthly allowance benefits from 2005. The Post Employment Medical Benefits expense increased 12% in 2005. The increase reflects higher monthly medical allowance benefits approved by the Board of Retirement in 2005. Note 6—Post Employment Medical Benefits on page 36 describes this benefits.

Member Refunds

Member refunds were $5.8 million in 2006, a decrease of $0.3 million, or 5%, from 2005. The level of member refunds increased 17% in 2005. 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 $10.8 million for 2006. Administration expense covers the basic costs of operating the retirement system. These include staffing, professional fees, office expenses, systems, depreciation, and miscellaneous expense. Approximately half of this expense represents staffing (wages, fringe benefits, and temporary labor). Administration expense grew $0.5 million, or 5% over the prior year. The increase resulted primarily from filling vacant positions and adding staff to address an increased workload in various departments and increased communications to our members.

Administration expense was $10.3 million for 2005. Administration expenses for 2005 increased 12% over 2004 mainly due to additional cost in staffing and other related costs.

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 2006 and for 2005 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 the budget in 2006 or in 2005.

Fiduciary Responsibilities

ACERA's Board and management 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
Accounting and Operations Department
475 14th Street, Suite 1000
Oakland, California 94612-1900

Respectfully submitted,

JP Singh, CPA, MBA
Chief Financial Officer
May 7, 2007

Statement of ACERA's Net Assets

As of December 31, 2006 and 2005 (Dollars in Thousands)

	Pension Plan	Post Employment Medical Benefits	Non-OPEB Benefits	Total 2006	Total 2005
ASSETS					
Cash	$ 2,498	$ -	$ -	$ 2,498	$ 3,975
Securities Lending Cash Collateral	687,289	-	-	687,289	474,589
Receivables		-	-		
Contributions	16,263	-	-	16,263	14,156
Investment Receivables	138,519	-	-	138,519	118,232
Unsettled Trades - Investments Sold	6,941	-	-	6,941	181,808
Other Receivables	261	-	-	261	437
Total Receivables	**161,984**	**-**	**-**	**161,984**	**314,633**
Prepaid Expenses	465	-	-	465	491
Total Current Assets	**852,236**	**-**	**-**	**852,236**	**793,688**
Investments at Fair Value		-	-		
Short-Term Investments	123,332	-	-	123,332	108,628
Domestic Equities	1,197,954	-	-	1,197,954	907,432
Domestic Equity Commingled Funds	936,556	-	-	936,556	832,350
International Equities	1,223,732	-	-	1,223,732	389,086
International Equity Commingled Funds	53,808			53,808	818,487
Domestic Fixed Income	1,109,634	-	-	1,109,634	1,096,510
International Fixed Income	264,210	-	-	264,210	164,186
Real Estate - Separate Properties	144,007	-	-	144,007	163,272
Real Estate - Commingled Funds	130,404	-	-	130,404	76,306
Futures Contracts - Equity Index	130	-	-	130	-
Currency Swaps	485	-	-	485	2,525
Total Investments	**5,184,252**	**-**	**-**	**5,184,252**	**4,558,782**
Due from Pension Plan	(562,582)	496,246	66,336	-	-
Capital Assets at Cost (Net of Accumulated Depreciation and Amortization)	3,085	-	-	3,085	4,272
Total Assets	**5,476,991**	**496,246**	**66,336**	**6,039,573**	**5,356,742**
LIABILITIES					
Securities Lending Liability	687,289	-	-	687,289	474,589
Unsettled Trades - Investments Purchased	25,171	-	-	25,171	163,464
Investment-Related Payables	107,560	-	-	107,560	89,467
Futures Contracts	-	-	-	-	1,112
Currency Swaps	3,371	-	-	3,371	4,526
Accrued Administration Expenses	1,680	-	-	1,680	1,326
Members Benefits & Refunds Payable	3,426	-	-	3,426	3,084
Retirement Payroll Deductions Payable	4	-	-	4	3
Other Payables	971	-	-	971	-
Total Liabilities	**829,472**	**-**	**-**	**829,472**	**737,571**
Net Assets Held in Trust for Benefits	**$4,647,519**	**$496,246**	**$66,336**	**$5,210,101**	**$4,619,171**

(Schedules of Funding Progress are presented on pages 48 and 49 of this report.)

The accompanying Notes to the Basic Financial Statements are an integral part of these Basic Financial Statements.

Statement of Changes in ACERA's Net Assets

For the Years Ending December 31, 2006 and 2005 (Dollars in Thousands)

	Pension Plan	Post Employment Medical Benefits	Non-OPEB Benefits	Total 2006	Total 2005
ADDITIONS					
Contributions					
Member	$ 70,174	$ -	$ -	$ 70,174	$ 64,150
Employer	108,088	19,008	-	127,096	100,801
Total Contributions	**178,262**	**19,008**	**-**	**197,270**	**164,951**
Investment Income					
From Investment Activities:		-	-		
Net Appreciation in Fair Value of Investments	515,523	-	-	515,523	250,375
Dividends, Interest, & Net Real Estate Operating Income	141,739	-	-	141,739	128,328
Total Income from Investment Activities	657,262	-	-	657,262	378,703
Total Investment Expenses	(21,060)	-	-	(21,060)	(21,882)
Net Income from Investment Activities	**636,202**	**-**	**-**	**636,202**	**356,821**
From Securities Lending Activities:					
Securities Lending Income	30,409	-	-	30,409	14,791
Securities Lending Expenses					
Borrower Rebates	(28,367)	-	-	(28,367)	(13,262)
Management Fees	(400)	-	-	(400)	(381)
Total Securities Lending Activity Expenses	**(28,767)**	**-**	**-**	**(28,767)**	**(13,643)**
Net Income from Securities Lending Activities	1,642	-	-	1,642	1,148
Earnings Allocated to OPEB and Non-OPEB Reserves	(85,598)	75,636	9,962	-	-
Total Net Investment Income	**552,246**	**75,636**	**9,962**	**637,844**	**357,969**
Miscellaneous Income	461	-	-	461	71
Transfer from Post Employment Medical Benefits on Behalf of Employers	19,008	-	-	19,008	-
Transfer from Post Employment Medical Benefits for Employers Implicit Subsidy	6,304	-	-	6,304	-
Total Additions	**$ 756,281**	**$ 94,644**	**$ 9,962**	**$ 860,887**	**$ 522,991**

Statement of Changes in ACERA's Net Assets (Continued)

For the Years Ending December 31, 2006 and 2005 (Dollars in Thousands)

	Pension Plan	Post Employment Medical Benefits	Non-OPEB Benefits	Total 2006	Total 2005
DEDUCTIONS					
Benefits					
Service Retirement and Disability Benefits	$ 197,583	$ -	$ 1,052	$ 198,635	$ 180,480
Death Benefits	1,840	-	-	1,840	1,534
Burial Benefits	-	-	748	748	806
Supplemental Cost of Living Allowance	-	-	4,622	4,622	5,077
Post Employment Medical Benefits	-	22,205		22,205	21,967
Total Benefit Payments	**199,423**	**22,205**	**6,422**	**228,050**	**209,864**
Member Refunds	5,817	-	-	5,817	6,080
Administration					
Administrative Expenses	8,714	-	-	8,714	8,879
Legal Expenses	1,821	-	-	1,821	1,199
Actuarial Expenses	204	-	-	204	232
Business Continuity Expenses	39	-	-	39	8
Total Administration	**10,778**	**-**	**-**	**10,778**	**10,318**
Transfer to Pension Plan on Behalf of Employers	-	19,008	-	19,008	-
Transfer to Pension Plan for Employers Implicit Subsidy	-	6,304	-	6,304	-
Total Deductions	**216,018**	**47,517**	**6,422**	**269,957**	**226,262**
Excess of Additions over Deductions	**540,263**	**47,127**	**3,540**	**590,930**	**296,729**
NET ASSETS HELD IN TRUST FOR BENEFITS					
January 1	**4,107,256**	**449,119**	**62,796**	**4,619,171**	**4,322,442**
December 31	**$4,647,519**	**$496,246**	**$66,336**	**$5,210,101**	**$4,619,171**

The accompanying Notes to the Basic Financial Statements are an integral part of these basic financial statements.

Notes to the Basic 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 are reported at the 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 sale 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 are 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 (or any security that can be sold or pledged without a default by the borrower) is separately reported on the statement of plan net assets among the current assets. A corresponding liability of an equal amount (the obligation to return the cash collateral) 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. Note 7—Deposits and Investments discloses the amount of securities lending non-cash collateral.

Derivatives

ACERA's investments include the following types of derivative investments: stock index futures, currency swaps, and Collateralized Mortgage Obligations (CMOs).

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 bonds 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; offsite office equipment—five years; business continuity assets—five years; computer hardware—five years; and computer software—three years.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States 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 ACERA's net assets.

Implementation of New Accounting Principle

In 2006, ACERA implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Post Employment Benefit Plans other than Pension Plans*, and GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*.

GASB Statement No. 43 establishes uniform financial reporting standards for other post employment benefits (OPEB) plans. OPEB includes post employment healthcare, as well as other forms of post employment benefits (for example, life insurance) when provided separately from a pension plan. Post employment healthcare benefits include medical, dental, vision, hearing, and other health-related benefits. The approach adopted in Statement No. 43 is generally consistent with that of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and results in a common overall approach to financial reporting for all post employment benefit plans.

Post employment healthcare benefits currently provided by ACERA include medical, dental, and vision benefits. These benefits are reported in the Post Employment Medical Benefits in the financial statements consistent with GASB Statement No. 43. Other forms of post employment benefits provided by ACERA include supplemental cost of living allowance and death benefits. These benefits are reported in the Non-OPEB Benefits in the financial statements consistent with GASB Statement No. 25, as they are considered pension benefits.

GASB Statement No. 44 amends the portions of National Council on Governmental Accounting (NCGA) Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The objective of GASB Statement No. 44 is to improve the comparability and usefulness of the information that state and local governments present as supplementary information in the statistical section. New requirements include presenting ten-year trend information regarding changes in net assets, benefit and refund deductions from net assets by type, and average benefit payments for each individual pension and other post employment plan.

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. In addition, ACERA provides Post Employment Medical Benefits and Non-OPEB Benefits.

ACERA is governed by the California Constitution, the County Employees Retirement Law of 1937 (the "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 governs ACERA's plan structure and operation. The provisions of the 1937 Act spell out requirements concerning membership, governance, contributions, benefits, service, retirement eligibility, disability, cost of living, financial provisions, optional allowances, reciprocal benefits, etc.

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 post employment medical, dental care, vision care, and cost of living adjustment programs. (In this report, "basic" benefits refers to vested benefits provided for in the 1937 Act, whereas "supplemental" benefits refers to additional non-vested benefits paid at the discretion of the Board of Retirement and subject to available funding.)

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 and two alternates. 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. One alternate member is elected by Safety members and one alternate member is elected by retired members.

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

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

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

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) governing board 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 periodically re-authorized by the Board of Retirement. SRBR benefits are not vested.

In 2006, the Board of Retirement approved the allocation of SRBR funds to Post Employment Medical Benefits and Non-OPEB Benefits. These two programs provide the supplemental benefits described above.

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 present 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.

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

Plan Membership

All full-time employees of Alameda County and of Participating Employers who are appointed to permanent positions are statutorily required to become members of ACERA.

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 and Probation Officers).

- General members are all other members.

Defined Benefit Pension Plan

ACERA's Membership

As of December 31, 2006 and 2005

	2006	2005
Members Now Receiving Benefits		
Service Retirement	5,156	4,948
Disability Retirement	693	693
Beneficiaries and Survivors	985	950
Subtotal	**6,892**	**6,591**
Active Members		
Active Vested Members	7,683	7,280
Active Nonvested Members	2,993	3,234
Subtotal	**10,676**	**10,514**
Deferred Members	1,658	1,541
Total Membership	**19,226**	**18,646**

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.

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, or 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 member's survivors. 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 tier levels 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 Pension 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 2006 COLA increase granted for Tier 1 members was determined by the members' retirement date:

1. Tier 1 benefit recipients, as of April 1, 2006, who retired after April 1, 1998, did not have banked amounts and received 2%.
2. Tier 1 benefit recipients, as of April 1, 2006, who retire between April 2, 1990 and April 1, 1998, with a banked amount of 0.5% received a 2.5% COLA adjustment.
3. Tier 1 benefit recipients, as of April 1, 2006, who retired before April 2, 1990, with banked amounts of 1% or more received the maximum 3% COLA adjustment.

Post Employment Medical Benefits

ACERA administers a medical benefits program for retired members. Benefits include monthly medical allowances, Medicare Part B premium reimbursements, dental and vision premiums based on eligibility. The benefits are paid through a 401(h) account, in accordance with federal tax laws. The maximum levels of the monthly medical allowance are reviewed by the Board of Retirement annually.

Program Membership

Retired members with a minimum of ten years of service or those who retire due to duty disability are eligible to receive a monthly medical allowance benefit. Retired members eligible for the monthly medical allowance benefit may also be reimbursed for the Medicare Part B premium with proof of enrollment in Medicare Part B. All retired members are eligible to receive post employment dental and vision benefits.

Non-OPEB Benefits

ACERA also provides other non-health post employment benefits. Benefits include supplemental COLA, retired member death benefit, and active death equity benefit.

Separately from the Basic Cost of Living Adjustment, 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.

The retired member death benefit is a one-time $4,250 lump sum death benefit payable to the beneficiary of a retiree. This benefit is only paid upon the death of a retiree; it is not paid upon the death of a beneficiary.

If a member dies before retirement (active member death), ACERA will fund the difference between the member's vested surviving spouse/domestic partner annuity benefit and a 100% surviving spouse/domestic partner annuity benefit.

Program Membership

All retired members are eligible to receive the supplemental COLA once they fall under 85% of the original benefit and their beneficiaries will receive the retired member death benefit. The active death equity benefit is available to active members with five or more years of service credit.

Actuarial Valuation

An actuarial valuation is normally performed annually for the Pension Plan. In addition, there is a separate actuarial valuation conducted annually for the SRBR, which includes the Post Employment

Medical Benefits and the Non-OPEB Benefits. Note 5—Actuarial Valuation provides more information about this.

3. CONTRIBUTIONS

Pension Plan

Authority for Establishing and Amending Obligations to Make Contributions

The 1937 Act establishes the basic obligations for Participating Employers and active members to make contributions to the Pension Plan. Member and employer contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. These rates are based on membership type (General and Safety) and tier (Tier 1 and Tier 2).

Funding Objective.

The funding objective of the Pension Plan is to establish member and Participating Employer contribution rates that will remain level over time as a percentage of payroll, unless plan benefit provisions are changed. The funding for retirement benefits arises from three sources: member contributions, employer contributions, and the earnings on investments held by the plan.

Member Contributions

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

Employer Contributions

The Pension Plan provides lifetime retirement and disability benefits to its members. Alameda County and Participating Employers are required by statute to contribute the necessary amounts to fund these 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 2006). Each pair of percentages ranges from youngest to oldest age-at-date-of-entry within the category.

Current Member Contribution Rates

Effective September 2006

Rates: Youngest to Oldest at Date of Entry

Tier 1: (entry date prior to July 1, 1983)	
General	9.73%–13.96%;
Safety	15.95%–19.88%
Tier 2: (entry date July 1, 1983 or later)	
General	6.51%–10.34%
Safety	12.96%–17.48%

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).

Post Employment Medical Benefits and Non-OPEB Benefits

The funding for SRBR is limited to net excess investment earnings. In accordance with Article 5.5 of the 1937 Act, ACERA semiannually credits 50% of the balance of net excess investment earnings to the SRBR and the other 50% is proportionally credited to all other reserves (except for the Contingency Reserve and the Market Stabilization Reserve). The Post Employment Medical Benefits and Non-OPEB Benefits are part of the SRBR.

In accordance with federal tax law, the Post Employment Medical Benefits are paid through a 401(h) account with contributions from the County and Participating Employers. After these contributions are made, as authorized by the Board of Retirement, ACERA transfers an equal amount from the Post Employment Medical Reserve to supplement employer contributions for pensions. There is no requirement and no guarantee that the employers will continue to contribute to the 401(h) account.

ACERA's Board of Retirement has no authority to demand future funding from employers to fund the SRBR, which affect the Post Employment Medical Benefits and Non-OPEB Benefits. These post employment benefits will continue to be paid as long as assets are available. When assets are fully depleted, no additional supplemental benefits will be paid by ACERA.

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 Plan. 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 $34 million in the year ended December 31, 2006 and $32 million in the year ended December 31, 2005.

4. RESERVES

The reserves represent 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.

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 is conducted semi-annually with calculation periods ending June 30 and December 31. It involves spreading the income over ten successive semi-annual periods.

Reserves

As of December 31, 2006 and 2005 (Dollars in Thousands)

2006	Pension	Post Employment Medical Benefits	Non-OPEB Benefits	Total
Member Reserve	$ 1,010,249	$ -	$ -	$ 1,010,249
Employers' Advance Reserve	362,969	-	-	362,969
Retired Member Reserve	2,754,624	-	-	2,754,624
Supplemental Retiree Benefit Reserve				
Post Employment Medical Benefits Reserve	-	496,246	-	496,246
Non-OPEB Benefits Reserve	-	-	66,336	66,336
Contingency Reserve	60,396	-	-	60,396
Market Stabilization Reserve	459,281	-	-	459,281
Total Reserves	**$4,647,519**	**$496,246**	**$66,336**	**$5,210,101**

2005				
Member Reserve	942,948	-	-	942,948
Employers' Advance Reserve	347,190	-	-	347,190
Retired Member Reserve	2,491,705	-	-	2,491,705
Supplemental Retiree Benefit Reserve				
Post Employment Medical Benefits Reserve	-	449,119	-	449,119
Non-OPEB Benefits Reserve	-	-	62,796	62,796
Contingency Reserve	52,721	-	-	52,721
Market Stabilization Reserve	272,692	-	-	272,692
Total Reserves	**$4,107,256**	**$449,119**	**$62,796**	**$4,619,171**

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 all 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 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 Retired Member Reserve made when 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; and deductions include transfers to Retired Member Reserve made when each member retires. When a terminating member elects to receive a refund of member contributions, this has 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 Supplemental Retiree Benefit Reserve (SRBR) was established on January 1, 1985, under Article 5.5 of the 1937 Act. 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 Post Employment insurance subsidies, Medicare Part B reimbursement, vision, dental, supplemental COLA, and increased death benefits to retirees.

As of December 31, 2005, the Board of Retirement approved an allocation from the SRBR and other reserves to the Post Employment Medical Benefits and Non-OPEB Benefits Reserves in the amounts of $449.1 million and $62.8 million, respectively.

The Post Employment Medical Benefits Reserve represents funds used to pay for retiree insurance subsidy for medical premiums and coverage for ACERA-sponsored dental and vision care plans. The account is set up as a 401(h) account, in accordance with federal tax laws. The Post Employment Medical Benefits Reserve supplements the employer contributions when they make contributions to the 401(h) account. For the year ended December 31, 2006, the employers funded $19.0 million towards the 401(h) contributions, and an equal amount was transferred from the Post Employment Medical Benefits Reserve to supplement the employer contributions. The reserve is increased through excess investment earnings.

The Non-OPEB Benefit Reserve is used to pay for the supplemental COLA and death benefits. For the year ended December 31, 2006 $4.6 million was paid from the Non-OPEB Benefits Reserve for supplemental COLA, and a combined amount of $1.8

million in death benefits and continuance payments for deceased members. The reserve is increased through net excess investment earnings.

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 net assets against future earnings deficiencies.

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 2006 and 2005

For the years ending December 31, 2006 and 2005, ACERA's allocations of earnings to reserves were a total amount of $627.5 million and $285.7 million, respectively; $7.7 million and $4.5 million were allocated to the Contingency Reserve for the years ending December 31, 2006 and 2005, respectively, to maintain the Contingency Reserve balance at 1% of total assets. The Market Stabilization Reserve increased by $186.6 million and $ 62.0 million for the years ending December 31, 2006 and 2005, respectively, as a result of applying the actuarial five-year smoothing process.

5. ACTUARIAL VALUATION

ACERA retains an independent actuarial firm to conduct actuarial valuations of the Pension Plan and the Supplemental Retiree Benefit Reserve (SRBR) to monitor ACERA's funding status and funding integrity. SRBR includes the Post Employment Medical Benefits and the Non-OPEB Benefits. These valuations are updated annually for economic and non-economic assumptions. The purpose of the valuations is to reassess the magnitude of ACERA's benefit commitments in comparison with the assets expected to be available to support those commitments so employer and member contribution rates can be adjusted accordingly.

The most recent actuarial valuations were completed as of December 31, 2005. The Pension Plan was 83.2% funded. The actuarial accrued liability was $4,548.2 million, the actuarial value of assets was $3,781.8 million, and the unfunded actuarial accrued liability was $766.4 million.

The Board of Retirement as of December 31, 2005 allocated $62.8 million of SRBR assets to fund Supplemental COLA and death benefits and $449.1 million to fund the Post Employment Medical Benefits.

The actuarial valuation determined that the Non-OPEB Benefits program was 36.8% funded. The actuarial accrued liability was $170.8 million, the actuarial value of assets was $62.8 million, and the unfunded actuarial accrued liability was $108.0 million. The annual covered payroll was $709.8 million. The ratio of the unfunded actuarial accrued liability to the annual covered payroll for the Non-OPEB Benefits (supplemental COLA and death) program was 15.2%. The Post Employment Medical Benefits was 79.1% funded using the GASB guidelines which assume a substantive plan that will continue into perpetuity. The actuarial accrued liability was $567.9 million, the actuarial value of assets was $449.1 million, and the unfunded actuarial accrued liability was $118.8 million. The annual covered payroll was $709.8 million. The ratio of unfunded actuarial accrued liability to the annual covered payroll for the Post Employment Medical Benefits was 16.7%.

Under current actuarial assumptions, it is anticipated that the SRBR will be sufficient to fund the following: (1) The Post Employment Medical Benefits; and (2) the Supplemental COLA and death benefits program through year 2023.

GASB Statement No. 43, "Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans," requires that the benefits provided by supplemental COLA benefits and death benefits program to be considered as pension benefits and should be reported consistent with GASB Statement No. 25.

The benefits provided by the Post Employment Medical Benefits are considered Other Post Employment Benefits and are reported in the financial statements consistent with GASB Statement No. 43.

These projection results for Post Employment Medical Benefits and Non-OPEB Benefits are based on the following actuarial methods and assumptions:

	Post Employment Medical Benefits	Non-OPEB Benefits
Valuation Date	12/31/05	12/31/05
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization of UAAL	30 years (declining)	30 years (declining)
Remaining Amortization Period	30 years	30 years
Assets Valuation Method	Difference between actual and expected market return smoothed over ten 6-months periods	Difference between actual and expected market return smoothed over ten 6-months periods
Actuarial Assumptions	Same as pension plan plus the following health inflation assumptions	Same as pension plan
Medical Trend	Graded down from 12% by 1% per annum until ultimate rate of 5%	
Dental and Vision Trend	5%	
Medicare Part B	6%	

The required schedules of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial liability for benefits over time.

6. POST EMPLOYMENT MEDICAL BENEFITS

ACERA administers a medical benefits program for retired members and their eligible dependents. The County negotiates the medical contracts with the providers covering both active and retired members. This arrangement results in "blended" medical premium rates that allow retirees to purchase medical care from one of these providers at rates lower than otherwise (an "implicit subsidy"). ACERA and the County collectively determined that the total amount of implicit subsidy due to the County for the blended medical premium rates for the years 2005 and 2006 was $6.3 million. This amount was reported as an addition to the Pension Plan and as a deduction from the Post Employment Medical Benefits in 2006. As of December 31, 2006 approximately 77% of ACERA retirees purchased medical and 98% of retirees enrolled in vision and dental through this program during 2006.

For several years, ACERA retirees have been eligible to receive an explicit subsidy for medical 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 medical 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 medical 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.

Postemployment Medical Benefits

For the Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
County's Healthcare Premium Account Balance	$ 292	$ 3,186
Health Insurance Subsidies Paid	22,205	21,967
Number of Subsidized Retirees		
Medical	4,550	4,385
Medicare Part B	2,546	2,441
Dental	5,809	5,610
Vision	5,809	5,610

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 the Board to prudently 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.

Moreover, the 1937 Act requires the Board, its officers and employees to discharge their duties with respect to ACERA and the investment portfolio under the following rules:

- "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 daily 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, 2006, ten external investment managers managed securities portfolios and five investment managers were used for real estate investments.

Available cash held by investment managers is swept daily 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 investments pools is marked to market at each month's end. The fair value of ACERA's position in these investment pools is not materially different from the value of the pool shares.

Derivatives

As of December 31, 2006 and 2005, ACERA held $192.8 million and $175.6 million in Collateralized Mortgage Obligations respectively.

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 that 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. ACERA invests the cash and receives earnings on it in exchange for paying a loan rebate fee to the borrower. In the case of non-cash collateral, the borrower also pays ACERA a loan premium.

For the years ended December 31, 2006 and 2005, 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, and 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:

- Loaned securities denominated in U.S. dollars or sovereign debt issued by foreign governments, with a margin of at least 102% of the market value of the loaned securities; and
- Loaned securities not denominated in U.S. dollars, or whose primary trading market was not located in the United States, with a 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, 2006 and 2005 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, 2006 and 2005 resulting from a default of the borrowers or the securities lending agent.

For the years ended December 31, 2006 and 2005, 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, 2006 and 2005, this investment pool had an average duration of 59 and 42 days, and an average weighted maturity of 539 and 456 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, 2006 and 2005, 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, 2006 and 2005, ACERA had securities on loan with a total fair value of $696.7 million and $461.3 million, respectively and the cash collateral held against the loaned securities of $687.3 million and $474.6 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, 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

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 nor 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 $1.2 million and $3.4 million, as of December 31, 2006 and 2005 respectively. The cash held in the Alameda County Treasurer's investment pool was $1.3 million and $0.6 million as of December 31, 2006 and 2005, respectively. These deposits are uninsured 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 ($10.3 million and $11.2 million as of December 31, 2006 and 2005, respectively) and cash in a margin account for the long-short equity arbitrage investment program ($106.7 million and $84.8 million, as of December 31, 2006 and 2005, respectively). 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, 2006 and 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.

Credit Risk Analysis

As of December 31, 2006 (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	$ 192,767	$108,508	$ -	$ -	$ -	$ -	$ -	$ -	$ 84,259
Convertible Bonds	21,477	-	-	-	986	221	8,995	5,474	5801
Corporate Bonds	523,383	14,496	49,311	67,792	211,501	39,121	90,181	14,200	36,781
Federal Home Loan Mortgage Corp.	26,021	26,021	-	-	-	-	-	-	-
Federal National Mortgage Assn.	122,292	122,292	-	-	-	-	-	-	-
Government Issues	377,079	314,704	-	47,845	5,431	-	-	-	9,098
Government National Mortgage Assn. I, II	1,135	1,135	-	-	-	-	-	-	-
Other Asset-Backed Securities	109,690	94,029	2,789	3,668	9,203	-	-	-	-
Subtotal Debt Investments	**1,373,844**	**681,185**	**52,100**	**119,305**	**227,121**	**39,342**	**99,176**	**19,674**	**135,939**
External Investment Pools of Debt Securities									
Securities Lending Cash Collateral Fund	687,289	-	-	-	-	-	-	-	687,289
Master Custodian Short-term Investment Fund	92,521	-	-	-	-	-	-	-	92,521
AFL-CIO Housing Investment Trust	50,677	-	-	-	-	-	-	-	50,677
Subtotal External Investment Pools	**830,487**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**830,487**
Total	**$2,204,331**	**$681,185**	**$52,100**	**$119,305**	**$227,121**	**$39,342**	**$99,176**	**$19,674**	**$966,426**

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	$ 175,629	$ 175,629	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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.	8,919	8,919	-	-	-	-	-	-	-
Federal National Mortgage Assn.	59,469	59,469	-	-	-	-	-	-	-
Government Issues	515,072	422,313	26,189	27,705	3,780	10,240	-	-	24,845
Government National Mortgage Assn. I, II	3,517	3,517	-	-	-	-	-	-	-
Other Asset-Backed Securities	100,509	80,269	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 a 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.

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 discloses credit ratings of ACERA's debt investments by type and for each external investment pool, as of December 31, 2006 and 2005.

Interest Rate Risk

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

ACERA has investments in three fixed income portfolios containing individual debt securities as well as investments in three external investment

Interest Rate Risk Analysis—Duration

As of December 31, 2006 and 2005 (Dollars in Thousands)

	2006		2005	
Debt Investments by Type	**Fair Value**	**Duration in Years**	**Fair Value**	**Duration in Years**
Collateralized Mortgage Obligations	$ 191,097	2.4	$ 175,629	2.4
Convertible Bonds	21,477	3.2	4,081	7.5
Corporate Bonds	496,802	6.8	405,228	6.1
Federal Home Loan Mortgage Corp.	26,021	3.2	8,919	2.9
Federal National Mortgage Assn.	122,292	3.6	59,469	3.3
Government Issues	364,345	7.5	458,189	5.1
Government National Mortgage Assn. I, II	1,135	4.4	3,517	3.0
Other Asset-Backed Securities	78,586	3.7	100,509	6.1
Subtotal of Investments with Duration	**1,301,755**		**1,215,541**	
Collateralized Mortgage Obligations	1,670	No Duration	-	-
Convertible Bonds	-	-	21,243	No Duration
Corporate Bonds	26,581	No Duration	-	-
Credit Card Securities	-	-	2,702	No Duration
Government Issues	12,734	No Duration	56,883	No Duration
Other Asset-Backed Securities	31,104	No Duration	-	-
Subtotal of Investments without Duration	**$72,089**		**80,828**	
Total of Debt Investments	**1,373,844**		**1,296,369**	
External Investment Pools of Debt Securities	**Fair Value**	**Duration**	**Fair Value**	**Duration**
Securities Lending Cash Collateral Fund	687,289	59 days	474,589	42 days
Master Custodian Short-Term Investment Fund	92,521	59 days	75,579	24 days
AFL-CIO Housing Investment Trust	50,677	4.4 Years	53,614	4.4 Years
Total External Investment Pools	**$ 830,487**		**$ 603,782**	

Interest Rate Risk Analysis—Highly Sensitive

Fair Value of Investments with Fair Values Highly Sensitive to Changes in Interest Rates
As of December 31, 2006 and 2005 (Dollars in Thousands)

		2006		2005	
Investment Type	**Investment Description**	**Interest Rates**	**Fair Value**	**Interest Rates**	**Fair Value**
Corporate Bonds	Privately Placed Securities	-	$ -	4.1% to 15.0%	$ 11,751
Zero Coupon Bond	Privately Placed Securities	Zero-Coupon	7,731	Zero-Coupon	4,337
AFL-CIO Housing Investment Trust	Various Mortgage-related Securities	Various	50,677	Various	53,614
Total			**$ 58,408**		**$69,702**

Foreign Currency Risk Analysis

Fair Value of Investments Exposed to Foreign Currency Risk by Currency
As of December 31, 2006 (Dollars in Thousands)

	Investment Type						
Currency	**Common Stock and Depository Receipts**	**International Equity Mutual Funds**	**Corporate Bonds**	**Foreign Currency**	**Government Issues**	**Currency Swaps**	**Total Exposure Net of Currency Swaps**
Australia Dollar	$ 72,536	$ -	$ 9,522	$ -	$ 21, 347	$ (1)	$ 103,404
Brazil Real	6,202	-	-	-	-	(1)	6,201
Canada Dollar	31,120	-	3,768	-	52,353	487	87,728
Danish Krone	2,942	-	-	-	-	-	2,942
Euro Currency	405,815	-	-	17,903	34,567	(1,258)	457,027
Hong Kong Dollar	40,606	-	-	-	-	-	40,606
Hungarian Forint	2,071	-	-	-	-	-	2,071
Indian Rupee	3,287	-	-	-	-	-	3,287
Indonesian Rupiah	8,541	-	5,008	-	-	(1)	13,548
Japanese Yen	214,936	-	17,035	62	4,171	(1,246)	234,958
Malaysian Ringgit	4,584	-	-	9	5,853	-	10,446
Mexican Peso	8,189	-	1,671	579	13,867	-	24,306
New Taiwan Dollar	5,235	-	-	555	-	-	5,790
New Turkish Lira	2,654	-	-	-	-	-	2,654
New Zealand Dollar	5,598	-	4,165	-	6,473	(200)	16,036
Norwegian Krone	5,554	-	-	-	1,499	-	7,053
Polish Zloty	-	-	-	-	21,528	-	21,528
Pound Sterling	171,622	-	-	-	12,161	(661)	183,122
Singapore Dollar	10,534	-	-	-	19,711	-	30,245
South African Rand	25,693	-	-	-	13,961	-	39,654
South Korean Won	10,427	-	1,807	-	-	-	12,234
Swedish Krona	11,769	-	-	-	19,936	-	31,705
Swiss Franc	61,491	-	-	-	-	(4)	61,487
Thailand Baht	1,122	-	4,651	-	-	-	5,773
Various Currencies	-	53,808	-	-	-	-	53,808
Total	**$1,112,528**	**$53,808**	**$47,627**	**$19,108**	**$227,427**	**$(2,885)**	**$1,457,613**

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 or for the investments in external 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

Debt investment terms may cause its fair value to be highly sensitive to interest rate changes. The Interest Rate Risk Analysis table described above discloses the degree to which ACERA's investments are sensitive to interest rate changes due simply to the remaining term to maturity. In contrast,

Foreign Currency Risk Analysis (Continued)

(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**

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.

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, 2006 and 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.

Custodial Credit Risk—Investments Analysis

Fair Value of Securities Lending Non-Cash Collateral
As of December 31, 2006 and 2005 (Dollars in Thousands)

Type of Non-Cash Collateral and Custodial Arrangement	2006 Fair Value	2005 Fair Value
US Corporate Bonds, US Equity, and Non-US Equity Collateral - Held with Securities Lending Agent	$ 2,924	$7,100
US Treasury and Agency Securities Collateral - Held with Third-Party Custodians	29,160	
Total Securities Lending Non-Cash Collateral	**$32,084**	**$7,100**

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. spot exchange rate at December 31, 2006 and 2005). 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, rental income net of expenses should comprise at least two-thirds of the expected total return over rolling five-year periods.

As of December 31, 2006 and 2005, the remaining balances of real estate-related debt outstanding relating to the acquisition of separate properties were $40.1 million and $46.6 million respectively.

Real Estate Investment Income—Separate Properties

For the Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Real Estate Investment Income	$21, 088	$ 29,760
Real Estate Expenses		
Non-Operating Expenses[1]	$2,827	3,423
Operating Expenses	$9,743	10,452
Total Expenses	**$12,300**	**13,875**
Real Estate, Net Income	**$8,788**	**$15,885**

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

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 $1.5 million and $2.0 million for the years ended December 31, 2006 and 2005, respectively. The schedule of Capital Assets and Accumulated Depreciation provides details.

9. LEASES

During the year ended December 31, 2001, ACERA purchased the building where its offices are currently located: 475-14th St., Oakland, CA 94612. ACERA 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 building operating expenses as defined in the lease. ACERA's share of these operating expenses totaled $58,000 and $53,000 for the years ended December 31, 2006 and 2005, respectively.

ACERA leases photocopy machines and mailing equipment to support operations. Equipment rental expenses were $31,000 and $29,000 for the years ended December 31, 2006 and 2005, 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
2007	$ 35
2008	35
2009	35
2010	35
2011	35
Total	**$175**

10. ADMINISTRATION EXPENSE

ACERA's Board of Retirement annually adopts an administration expense budget covering expense to be incurred in the following fiscal year. The administration expense 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 2006 and 2005 administration expense budgets in accordance with the Section 31580.3 limitation. Administration expense in both 2006 and 2005 was in compliance with this limitation.

Capital Assets and Accumulated Depreciation

For the Years Ended December 31, 2006 and 2005 (Dollars in Thousands)

	January 1, 2006	Additions	Deletions/ Transfers/ Additions	December 31, 2006
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 3,069	$ 74	$ -	$ 3,143
Information Systems	10,181	276	-	10,457
Leasehold Improvements	852	-	-	852
Subtotal	**14,102**	**350**	**-**	**14,452**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction-in-Progress	-	1	-	1
Total Capital Assets (Cost)	**14,102**	**351**	**-**	**14,453**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,457)	(175)	-	(2,632)
Information Systems	(7,296)	(1,331)	-	(8,627)
Leasehold Improvements	(77)	(32)	-	(109)
Total Accumulated Depreciation and Amortization	**(9,830)**	**(1,538)**	**-**	**(11,368)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 4,272**	**$ (1,187)**	**$ (32)**	**$ 3,085**

	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**

Application of Statutory Limit on Administration Expense

For the Years Ended December 31, 2006 and 2005 (Dollars in Thousands)

	2006	2005
Plan Net Assets at March 31, 2000	$3,947,312	$3,947,312
Limit: Maximum Allowable fraction of Plan Net Assets (0.23%) times Plan Net Assets	9,078	9,078
Portion of Administration Expenses for the Fiscal Year subject to the Statutory Limit	8,714	8,879
Excess of Limit over Portion of Administration Expense Subject to Limit	**$ 364**	**$ 199**
Portion of Administration Expense Subject to Limit as a Percentage of Plan Net Assets	**0.22%**	**0.22%**

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 other existing exclusions of the same nature permitted for legal and certain investment-related expenses, totaled $3.8 million for 2006 and $3.1 million for 2005.

Consistent with the past practice, for the year 2006 the total administration expenses were charged to the pension plan, and were not allocated to the Post Employment Medical benefits and Non-OPEB benefits.

A Schedule of Administration Expense appears in the Supporting Schedules.

11. RELATED PARTY TRANSACTIONS

By necessity, 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, 2006 not yet reimbursed to the County was approximately $607,195, 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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Reimbursed Cost of ACERA staff members	$ 5,778	$ 5,938
Reimbursed Costs of County Services	230	170
State-Mandated Benefit Replacement Program (415(m))	41	16
Personnel Services, Other	58	64
Partial Salary/Benefits Reimbursement for Elected Board Members	39	155
Total	**$6,324**	**$6,343**

Required Supplementary Schedules

Schedule of Funding Progress[1] – Pension Plan

(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
12/31/00	$ 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	4,336,123	778,205 [4]	82.1 [4]	694,626	112.0
12/31/05	3,781,843	4,548,213	766,370	83.2	709,783	108.0

1 This schedule is based on the actuarial valuation as of 12/31/2005, ACERA's most recent actuarial valuation.

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

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

4 Includes Safety 3% at 50 formula improvement. If the Safety formula improvement is not included, the total UAAL is $682,635,000 and the funded ratio is 83.9%.

Schedule of Employer Contributions – Pension Plan[1]

(Dollars in Millions)

Year Ended December 31	Annual Required Contribution	Percentage (%) Contributed
2001	$ 23	100
2002	27	100
2003	49	100
2004	85	100
2005	101	100
2006	127	100

1 This schedule is prepared by the management, based on the financial data.

Schedule of Funding Progress – Post Employment Medical Benefits

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b) With Limit	Funded Ratio (%) (a/b) Without Limit	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
12/31/05	$449,100	$567,900	$118,800	100[2]	79.1	$709,783	16.7

Schedule of Employer Contributions – Post Employment Medical Benefits

(Dollars in Thousands)

Year Ended December 31	Annual Required Contribution With Limit	Annual Required Contribution Without Limit	Percentage (%) Contributed
2005	$0[2]	$26,333	0

[1] Amount of SRBR assets allocated to the Post Employment Medical Benefits Reserve by the Board of Retirement as of December 31, 2005.

[2] The funding of these benefits is limited to reserves in the SRBR account allocated to the Post Employment Medical Reserve under Article 5.5 of the County Employees Retirement Law of 1937. As authorized by Article 5.5 of the County Employees Retirement Law of 1937, assets added to the SRBR account are limited to investment earnings in excess of an amount established by the Board of Retirement in accordance with that Article. If the SRBR reserves are depleted, no additional money will be available to supplement employer contributions to the 401(h) account. Furthermore, even if the SRBR reserves are available, employers may decide on a year by year basis whether to contribute to the 401(h) account, how much to contribute, or not to contribute at all to the 401(h) account. If employers do not contribute to the 401(h) account (or do not contribute the full amount needed to pay for retiree health benefits), the benefits provided by this program will cease. Based on the amount of SRBR assets allocated by the Board of Retirement as of December 31, 2005 for this purpose, there are sufficient Post Employment Medical Benefits Reserve assets to provide retiree health benefits through the year 2023. These benefits are contingent upon continued employer contribution to the 401(h) account.

Schedule of Funding Progress – Non-OPEB Benefits

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b) With Limit	Funded Ratio (%) (a/b) Without Limit	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
12/31/05	$62,800	$170,800	$108,000	100[2]	36.8	$709,783	15.2

Schedule of Employer Contributions – Non-OPEB Benefits

(Dollars in Thousands)

Year Ended December 31	Annual Required Contribution With Limit	Annual Required Contribution Without Limit	Percentage (%) Contributed
2005	$0[2]	$16,041	0

[1] Amount of SRBR assets allocated to the Non-OPEB Benefits Reserve by the Board of Retirement as of December 31, 2005 to provide for supplemental COLA and supplemental death benefits, which are Non-OPEB benefits.

[2] The funding for these benefits is limited to reserves in the SRBR account allocated to the Non-OPEB Reserve for this purpose by the Board of Retirement under Article 5.5 of the County Employees Retirement Law of 1937. As authorized by Article 5.5 the assets added to the SRBR account are limited to investment earnings in excess of an amount established by the Board of Retirement in accordance with that Article. Furthermore, even if SRBR reserves are available, the Board of Retirement may decide on a year by year basis whether to continue to allocate any SRBR assets for Non-OPEB benefits, and how much to allocate (if any). If the SRBR reserves are depleted or the Board of Retirement decides not to allocate reserves to provide for these benefits, no additional money will be available to pay for these benefits and the benefits provided by this program will cease. Based on the amount of SRBR assets allocated by the Board of Retirement as of December 31, 2005 for this purpose, there are sufficient Non-OPEB Reserve assets to provide Non-OPEB benefits through the year 2023.

Notes to Required Supplementary Schedules

PENSION PLAN

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, 2005, 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 Actuarial Accrued 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 4.00% per annum).

The entire UAAL of ACERA is being funded over a declining 27-year period following December 31, 2005.

Amortization Approach: Closed

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 27 years following December 31, 2005.

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: 7.90% per annum

Assumed Salary Increases:
General: 4.73%–7.68% per annum and
Safety: 4.26%–7.61% per annum.

Assumed Inflation Rate: 3.75% per annum

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

POST EMPLOYMENT MEDICAL BENEFITS

The actuarial assumptions used for the Post Employment Medical Benefits valuation were consistent with those applied to the Pension Plan. The assumptions noted above for the Pension Plan were all applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of Unfunded Actuarial Accrued Liability, Amortization Approach, Amortization of Actuarial Gains and Losses, Cost of Living Adjustments, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across the Board Salary Increase. The Health Care Cost Trend Rate assumptions described below were specific to the Post Employment Medical Benefits.

Health Care Cost Trend Rates

Health care trend measures the anticipated overall rate at which health plan costs are expected to increase in future years. The trend rate for a particular plan year must be applied to that year's cost to yield the next year's projected cost.

Medical: 12%, graded down 1% per annum until ultimate rate of 5%

Dental and Vision: 5%

Medicare Part B: 6%

NON-OPEB BENEFITS

The actuarial assumptions used for the Non-OPEB Benefits valuation were consistent with those applied to the Pension Plan. The assumptions noted above for the Pension Plan were all applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of Unfunded Actuarial Accrued Liability, Amortization Approach, Amortization of Actuarial Gains and Losses, Cost of Living Adjustments, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across the Board Salary Increase.

Supporting Schedules

Investment Expenses

For the Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Investment Manager Fees[1]	$ 15,907	$ 17,787
Investment Custodians	258	293
Investment Consultants	819	535
Net Brokerage Commissions	2,334	1,649
Investment Allocated Costs	1,742	1,618
Total Investment Expenses	**$21,060**	**$21,882**

[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, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Actuarial & Audit Services	$ 319	$ 301
Disability Medical	109	161
Human Resources Consulting	84	149
Legal Services	207	210
Other Specialized Services	140	860
Total Payments to Consultants	**$ 859**	**$ 1,681**

Administration Expense

For the Years Ended December 31, 2006 and 2005
(Dollars in Thousands)

	2006	2005
Personnel Services		
Staff Wages	$ 3,337	$ 3,335
Fringe Benefits	1,628	1,529
Temporary Services	670	378
Total Personnel Services	**5,635**	**5,242**
Professional Services		
Computer Services	165	283
Audit	87	64
Specialized Services	63	56
Total Professional Services	**315**	**403**
Communications		
Printing	275	264
Communication	55	51
Postage	89	78
Total Communications	**419**	**393**
Rental / Utilities		
Office Space	42	41
Equipment Leasing	23	23
Total Rentals / Utilities	**65**	**64**
Other		
Training	163	115
Supplies	60	57
Maintenance-Equipment	83	75
Insurance	140	141
Software Maintenance and Support	381	300
Depreciation and Amortization	1,135	1,580
Miscellaneous	318	509
Total Other	**2,280**	**2,777**
Subtotal: Administration Expense (subject to Statutory Limit)	**8,714**	**8,879**
Legal Expenses	1,821	1,199
Actuarial Expenses	204	232
Business Continuity	39	8
Total Administration Expense	**$10,778**	**$10,318**

my name is Greg Ahern

first job Factory worker in Oakland

what I do now Sheriff of Alameda County

what I like most about my job watching people do great things

what I like least about my job having to fire people

fondest memory is being a father

songs that make me sing in the car California Girls

favorite vacation is going to Lake Tahoe

I wish I owned a yacht

proudest moment being elected as Sheriff

biggest challenge is to follow Charlie Plummer

most people don't know that I don't like to complete these forms

perfect day is a clear day in Tahoe

guilty pleasure Chocolate

I'm secretly a fan of American Idol

favorite book The DaVinci Code

favorite movie Cool Hand Luke

person I'd love to meet Arnold Palmer

inspiration Special Olympic Athletes

dream retirement is to be healthy enough to enjoy it

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

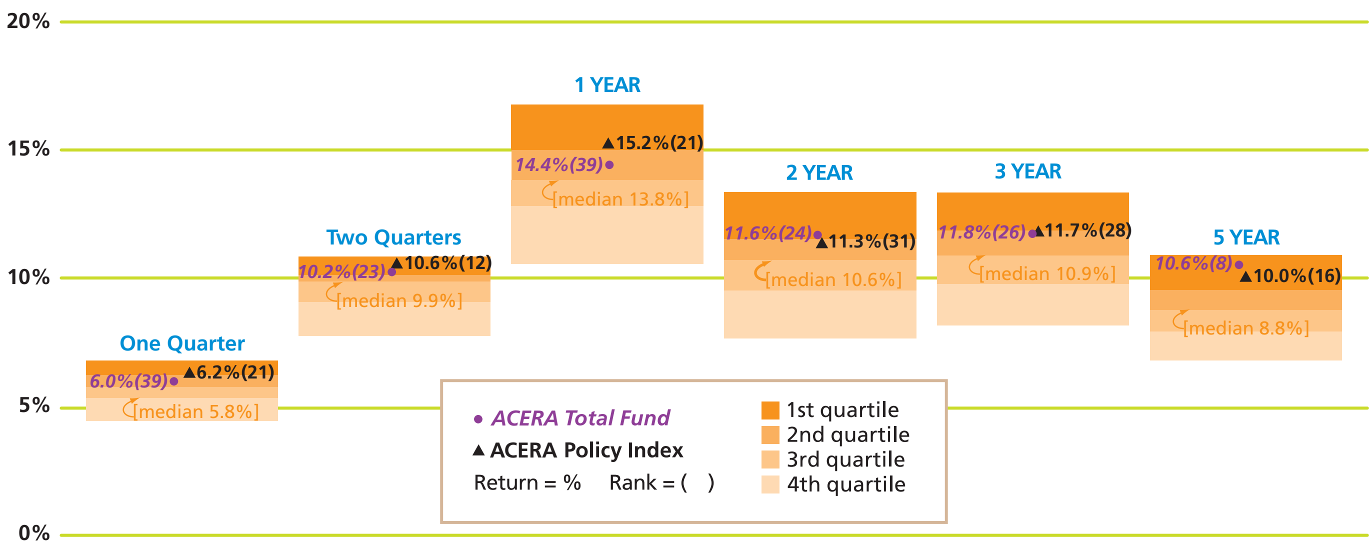
Chief Investment Officer's Report

Highlighted Performance of the 2006 ACERA Investment Portfolio

Total Fund Return	14.4%
Domestic Equity Return	12.6%
International Equity Return	26.4%
Fixed Income Return	6.5%
Real Estate Return	15.2%
Year-end Fund Value	$5.2 billion

ACERA Total Fund Returns vs. Total Public Funds (Above $100 Million) Returns

Periods Ended December 31, 2006



The ACERA Board of Retirement's (the Board) primary goals in managing the Fund are to

1) Ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits;
2) Comply with all applicable fiduciary standards; and
3) Add marginal value that will help reduce the costs of the plan and/or increase the benefits for our beneficiaries.

We have satisfied these three primary goals, as stated in the ACERA General Investment Guidelines, Policies and Procedures (the Policy), with another good year for the Fund, ending December 31, 2006. In 2006, the total ACERA Fund returned 14.4% and ranked in the upper 39th percentile among all public pension funds greater than $100 million. While the Fund slightly underperformed the policy index (a weighted average of the Fund's asset classes and their respective benchmarks) by 0.8%, it, nevertheless, outperformed the public pension fund median by 0.6%. More importantly, for the fourth straight year, the Fund's 2006 return exceeded ACERA's 2006 actuarial investment return assumption (a measure of investment return necessary to pay out ACERA's future liabilities as assessed by ACERA's actuarial consultant for the current year) of 7.9% by nearly double. Over the longer term, the Fund's three-, five- and ten-year returns beat their policy index returns by 0.1%, 0.6%, and 0.7% respectively, thus ranking the Fund in the upper 26th, 8th, and 10th percentiles, respectively.

Another indicator of consistent long-term performance was the Fund's annualized risk-adjusted return, which outperformed the policy index return on both three- and five-year basis, ranking the Fund in the upper 19th and 10th percentiles in the universe of public pension funds greater than $100 million, respectively. This means that ACERA's Fund achieved higher annualized investment returns than the policy index for every unit of risk it took during the last three and five years.

The long term risk-adjusted performance of ACERA's total Fund has certainly satisfied ACERA's Policy which states, "ACERA's investment goal is to operate at a level of performance in the upper quartile of comparable pension funds on a risk-adjusted basis and to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers."

A milestone for the ACERA Fund was reached in October 2006 when it exceeded $5 billion in market value for the very first time since its 1948 inception. After paying all benefits and expenses, the year-end market value of the Fund reached $5.2 billion.

Many academic studies suggest that about 80-90% of a portfolio's investment results are derived from 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, and timely implementation and rigorous monitoring of this plan by ACERA investment staff in collaboration with ACERA investment consultants.

ANALYSIS OF FACTORS AFFECTING OUR PORTFOLIO IN 2006

The Board's Actions

The outstanding leadership of the Board was undoubtedly; once again, the most important factor in the continued success of our portfolio. Our Board members continued to guide ACERA's portfolio with sound and stable strategies designed to meet the portfolio's investment goals over the long term. In January 2006, the Board adopted a new target asset allocation upon completion of ACERA's asset/liability study which began in August 2005. The new allocation specified an increased target allocation to 7% for U.S. small cap by decreasing 1% of allocation to U.S. large cap and 2% to fixed income. The goal of the new asset allocation was to increase the total return of the portfolio by taking on a small increment of total risk.

The Board completed a manager structure review and adopted new U.S. equity, international and fixed income manager structures in the second quarter of 2006. These new manager structures included (1) adding a new ultra cap U.S. equity manager; (2) changing the mandate of an existing international manager to increase ACERA's exposure in emerging markets; and (3) increasing the target percentage of the global fixed income manager and reducing the same percentage of one of the domestic fixed income managers. The goal of these adjustments to the manager structures was to enhance the investment return while controlling the risk. By June 30, 2006, Investment staff successfully implemented the Board's adoptions in the asset allocation and manager structures. In the past, ACERA's asset allocation targets and manager structures had led our portfolio to a consistent long-term outstanding performance. We are proud of our Board's capable and effective leadership.

Another goal of the Board in 2006 was to fund the Real Estate (R/E) allocation as close to target as possible. ACERA's R/E allocation target is 9% of the total portfolio allocation. The Board believes that this target will help the Fund achieve the total risk-adjusted return objective of the overall portfolio, while simultaneously providing a diversification benefit. The R/E allocation was about 4% in the beginning of 2006. Throughout the year, Investment staff worked diligently with our real estate consultant to identify and research qualified candidates capable of serving as real estate investment managers and helping us complete our R/E allocation. With the continued guidance and support of the Board, by year end, we had increased the R/E allocation to about 6% of the overall portfolio.

In addition to the Board's annual review of all investment policies, programs, investment managers, and consultants, Investment staff continued rigorous compliance monitoring of these same elements to safeguard ACERA's assets. The Board also adopted the ACERA Directed Brokerage Policy and the Directed Brokerage program in 2006.

ACERA's Portfolio

Several of ACERA's domestic and international equity investments, especially investments with a growth tilt, returned less than their benchmarks in 2006. One of the reasons for this weaker-than-index performance was the lack of financial rewards in the capital markets for risk-averse fundamental institutional investors such as ACERA. The prices of some of our investments were not reflective of their fundamental values because liquidity/capital was not available to fuel their continued growth and compensate their risks. A disproportionate amount of liquidity available in the capital markets was invested and deployed by many aggressive investors in hedge funds and private equities in the hopes of ever-increasing returns, regardless of the risks. For example, some of the top private equity firms raised upwards of $200 billion in 2006 to target companies of all sizes, many of which are well-run and profitable enterprises.

In general, however, ACERA's portfolio return correlated relatively well with the performance of the U.S. stock market. In the first half of 2006, the U.S. economy experienced strong growth. In the second half, however, U.S. economic growth slowed significantly, despite sizable improvement in the last quarter. The economic growth in the last quarter of 2006 was largely attributable to heightened consumer spending, a reduced trade deficit, and solid business capital spending. Much of the cooling down can be explained by a marked slow down in the housing sector and, to a lesser degree, weakened manufacturing activity.

General Economy and Investment Markets

Investment markets, particularly equity markets, enjoyed solid performance in 2006. Equity markets started the year with rapid growth. In early summer, however, these markets experienced a pause because of a number of concerns with respect to rising interest rates, high oil prices, and armed conflict in the Middle East, among other factors. These markets continued to struggle through the summer. Starting in the fall season, markets regained composure and delivered a very strong fourth quarter. Some of the crisis in the Middle East abated, oil prices evened out, and corporate earnings showed solid positive momentum. Major indices such as the S&P 500, the Dow Jones Industrials, and the Nasdaq, all posted strong gains in 2006. Fixed income markets also experienced modest growth.

A number of favorable economic conditions contributed to the U.S. economic and market growth in 2006. Corporate earnings and profits remained strong, even in the manufacturing sector. This was partly due to reduced costs and productivity gains associated with globalization through off-shoring production and services, and leaner and more profitable supply chains, among others. Employment growth was healthy, keeping unemployment rates at bay. Consumer confidence varied considerably throughout the year, with high levels of confidence observed in the first half of the year, followed by a slip, and then an increase towards the end of the year. Overall, a healthy confidence level was maintained and consumer spending was one of the major driving forces behind the growth despite high energy costs and the housing sector slow down. Because of the growth in both corporate and personal incomes, tax revenues also significantly exceeded expectations in 2006.

Inflation, as measured by the overall Consumer Price Index (CPI), remained in check in 2006. Despite a sharp rise in energy prices, the CPI rose by a modest 2.5% for the entire year. Throughout the year, the Federal Reserve (Fed) raised the federal fund rates four times, each time by 25 basis points. All four raises occurred in the first half of the year. The Fed deemed inflation under control, implementing no raises in the second half of the year and ending the year with a rate of 5.25%.

The U.S. dollar was weak against most major currencies, especially towards the end of the year. This weakness was largely due to several factors, namely, the large U.S. trade deficit, deceleration in the housing sector, and increasing pressures from countries that began to rely on other currencies rather than holding the dollar as a foreign reserve.

With regards to the geopolitical scene, the sense of uncertainty felt in 2005 continued into 2006. Nearly all the major issues remain unresolved, with several more added: civil and military unrest in Iraq, Afghanistan and Lebanon; nuclear tests in North Korea; Iran's pursuit of nuclear power; and volatile oil production, among others. Despite these uncertainties, 2006 turned out to be a good year for the global economy as well as for the U.S. economy, marked with reasonably strong growth, limited inflation pressures, and improvements in labor markets. The Euro Zone delivered impressive performance with GDP growing by approximately 2.6%, up from 1.5% in 2005. Inflation was kept just below the European Central Bank's 2% target. Japan's economic recovery was well under way with a positive outlook and almost non-existent inflation. China continued its tremendous growth, fueled by booming investment activity and a low inflation rate of around 2%.

2006 economic and market performance highlights follow:

- The annual growth of the U.S. economy measured by Real Gross Domestic Product (Real GDP) was 3.4% in 2006, compared to 3.2% in 2005 and 3.9% in 2004.
- The federal funds rate was raised from 4.25% to 5.25%, a level unchanged from June 29, 2006. The accumulated 100 basis points hike in 2006 was significantly lower than the 200 basis points hike in 2005.
- Based on data released in December 2006, the share of national income going to wages and salaries reached the lowest recorded level since 1929. Contrarily, the share of national income

captured by corporate profits is at its highest level since 1950 at 13.8%.

- The U.S. budget deficit, for the fiscal year ending September 30, 2006, was $248 billion, a significant drop from the originally estimated $423 billion figure. U.S. national debt set another new record. As of December 29, 2006, official public debt stood at a staggering $8.68 trillion.
- Net job creation totaled an average of 153,000 per month. Throughout the year, quarterly unemployment rates fluctuated between 4.5%–4.7%, indicating a very strong and healthy employment situation.
- The U.S. international deficit in goods and services increased to $763.6 billion in 2006, up from $716.7 billion in 2005. This deficit figure is the highest on record. As a percentage of U.S. GDP, the goods and services deficit was virtually unchanged from 2005 at 5.8%.
- U.S. real personal consumption expenditures increased 10.5%, a significant driving force behind the economic growth.
- The housing downturn was steep; all indicators were down, including existing home sales, existing home prices, new home sales, housing permits, and inventory of unsold homes. The median sales price of previously owned homes took its biggest tumble, falling 3.5% percent in October 2006 from one year ago. However, the impact of the current housing downturn seemed narrow as it was largely confined to the housing sector.
- The Dow Jones Industrial Average, the S&P 500, and the Nasdaq Composite posted gains of 19.05%, 15.8%, and 10.38%, respectively—all impressive double-digit returns.
- Global equity markets also brought about significant gains. All 23 developed markets worldwide, but one (Japan), tracked by the MSCI, registered double-digit returns. The MSCI Emerging Market Index, which follows 27 developing economies, increased by 32.6%.
- Large cap and small cap stocks did similarly well. In the U.S., the top 100 large cap stocks were up 16%, while small cap stocks rose by 15%.
- Investors increasingly shifted funds into the large cap sector. Within the large cap market, energy, utilities, and materials performed well with strong demand from developing countries and higher dividend yields. Traditional growth sectors, such as healthcare and IT, lagged. As a result, large cap value significantly outperformed large cap growth as measured by the Russell 1000 Value/Growth indices (22.2% returns for value, 9.1% for growth).
- Bonds, as measured by the Lehman Brothers Aggregate Bond index, rose 4.33%, despite negative performance during the first and second quarters.

ECONOMIC OUTLOOK FOR 2007

U.S. economic growth is expected to continue in 2007. However, this growth will likely slow in the first half of 2007 as the impact of the declines in the housing sector is felt. One important factor to consider will be potentially curbed consumer willingness to spend as home owner wealth is perceived to erode. Overall, U.S. Real GDP is expected to experience a modest growth of around 2.5%.

Uncertainties and risks associated with geopolitical tensions and challenges in 2006 are not expected to mitigate in 2007.

Oil prices are expected to experience some decrease. In general, inflation is expected to continue to be modest, thanks to flattened commodity and housing prices. It is unlikely that the unemployment rate will undergo major change, although it may be pushed slightly upwards. The U.S. dollar will probably continue to weaken largely due to interest rate differences between the U.S. and other countries.

With slowed economic growth and inflation under control, the Fed is unlikely to change its monetary policy in 2007. Interest rates are expected to stay within the range of 5.25% and 5.75%.

Corporate profits are likely to remain robust. However, the stellar performance of many companies in 2006 is unlikely to repeat in 2007 because growth in corporate profits and margins is expected to be slower.

In U.S. financial markets, the stock markets will likely continue to generate moderate gains at a slower pace than in 2006. The fixed income markets will also likely continue to generate some growth.

Global economic growth and markets will likely remain strong, but the momentum will be dampened. As the U.S. economy slows in 2007, it will have a ripple effect on the rest of the world. Such a slow down will negatively affect U.S. imports; as a result, the growth of exports in other countries, especially Asian exporters, will be limited. The economic growth rate in the Euro Zone is expected to continue but soften around 2.2%. Japan is expected to maintain its slow economic recovery in 2007, while China's economy will remain strong with subdued growth due to reduced investment activity, as stipulated by its government.

The economy and capital markets are volatile. Nevertheless, the Board remains committed to a long-term investment strategy that emphasizes prudent diversification, active rebalancing to maintain appropriate asset allocation, and rigorous 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 ACERA's 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 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 global fixed income) are included in the mix.

SUMMARY OF ACERA'S PROXY VOTING GUIDELINES AND PROCEDURES (PROXY GUIDELINES)

In recognition of its duty to manage retirement plan assets in the best interest of plan participants, the Board has established the Proxy Guidelines. They 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 Proxy Guidelines in 2005.

The Proxy Guidelines consist of preferences regarding 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 Proxy Guidelines toward advancing the overall good of the plan participants.

SPECIFIC INVESTMENT RESULTS BY ASSET CLASSIFICATION

As of December 31, 2006, ACERA's fund was over-weighted in total equities, with 67.0% in total equities versus the target of 63.0%. Domestic equities were slightly over-weighted at 41.8% versus the target of 41.0%, while international equities were over-weighted at 25.2% versus the target of 22.0%. Fixed income was 27.6%, slightly under the target of 28.0%. Real estate was under its 9.0% target at 5.3%.

During 2006, ACERA's U.S. equity composite returned 12.6%, trailing its benchmark Russell 3000 by 3.1% and the median equity manager by 2.9%. This modest result is largely due to the relative underperformance of both large cap and small cap active equity composites to its respective benchmarks of Russell 1000 and Russell 2000 indices. ACERA's international equity composite returned 26.4%, slightly underperforming its benchmark MSCI-ACWI ex-U.S. Free by 0.8% but outperformed the median international equity manager by 0.2%. ACERA's all-fixed income composite returned 6.5%, beating its benchmark, 75% Lehman Aggregate/15% Citigroup WGBI ex-U.S./10% Lehman High Yield, by 1.0% and the U.S. fixed income manager median return by 1.9%. ACERA's real estate composite returned 15.2%, while its benchmark, NCREIF Property Index, returned 16.6%.

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

Respectfully Submitted,

Betty Tse

Betty Tse, CPA, MBA
Chief Investment Officer, ACERA
May 7, 2007

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 INVESTMENT CONSULTANT'S REPORT

Summary

Following a pattern that has become familiar to observers in recent years, after a rocky start, global equity and bond markets rallied strongly late in the year to achieve attractive returns for the year 2006. US pension portfolios finished the year with total plan returns well above their long term return expectations. International Equities were the best performing asset classes during the year, while US stocks also enjoyed very good returns. US and International Bonds managed positive, but far lower returns. The ACERA total portfolio performed well in 2006, posting a return of 14.4% for the year. The 2006 return came in below the plan's policy index return of 15.2%, but above the average large public fund's 13.8% return. The total portfolio return was also far above the Association's 7.9% actuarial return expectation.

The year saw the appointment of a new Federal Reserve Chairman, who continued the Fed's tightening program that finally paused in June after seventeen consecutive rate increases. Partly in response to the Fed's tightening activity, US economic growth moderated during 2006 and the US yield curve inverted. Despite ongoing geopolitical worries, a slowdown in the housing sector, and higher short interest rates, the US equity market enjoyed its fourth straight year of positive returns.

With significant help from a generally weak dollar, International equity returned 27.2% for US-based investors. The Emerging Markets and Continental Europe were particular areas of strength for the asset class. During 2006, large capitalization US stocks, as measured by the Russell 1000 Index, returned 15.5%. Smaller US companies again outpaced larger company stocks, as the Russell 2000 Index returned 18.3% for the year. Against the backdrop of the Fed tightening regime, the Lehman Aggregate's investment grade bonds effectively returned their interest for the year, providing a total return of 4.3%. High yield bonds fared better in the healthy corporate earnings environment, returning 11.8%.

At the individual manager level, the plan's Core US Equity manager and its Core Plus Bond manager both contributed noteworthy excess returns over their benchmarks this year. In a generally difficult year for active management, most of ACERA's US and International equity managers struggled to keep pace with their performance benchmarks, and as a group underperformed their asset class proxies, causing the plan to lag its policy index performance. Once again in 2006, a robust allocation to foreign equities and a strong commitment to foreign and high yield bonds contributed strongly to the plan's high absolute return and high peer universe rank during the year.

Investment Guidelines, Policies and Procedures

During 2006, the plan completed a full Asset Liability Study that resulted in a slight increase in the US Equity allocation. The Plan also undertook a strategic review of its manager structures in each asset class that lead to the following: inclusion of microcap exposure in US Equity; a re-weighting of the allocations among bond managers; and a formalized small capitalization exposure in International Equity. In addition to these strategic initiatives, in 2006 ACERA also completed implementation of a new Directed Brokerage program and continued study on an Emerging Manager program. Finally, no changes were made to the plan's roster of investment managers during the year.

Investment Objectives

In 2006, ACERA met two of its three management goals: the association ensured the availability of sufficient funds to pay vested benefits and maintain supplemental benefits, and complied with applicable fiduciary standards, while falling short of its objective of adding marginal value over its total plan policy index. The fund continues to perform well above its peers, and longer term results remain higher than the Policy Index.

Investment Results

		Annualized	
	Year 2006	3 Years	5 Years
DOMESTIC EQUITY			
Total Domestic Equities	12.6%	9.7%	7.0
Median Equity	15.5	12.4	8.7
Benchmark: Russell 3000	15.7	11.2	7.2 %
INTERNATIONAL EQUITY			
Total International Equities	26.4	21.1	15.4
Median International Equity	26.2	21.2	16.3
Benchmark: MSCI ACWI ex US	27.2	21.8	16.9
FIXED INCOME			
Total Fixed Income	6.5	5.9	8.4
Median Fixed Income	4.6	4.1	5.5
Benchmark: Hybrid Index	5.5	4.1	6.3
REAL ESTATE			
Total Real Estate	15.2	17.1	12.6
Benchmark: NCREIF	16.6	16.9	13.2
TOTAL FUND			
ACERA Total Fund	14.4	11.8	10.6
Median Total Fund	13.8	10.9	8.8
Benchmark: Policy Index	15.2	11.7	10.0

NOTE: Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in a format consistent with CFAI performance presentation standards.

Asset Allocation

	Percentage Target	12/31/06 Actual
US Equity	41.0%	41.8%
Non-US Equity	22.0%	25.2%
Fixed Income	28.0%	27.6%
Real Estate	9.0%	5.3%
Cash	0.0%	0.1%

Although the plan's return for the year slightly trailed its policy benchmark return, it performed very well against its peers and exceeded its actuarial return expectation by a large margin. Overall, 2006 was another successful year for ACERA.

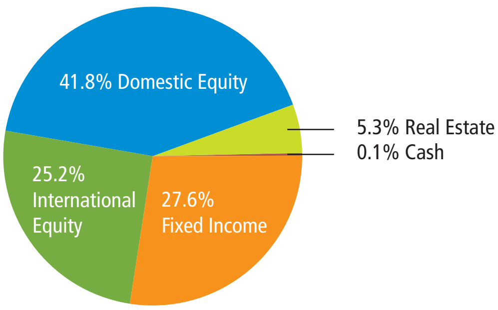
Patrick Thomas, CFA
Vice President
May 5, 2007

Asset Allocation

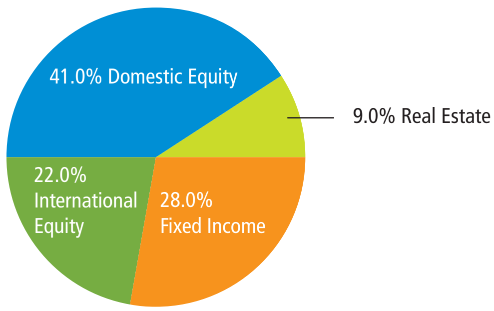
As of December 31, 2006

Investment Manager Type	Actual Asset Allocation	Target Asset Allocation	Actual Allocation Over/–Under Target Allocation
Domestic Equity	41.8%	41.0%	0.8%
International Equity	25.2%	22.0%	3.2%
Fixed Income	27.6%	28.0%	-0.4%
Real Estate	5.3%	9.0%	-3.7%
Cash	0.1%	0.0%	0.1%
Total	**100.0%**	**100.0%**	**0.0%**

Actual Asset Allocation



Target Asset Allocation



Investment Professionals

For the Year Ended December 31, 2006

INVESTMENT MANAGERS

Domestic Equity

Bank of New York—Index Fund

Brandywine Global Investment Management

Next Century Growth Investors

Pzena Investment Management

Salus Capital Management, Inc.

Trust Company of the West

International Equity

Capital Guardian Trust Company

Mondrian Investment Partners Ltd.

Fixed Income

Baird Investors

Brandywine Global Investment Management

Loomis Sayles & Company, LP

Real Estate

AFL-CIO Housing Investment Trust

Morgan Stanley Funds

Prudential Real Estate Investors

RREEF America (Core SA and RAR II)

CIM Urban REIT

JP Morgan Asset Management

INVESTMENT CONSULTANTS

Doug McCalla—Optimized Portfolio Rebalancing

Institutional Shareholder Services—Proxy Voting

Plexus Plan Sponsor Group—Trading Cost & Directed Brokerage

Strategic Investment Solutions—General Investment

The Townsend Group—Real Estate Investment

Capital Institutional Services—Third-Party Directed Brokerage Administrator

MASTER INVESTMENT CUSTODIAN AND SECURITIES LENDING AGENT

State Street Bank and Trust Company

Investment Summary

As of December 31, 2006 (Dollars in Thousands)

Investment Type	Fair Value	Percentage of Total Fair Value
Short-Term Investments	$ 123,332	2.4%
Domestic Securities	1,197,954	23.1
International Securities	1,223,732	23.6
Equity Commingled Funds	990,364	19.1
Fixed Income Securities	1,373,844	26.5
Real Estate - Separate Properties	144,007	2.8
Real Estate - Commingled Funds	130,404	2.5
Future Contracts - Equity Index	130	0.0
Currency Swaps	485	0.0
Total Investments at Fair Value	**$5,184,252**	**100.0%**

Largest Stock Holdings[1]

As of December 31, 2006 (Dollars in Thousands)

Rank	Shares	Issuer	Fair Value
1	737,670	Qualcomm Inc	$ 27,877
2	55,360	Google Inc	25,492
3	935,820	Progressive Corp Ohio	22,666
4	539,130	Network Appliance Inc	21,177
5	325,385	Schlumberger Ltd	20,551
6	408,100	SLM Corp	19,903
7	345,875	Citigroup Inc	19,265
8	856,274	Telefonica Sa	18,202
9	421,700	Countrywide Finl Corp	17,901
10	661,225	Bristol Myers Squibb Co	17,403
Total Of Largest Stock Holdings			**$210,437**

Largest Bond Holdings

As of December 31, 2006 (Dollars in Thousands)

Rank	Par Value	Issuer	Securities	Description	Fair Value
1	$61,100,000	United States Treasury Bonds	6.250%	15-Aug-2023	$ 70,303
2	33,050,000	United States Treasury Bonds	6.125%	15-Nov-2027	38,364
3	35,175,000	Federal National Mortgage Association	6.000%	15-May-2011	36,577
4	131,600,000	Sweden Kingdom Of	6.500%	5-May-2008	19,936
5	19,735,000	United States Treasury Bonds	4.500%	15-Feb-2036	18,776
6	12,555,000	United States Treasury Bonds	6.500%	15-Nov-2026	15,078
7	14,461,203	FNMA Pool	5.500%	1-Apr-2036	14,296
8	14,910,000	Canada Government	6.000%	1-Jun-2011	13,845
9	12,675,000	United States Treasury Bonds	5.250%	15-Feb-2029	13,301
10	9,625,000	Germany Fed Republic of	5.250%	4-Jul-2010	13,237
Total Of Largest Bond Holdings					**$253,713**

[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, 2006 and 2005
(Dollars in Thousands)

Investment Manager Type	2006	2005
Domestic Equity	$ 2,174,635	$ 1,771,675
International Equity	1,307,429	1,220,441
Fixed Income	1,436,913	1,369,816
Real Estate	273,872	242,278
Cash	3,231	575
Total Investment Assets Under Management	**$5,196,080**	**$4,604,785**

[1] This schedule includes Investment receivable and payable balances as of December 31, 2006.

Investment Manager Fees

For the Years Ended December 31, 2006 and 2005
(Dollars In Thousands)

Investment Manager Type	2006	2005
Domestic Equity	$ 5,895	$ 5,049
International Equity	4,239	3,437
Fixed Income	2,628	2,512
Real Estate	3,145	6,789
Total Investment Manager Fees	**$ 15,907**	**$ 17,787**

Brokerage Commissions

For the Year Ended December 31, 2006

Brokerage Firm	Rank	Commissions (in Thousands)	Shares/Par Value Traded (in Thousands)	Commission Per Share
UBS Financial Services Inc	1	$ 223	$ 35,366	$ 0.006
Merrill Lynch International	2	215	57,360	0.004
BNY Brokerage & Co	3	96	4,091	0.023
Morgan Stanley	4	85	8,301	0.010
Liquidnet Inc	5	83	3,217	0.026
Investment Technology Group Inc	6	76	4,874	0.016
Cantor Fitzgerald & Co	7	72	2,212	0.033
Bear Stearns Companies Inc	8	71	2,882	0.025
Pershing LLC	9	69	2,381	0.029
Goldman	10	62	6,528	0.009
Deutsche Bank	11	58	11,079	0.005
Credit Suisse	12	54	5,695	0.009
Capital Institutional Services Inc	13	54	1,239	0.044
Citigroup Global Markets Inc	14	54	2,939	0.018
Jones & Associates Inc	15	45	1,472	0.031
Bank of New York	16	43	2,510	0.017
Intercapital Investors Inc	17	41	1,338	0.031
JP Morgan Inc	18	34	1,119	0.030
Instinet	19	33	1,199	0.028
Knight	20	30	916	0.033
Top 20 Firms by Commission Dollars		**1,498**	**156,718**	**0.010**
All Other Brokerage Firms		854	45,258	0.019
Total Brokerage Commissions		**2,352**	**$201,976**	**$ 0.012**
Brokerage Commission Recapture		(18)	N/A	N/A
Net Brokerage Commission		**$ 2,334**		

my name is Denise Eaton May

first job Deputy Attorney General

what I do now HR Director, City of Alameda

what I like most about my job solving problems

what I like least about my job Complaints.

fondest memory Passing the Calif. Bar

songs that make me sing in the car Joy & Pain

favorite vacation Jamaica

I wish for wisdom & peace

proudest moment Law School Graduation

biggest challenge Raising Kids & working

most people don't know that I enjoy classical music

perfect day Sunny day laying on the beach

guilty pleasure Chocalate Cake

I'm secretly a fan of Frankie Beverly & Maze

favorite book a time to kill - John Grisham

favorite movie The Other side of Midnight

person I'd love to meet Nelson Mandela

inspiration Jesus

dream retirement soon

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

May 15, 2007

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, 2005 actuarial valuation of the Alameda County Employees' Retirement Association (ACERA). 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, 2005 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 27-year period. The progress being made towards meeting the funding objective through December 31, 2005 is illustrated in the Schedule of Funding Progress.

Board of Retirement
May 15, 2007
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[1];
Retirees and beneficiaries added to and removed from retiree payroll[1];
Solvency test;
Actuarial analysis of financial experience;
Schedule of average benefit payments for retirees and beneficiaries;
Schedule of Participating Employers and active member statistics[1];
Schedule of benefit expenses by type[1];
Schedule of retired members by type of benefit;
Schedule of funding progress[2];
Schedule of retiree members and beneficiaries by type of benefit and option selected; and
Employer Contribution rates (percent)

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligations), Segal has utilized participant data provided by ACERA as of November 30, 2005 adjusted to December 31, 2005 (to reflect estimated increase in Salary and Service for active members) in calculating the liabilities for the December 31, 2005 valuation.

[2] The schedule of funding progress is the only schedule that Segal has prepared for the Financial Section of the CAFR. In particular, the Schedule of Employer Contributions has been prepared by ACERA.

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, 2005 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, 2005 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 82.1% (83.9% before reflecting the safety benefit improvement) to 83.2%. The employer's rate has decreased from 17.87% (which reflected the Safety benefit improvement) of payroll to 17.32% of payroll, while the employee's rate has decreased from 9.24% of payroll to 8.81% of payroll.

Sincerely,

Andy Yeung

Paul Angelo

Andy Yeung, ASA, EA, MAAA
FCA Associate Actuary

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

HEM/gxk Enclosures

SEGAL

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Board as of December 31, 2005.

Assumptions

Actuarial Assumed Interest Rate		7.90%
Inflation Rate		3.75%
Real Across-the-Board Salary Increase		0.25%
Projected Salary Increases		
	General:	4.73% to 7.68%
	Safety:	4.26% to 7.61%
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		7.90%

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 and these, we assume they will receive 5.40% 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, 2005. These were adopted by the Board of Retirement and effective as of January 1, 2006.

(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

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

Wives are 3 years younger than their husbands.

Net Investment Return

7.9%, net of administration and investment expenses (approximately 1% of assets).

Employee Contribution Crediting Rate

7.9%, 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: 3.75%

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 3.75% per year, retiree COLA increases due to CPI subject to 3% maximum change per year for General and Safety Tier 1 and 2% maximum change per year for General and Safety Tier 2.

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 an 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 27-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[7]

Year	Plan Type	Number	Annual Payroll	Annual Average Pay	Percent Increase in Average Pay[1]
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%**
2006[6]	General	9,279	630,816,000	67,983	4.09%
	Safety	1,383	120,636,000	87,228	5.14%
	Total	**10,662**	**$751,452,000**	**$70,479**	**4.24%**

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).

4 Salary projected from 11/30 to 12/31 (2004). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by one year of inflation.

5 Salary projected from 11/30 to 12/31 (2005). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by one year of inflation.

6 Salary projected from 11/30 to 12/31 (2006). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by one year of inflation. About 23% of the General members belong to five participating agencies in 2005. The schedule of Participating Employers and Active Members in the Statistical Section shows historical membership information for Participating Employers.

7 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Retirees and Beneficiaries Added To and Removed From Retiree Payroll

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Plan Year[1]	Number	Annual Allowance (in 000s)	Number	Annual Allowance (in 000s)	Number	Annual Allowance (in 000s)	% Increase in Retiree Allowance	Average Annual Allowance
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	23,349 [3]	(383)	(5,355)	6,475	166,517	12.12%	25,717
2005	500	23,171 [3]	(257)	(4,362)	6,718	185,326	11.30%	27,586
2006	444	21,784 [3]	(226)	(4,018)	6,936	203,092	9.59%	29,281

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

[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)
12/31/2000	$ 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%
12/31/2005	802,277	2,353,106	1,392,830	4,548,213	3,781,843	100%	100%	45%

[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 aggregate 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 increased from 5.6% to 5.9%; increase in terminal pay assumption; and implementation of 80%–120% market value corridor.

12/31/2003 - Inflation assumption decreased from 4.5% to 4.0%; across-the-board salary increase increased from 0.00% to 0.25%; and increase in terminal pay assumption.

12/31/2004 - Change in non-economic assumptions. Investment return assumption reduced from 8% to 7.80%; terminal pay assumption for service retirement for Safety Tier 1 decreased from 11.7% to 9.5%

12/31/2005 - Investments return assumptions increased from 7.80% to 7.90%; inflation assumptions decreased from 4.0% to 3.75%

Actuarial Analysis of Financial Experience[1]

(Dollars in Millions)

	2005	2004	2003	2002	2001	2000
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability		$508	$266	$(182)	$(233)	$(235)
a) Before safety improvements	$683					
b) After safety improvements	778					
Salary Increase Greater (Less) than Expected	(35)	(33)	93	17	10	(5)
Asset Return Less (Greater) than Expected	30	74	133	207	34	(5)
Other Experience (Including Scheduled UAAL Payment)	55	31	26	20	13	12
Economic Assumption Changes	(81)	-	-	190	-	(69)
Non-economic Assumption Changes	-	103	(10)	14	35	-
Benefit Change[3]	19					
Data Corrections	-	-	190	-	(41)	-
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$766	$683[2]	$508	$266	$(182)	$(233)

[1] This schedule is based on the actuarial valuation of 12/31/2005, 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.

[3] Additional improved safety benefit.

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, 2005, 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, depending on the employer, 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; at age 60 regardless of 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 or 36 depending on Tier 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 to apply 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 ("job-related"), then there is no age or service requirement. This benefit is the greater of 50% of FAS, or the benefit amount derived from the member's age, years of service, and salary.

Active Member

Members who apply for disability retirement benefits must be able to prove they are permanently unable to perform the usual duties of their current job. In addition, those who apply for a service connected disability must prove their incapacity to perform their duties was job-related.

Active Member Death Benefit

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/domestic partner 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 Board of Retirement authorized the ADEB option which provides a continuance to the surviving spouse/domestic partner 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 Board of Retirement reserves the right to terminate the ADEB for future recipients.

Service Connected Death Benefit

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

Retired Member Death Benefit

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

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

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] Retirement rate is 100% after a member attains 100% of FAS and this 100% retirement assumption is applied to both Safety Tier1 and Tier 2 members.

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.

my name is Susan Muranishi

first job retail sales

what I do now County Administrator

what I like most about my job great people & unique challenges

what I like least about my job not enough hours in the day

fondest memory my kids' growing up

songs that make me sing in the car Motown

favorite vacation Big Island

I wish that no child is homeless or hungry

proudest moment my kids' graduations

biggest challenge Balance

most people don't know that I can cook

perfect day with family & friends

guilty pleasure dark chocolate

I'm secretly a fan of MJ

favorite book Blink

favorite movie Wizard of Oz

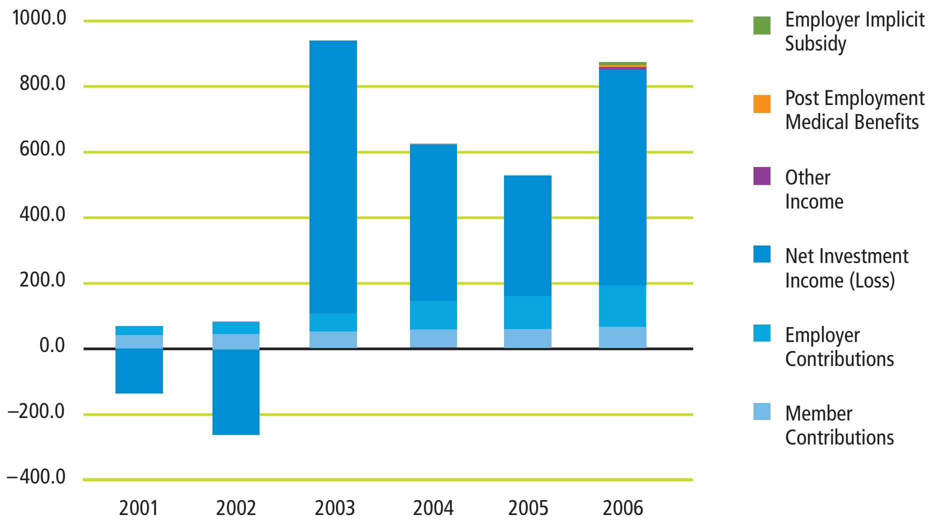
person I'd love to meet JFK

inspiration my parents

dream retirement travel & good health

Additions to ACERA's Net Assets by Source

(Dollars in Millions)



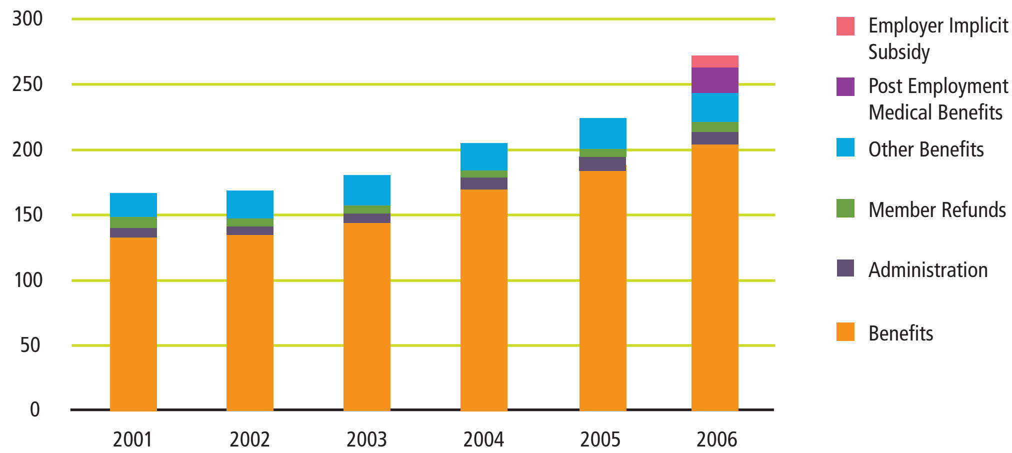
Additions to ACERA's Net Assets by Source

(Dollars in Millions)

Year Ended December 31	Member Contributions	Employer Contributions	Net Investment Income (Loss)	Other Income	Post Employment Medical Benefits	Employer Implicit Subsidy	Total Additions
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	64.1	100.8	358.0	0.1	-	-	523.0
2006	70.2	127.1	637.8	0.4	19.0	6.3	860.8

Deductions from ACERA's Net Assets by Type

(Dollars in Millions)



Deductions from ACERA's Net Assets by Type

(Dollars in Millions)

Year Ended December 31	Benefits	Administration	Member Refunds	Other Benefits	Post-Employment Medical Benefits	Employer Implicit Subsidy	Total Deductions
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
2006	205.8	10.8	5.8	22.2	19.0	6.3	269.9

Changes in Pension Plan Net Assets Last Ten Fiscal Years[1]

As of December 31
(Dollars in Thousands)

	2006
Additions	
Member contributions	$ 70,174
Employer contributions	108,088
Total Contributions	**178,262**
Investment income (net of expenses)	638,305
Post Employment Medical Benefits transfers on behalf of Employers	19,008
Employer Implicit Subsidy from Post Employment Medical Benefits	6,304
Earnings allocated to Post Employment Medical Benefits Reserve	(75,636)
Earnings allocated to Non-OPEB Benefits Reserve	(9,962)
Total Additions	**756,281**
Deductions	
Benefit payments	199,423
Refunds	5,817
Administration expenses	10,778
Total Deductions	**216,018**
Changes in Pension Plan Net Assets	**$ 540,263**

[1] ACERA implemented GASB 44 for year ended December 31, 2006.
No historical data are available from 1997 through 2005 due to system constraints.

Changes in Post Employment Medical Benefits Net Assets Last Ten Fiscal Years[1]

As of December 31
(Dollars in Thousands)

	2006
Additions	
Employer contributions	$ 19,008
Earnings allocated to Post Employment Medical Benefits	75,636
Total Additions	**94,644**
Deductions	
Post Employment Medical Benefits payments	22,205
Post Employment Medical Benefits transfer to Pension Plan	19,008
Employer Implicit Subsidy to Pension Plan	6,304
Total Deductions	**47,517**
Changes in Post Employment Medical Benefits Net Assets	**$ 47,127**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2005 due to system constraints.

Changes in Non-OPEB Benefits Net Assets Last Ten Fiscal Years[1]

As of December 31
(Dollars in Thousands)

	2006
Addition	
Earnings allocated to Non-OPEB Benefits	$ 9,962
Total Addition	**9,962**
Deduction	
Non-OPEB Benefits Payments	6,422
Total Deduction	**6,422**
Changes in Non-OPEB Benefits Net Assets	**$ 3,540**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2005 due to system constraints.

Benefit Expenses by Type[1]

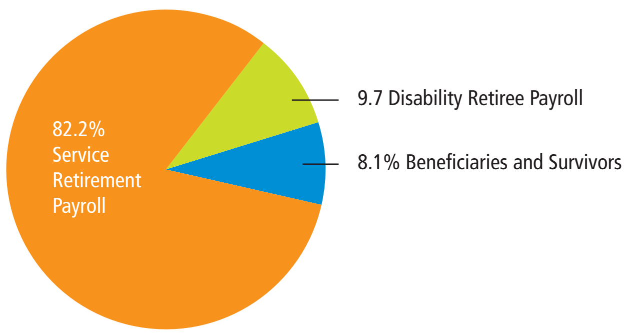
As of November 30

	2006	2005	2004	2003	2002	2001
Service Retirement Payroll						
Basic	$ 131,381,072	$ 119,237,822	$ 105,648,412	$ 92,689,067	$ 82,721,678	$ 77,819,944
COLA	35,620,880	33,211,334	30,836,451	29,245,633	27,025,690	24,838,053
Total	**167,001,952**	**152,449,156**	**136,484,863**	**121,934,700**	**109,747,368**	**102,657,997**
Disability Retiree Payroll						
Basic	16,180,690	14,576,027	13,118,826	10,540,547	9,540,646	8,800,266
COLA	3,536,042	3,148,063	2,800,341	2,523,517	2,241,082	2,013,020
Total	**19,716,732**	**17,724,090**	**15,919,167**	**13,064,064**	**11,781,728**	**10,813,286**
Beneficiaries and Survivors						
Basic	10,082,760	9,396,077	8,686,288	8,289,339	7,550,165	6,576,312
COLA	6,290,813	5,756,507	5,426,939	5,234,278	4,617,487	4,038,493
Total	**16,373,573**	**15,152,584**	**14,113,227**	**13,523,617**	**12,167,652**	**10,614,805**
Total	**$203,092,257**	**$185,325,830**	**$166,517,257**	**$148,522,381**	**$133,696,748**	**$124,086,088**

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Benefit Expenses by Type

(Based on the period from December 1, 2005 through November 30, 2006)



Benefit and Refund Deductions from Pension Plan, Post Employment Medical Benefits, and Non-OPEB Benefits Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006
COUNTY OF ALAMEDA						
Age and service benefits:						
Retirees	$ 122,998	$ 127,706	$ 137,338	$ 153,763	$ 171,924	$ 187,376
Survivors	12,541	10,985	11,429	11,812	12,538	13,340
Death in service benefits:						
Survivors	1,355	1,292	1,301	1,505	1,680	1,882
Disability benefits:						
Retirees - duty	11,563	12,516	14,231	17,746	19,591	20,955
Retirees - non-duty	2,239	2,348	2,414	2,949	3,020	3,210
Supplemental disability	68	69	97	51	75	109
Survivors	598	629	808	906	1,036	1,178
Total Benefits	**$151,362**	**$155,545**	**$167,618**	**$188,732**	**$209,864**	**$228,050**
Type of Refund						
Death	1,549	1,653	1,294	1,411	2,481	1,831
Miscellaneous	850	273	97	147	123	136
Separation	5,913	4,522	5,194	3,632	3,476	3,850
Total Refunds	**$ 8,312**	**$ 6,448**	**$ 6,585**	**$ 5,190**	**$ 6,080**	**$ 5,817**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2000 due to system constraints.

Benefit and Refund Deductions from Pension Plan Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006
COUNTY OF ALAMEDA						
Age and service benefits:						
Retirees	$ 108,078	$ 110,793	$ 118,415	$ 133,355	$ 149,934	$ 164,638
Survivors	10,955	9,225	9,568	10,238	11,042	11,419
Death in service benefits:						
Survivors	1,177	1,107	1,124	1,342	1,528	1,702
Disability benefits:						
Retirees - duty	10,244	10,923	12,226	15,285	16,775	17,889
Retirees - non-duty	1,782	1,839	1,878	2,364	2,417	2,569
Supplemental disability	11	11	49	16	27	28
Survivors	598	629	808	906	1,036	1,178
Total Benefits	**$132,845**	**$134,527**	**$144,068**	**$163,506**	**$182,759**	**$199,423**
Type of Refund						
Death	1,549	1,653	1,294	1,411	2,481	1,831
Miscellaneous	850	273	97	147	123	136
Separation	5,913	4,522	5,194	3,632	3,476	3,850
Total Refunds	**$ 8,312**	**$ 6,448**	**$ 6,585**	**$ 5,190**	**$ 6,080**	**$ 5,817**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2000 due to system constraints.

Benefit and Refund Deductions from Post Employment Medical Benefits Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006
TYPE OF BENEFIT						
Age and service benefits:						
Retirees	$10,406	$12,448	$14,901	$16,960	$18,935	$19,001
Survivors	2	6	1	1	2	2
Death in service benefits:						
Survivors	5	5	7	8	9	10
Disability benefits:						
Retirees—duty	1,057	1,323	1,752	2,222	2,595	2,787
Retirees—non-duty	254	301	342	398	426	405
Supplemental disability	-	-	-	-	-	-
Survivors	-	-	-	-	-	-
Total Benefits	**$11,724**	**$14,083**	**$17,003**	**$19,589**	**$21,967**	**$22,205**

[1] Acera implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2000 due to system constraints.

Benefit and Refund Deductions from Non-OPEB Benefits Net Assets by Type Last Ten Fiscal Years[1]

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006
TYPE OF BENEFIT						
Age and service benefits:						
Retirees	$4,514	$4,465	$4,022	$3,448	$3,055	$3,737
Survivors	1,584	1,754	1,860	1,573	1,494	1,919
Death in service benefits:						
Survivors	173	180	170	155	143	170
Disability benefits:						
Retirees—duty	262	270	253	239	221	279
Retirees—non-duty	203	208	194	187	177	236
Supplemental disability	57	58	48	35	48	81
Survivors	-	-	-	-	-	-
Total Benefits	**$6,793**	**$6,935**	**$6,547**	**$5,637**	**$5,138**	**$6,422**

[1] Acera implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2000 due to system constraints.

Employer Contribution Rates (Percent)

As of December 31

	County[2]					Other Participating Employers[2]		
	General Member		Safety Member			General Member		
Year	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate	Tier 1	Tier 2	Aggregate
1997	5.12	4.76	9.28	9.02	5.59	15.15	14.79	15.14
1998	5.75	4.46	8.72	8.35	5.44	16.20	-	16.20
1999	6.27	3.11	5.39	5.70	4.26	16.83	-	16.83
2000	6.28	2.83	4.78	5.48	4.03	17.30	-	17.30
2001	6.31	2.86	5.10	5.80	4.00	17.09	-	17.09
2002	5.90	3.37	5.96	7.16	4.37	16.21	-	16.21
2003	12.78	10.53	17.40	18.76	12.16	17.37	-	17.37
2004	14.63	12.10	21.51	20.91	13.95	19.21	-	19.21
2005	17.91	14.96	36.81	29.09	18.07[1]	22.74	-	22.74
2006	16.46	14.30	37.05	29.84	17.26	21.53	-	21.53

[1] Aggregate rate is based on payroll as of the prior December 31.

[2] Includes ACMC, First Five, and Superior Court.

Employee Contribution Rates (Percent)
Last Ten Fiscal Years

As of December 31

	County and Other Participating Employers				
	General Member		Safety Member		
Year	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate
1997	8.24	7.15	10.22	9.95	7.94
1998	8.49	7.23	10.16	10.04	8.02
1999	8.56	7.28	10.82	10.33	8.12
2000	8.58	7.35	10.66	10.37	8.11
2001	8.21	7.03	10.41	10.07	7.75
2002	8.00	7.01	10.38	10.12	7.70
2003	8.96	7.88	9.84	10.61	8.47
2004	9.05	7.58	9.66	10.53	8.27
2005	9.93	7.91	15.51	14.32	9.24
2006	9.31	7.52	15.32	13.78	8.81

Retired Members by Type of Benefit and Option Selected

Summary of Monthly Allowances Being Paid for the Month of November 30, 2006[1]

	Number	Monthly Allowance		Total
		Basic	Cost of living	
GENERAL MEMBERS				
Service Retirement				
Unmodified	3,957	$ 7,274,856	$ 2,202,821	$ 9,477,677
Option 1	229	337,394	106,627	444,021
Option 2	209	353,168	80,305	433,473
Option 3	15	20,842	7,653	28,495
Option 4	1	5,775	233	6,008
Total	4,411	7,992,035	2,397,639	10,389,674
Disability				
Unmodified	537	853,716	174,333	1,028,049
Option 1	30	25,858	10,570	36,428
Option 2	-	-	-	-
Option 3	1	2,220	231	2,451
Option 4	1	3,467	993	4,460
Total	569	885,261	186,127	1,071,388
Beneficiaries	923	649,380	425,610	1,074,990
Total General	**5,903**	**9,526,676**	**3,009,376**	**12,536,052**

	Number	Monthly Allowance		Total
		Basic	Cost of living	
SAFETY MEMBERS				
Service Retirement				
Unmodified	653	2,793,403	538,668	3,332,071
Option 1	13	44,014	12,399	56,413
Option 2	39	115,303	17,516	132,819
Option 3	1	3,671	2,182	5,853
Option 4	-	-	-	-
Total	706	2,956,391	570,765	3,527,156
Disability				
Unmodified	170	450,041	103,240	553,281
Option 1	4	8,329	1,908	10,237
Option 2	-	-	-	-
Option 3	3	4,761	3,395	8,156
Option 4	-	-	-	-
Total	177	463,131	108,543	571,674
Beneficiaries	150	190,849	98,625	289,474
Total Safety	**1,033**	**3,610,371**	**777,933**	**4,388,304**
Total General and Safety	**6,936**	**$13,137,047**	**$3,787,309**	**$16,924,356**

[1] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Retired Members by Type of Benefit Pension Plan

As of December 31, 2006

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit[1] 1	2	3	4	5	6	7	Option Selected[2] Unmodified	1	2	3	4
$ 1 to $ 300	388	1	3	10	286	-	88	-	242	111	34	1	-
301 to 600	620	-	18	16	418	18	150	-	377	208	33	2	-
601 to 900	652	4	29	16	478	16	109	-	462	160	30	-	-
901 to 1,200	627	12	43	6	448	9	107	2	446	144	36	1	-
1,201 to 1,500	605	52	33	5	425	8	82	-	422	118	64	1	-
1,501 to 1,800	579	118	13	6	367	6	69	-	354	97	126	2	-
1,801 to 2,100	463	104	9	6	308	3	33	-	304	49	109	1	-
2,101 to 2,400	390	74	6	3	274	-	33	-	252	50	87	1	-
2,401 to 2,700	333	54	2	2	240	1	34	-	221	45	64	3	-
2,701 to 3,000	255	46	1	-	182	3	23	-	170	35	49	1	-
Over $3,000	1,980	129	4	6	1,779	2	60	-	1,664	112	196	7	1
Total	**6,892**	**594**	**161**	**76**	**5,205**	**66**	**788**	**2**	**4,914**	**1,129**	**828**	**20**	**1**

[1]Type of Benefit

1- Duty disability retirement
2- Non-duty disability retirement
3- DRO lifetime annuity
4- Service retirement
5- Survivorship
6- Continuance
7- Supplemental disability

[2]Option Selected

Unmodified - 60% Contingent Joint & Survivor
Option 1 - Single life
Option 2 - 100% Contingent Joint & Survivor
Option 3 - 50% Contingent Joint & Survivor
Option 4 - 33% Contingent Joint & Survivor

Retired Members by Type of Benefit Post Employment Medical Benefits

As of December 31, 2006

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit[1] 1	2	3	4	5	6	7	Option Selected[2] Unmodified	1	2	3	4
$ 1 to $ 300	1,724	61	99	-	1,562	-	2	-	1,462	70	185	7	-
301 to 600	4,083	521	59	-	3,503	-	-	-	3,330	114	624	14	1
601 to 900	4	-	-	-	3	1	-	-	2	2	-	-	-
1,501 to 1,800	1	-	-	-	1	-	-	-	1	-	-	-	-
Over $3,000	1	1	-	-	-	-	-	-	-	-	1	-	-
Total	**5,813**	**583**	**158**	**-**	**5,069**	**1**	**2**	**-**	**4,795**	**186**	**810**	**21**	**1**

[1]Type of Benefit

1- Duty disability retirement
2- Non-duty disability retirement
3- DRO lifetime annuity
4- Service retirement
5- Survivorship
6- Continuance
7- Supplemental disability

[2]Option Selected

Unmodified - 60% Contingent Joint & Survivor
Option 1 - Single life
Option 2 - 100% Contingent Joint & Survivor
Option 3 - 50% Contingent Joint & Survivor
Option 4 - 33% Contingent Joint & Survivor

Retired Members by Type of Benefit Non-OPEB Benefits

As of December 31, 2006

		Type of Benefit[1]							Option Selected[2]				
Amount of Monthly Benefit	Number of Retired Members	1	2	3	4	5	6	7	Unmodified	1	2	3	4
$ 1 to $ 300	734	8	25	7	443	14	237	-	447	269	17	1	-
301 to 600	258	9	17	-	149	7	76	-	161	87	9	1	-
601 to 900	115	8	2	-	45	6	54	-	46	61	8	-	-
901 to 1,200	46	5	-	-	30	1	10	-	30	11	5	-	-
1,201 to 1,500	13	-	-	-	13	-	-	-	12	1	-	-	-
1,501 to 1,800	6	-	-	-	5	-	1	-	5	1	-	-	-
1,801 to 2,100	2	-	-	-	2	-		-	2	-	-	-	-
2,401 to 2,700	1	-	-	-	1	-	-	-	1	-	-	-	-
Total	**1,175**	**30**	**44**	**7**	**688**	**28**	**378**	**-**	**704**	**430**	**39**	**2**	**-**

[1]Type of Benefit

1- Duty disability retirement
2- Non-duty disability retirement
3- DRO lifetime annuity
4- Service retirement
5- Survivorship
6- Continuance
7- Supplemental disability

[2]Option Selected

Unmodified - 60% Contingent Joint & Survivor
Option 1 - Single life
Option 2 - 100% Contingent Joint & Survivor
Option 3 - 50% Contingent Joint & Survivor
Option 4 - 33% Contingent Joint & Survivor

Average Benefit Payment Amounts

Retirement Effective Dates 1/1/2000 – 12/31/2006[2]	Years Since Retirement[1] 0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
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
PERIOD 1/1/06–12/31/06							
Average Monthly Benefit	$3,316	$2,628	$2,495	$2,302	$1,721	$1,276	$926
Number of Active Retirees	1,698	1,574	1,184	870	639	573	398

[1] Historically, ACERA has organized information by years of service in four-year increments rather than five-year increments.

[2] As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

Average Pension Benefit Payments Last Ten Fiscal Years

	Years of Service[2]						
Retirement Effective Dates	0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
PERIOD 1/1/97–12/31/97							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$4,229	$3,784	$3,786	$4,224	$3,766	$4,657	$4,818
Number of Retired Members	16	33	32	30	32	31	50
PERIOD 1/1/98–12/31/98							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$4,157	$3,419	$3,660	$4,000	$4,533	$5,158	$6,075
Number of Retired Members	23	14	48	37	37	37	59
PERIOD 1/1/99–12/31/99							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,183	$4,271	$4,277	$4,906	$4,915	$6,281	$5,812
Number of Retired Members	1,487	1,210	1,248	778	779	512	273
PERIOD 1/1/00–12/31/00							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,525	$5,284	$4,247	$4,787	$5,090	$5,775	$6,559
Number of Retired Members	8	27	56	31	61	46	58
PERIOD 1/1/01–12/31/01							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,364	$4,543	$4,593	$4,814	$4,781	$5,088	$6,181
Number of Retired Members	23	47	60	49	37	32	48
PERIOD 1/1/02–12/31/02							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$6,059	$5,174	$4,413	$4,903	$5,591	$6,777	$6,276
Number of Retired Members	14	32	38	42	52	25	32
PERIOD 1/1/03–12/31/03							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$5,316	$4,794	$4,798	$5,036	$6,093	$7,922	$7,759
Number of Retired Members	36	26	47	46	58	51	70
PERIOD 1/1/04–12/31/04							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$6,517	$5,962	$5,069	$5,416	$6,161	$7,026	$7,685
Number of Retired Members	31	34	76	76	78	64	89
PERIOD 1/1/05–12/31/05							
Average Monthly Pension Benefits[1]	NA	NA	NA	NA	NA	NA	NA
Average Final Average Salary	$7,155	$5,433	$5,154	$5,289	$6,095	$7,413	$7,991
Number of Retired Members	34	33	53	71	89	65	80
PERIOD 1/1/06–12/31/06							
Average Monthly Pension Benefits[3]	$1,095	$1,229	$1,426	$2,230	$3,193	$5,397	$6,750
Average Final Average Salary	$7,193	$6,140	$5,820	$6,119	$6,319	$7,765	$8,197
Number of Retired Members	23	25	38	63	71	52	78

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data are available from 1997 through 2005 due to system constraints.

[2] Historically, ACERA has organized information by years of service in four-year increments rather than five-year increments.

[3] This data is for one year as of November 30, 2006 as permitted by the Actuarial Standard of practice Statement No. 4. All prior year data is based on the calendar year ending December 31.

Average Monthly Medical Allowance (MMA) Benefits Last Ten Fiscal Years

Retirement Effective Dates	Years of Service[3] 0–4[1]	5–9[1]	10–14[2]	15–19[2]	20–24[2]	25–29[2]	30 & Over[2]
PERIOD 1/1/97–12/31/97							
Average MMA Benefits	$24	$24	$86	$117	$147	$147	$147
Number of Retired Members	16	33	32	30	32	31	50
PERIOD 1/1/98–12/31/98							
Average MMA Benefits	$27	$27	$96	$131	$165	$165	$165
Number of Retired Members	23	14	48	37	37	37	59
PERIOD 1/1/99–12/31/99							
Average MMA Benefits	$37	$37	$126	$170	$214	$214	$214
Number of Retired Members	18	33	65	32	46	33	60
PERIOD 1/1/00–12/31/00							
Average MMA Benefits	$47	$47	$164	$222	$281	$281	$281
Number of Retired Members	8	27	56	31	61	46	58
PERIOD 1/1/01–12/31/01							
Average MMA Benefits	$50	$50	$192	$263	$335	$335	$335
Number of Retired Members	23	47	60	49	37	32	48
PERIOD 1/1/02–12/31/02							
Average MMA Benefits	$53	$53	$229	$317	$405	$405	$405
Number of Retired Members	14	32	38	42	52	25	32
PERIOD 1/1/03–12/31/03							
Average MMA Benefits	$52	$52	$249	$347	$445	$445	$445
Number of Retired Members	36	26	47	46	58	51	70
PERIOD 1/1/04–12/31/04							
Average MMA Benefits	$55	$55	$286	$402	$517	$517	$517
Number of Retired Members	31	34	76	75	78	64	89
PERIOD 1/1/05–12/31/05							
Average MMA Benefits	$59	$59	$336	$474	$613	$613	$613
Number of Retired Members	34	33	53	71	89	65	80
PERIOD 1/1/06–12/31/06							
Average MMA Benefits	$63	$63	$313	$438	$563	$563	$563
Number of Retired Members	23	25	38	63	71	52	78

1 Retired members with 0–9 service years are qualified for monthly Vision and Dental Allowances.

2 Retired members with service years equal to or greater than 10 years are qualified for monthly Vision, Dental and Medical Allowances.

3 Historically, ACERA has organized information by years of service in four-year increments rather than five-year increments.

Note: Separate schedule on Average Monthly Non-OPEB Benefits not presented. ACERA implemented GASB 44 for year ended December 31, 2006. Historical data are not available from 1997 through 2006 due to system constraints.

Participating Employers and Active Members

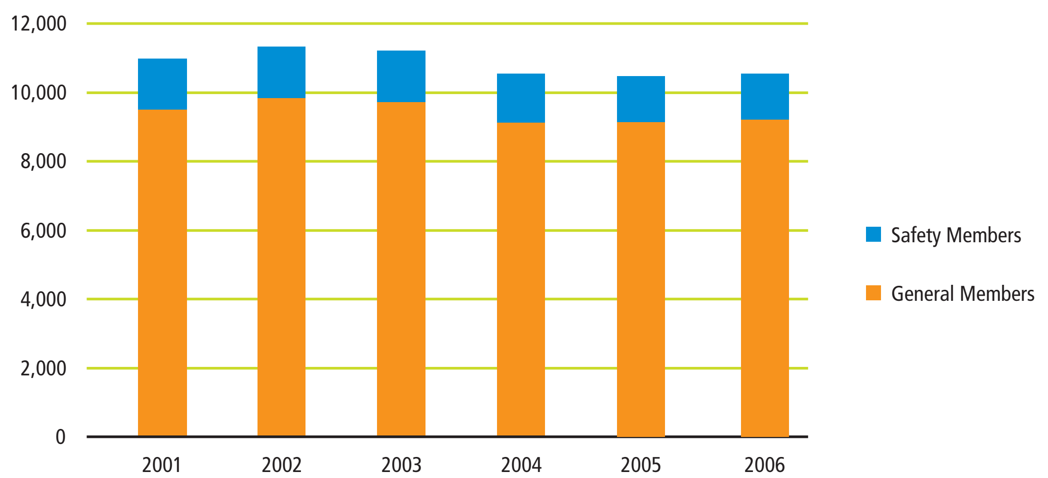
As of November 30[1]

	2006	2005	2004	2003	2002	2001
County of Alameda						
General Members	6,261	6,177	7,020	7,367	7,550	7,266
Safety Members	1,383	1,368	1,418	1,495	1,499	1,472
Total	**7,644**	**7,545**	**8,438**	**8,862**	**9,049**	**8,738**
Participating Employers (General Members)						
Alameda County Medical Center (ACMC) [1]	2,007	1,961	1,926	2,201	2,133	2,086
Alameda County Office of Education	2	2	2	5	5	5
First 5 Alameda County [2]	57	53	47	–	–	–
Housing Authority of the County of Alameda	75	68	74	74	75	69
Livermore Area Recreation & Park District	67	62	69	78	76	76
Superior Court of California for the County of Alameda	810	812	–	–	–	–
Total	**3,018**	**2,958**	**2,118**	**2,358**	**2,289**	**2,236**
Total Active Membership						
General Members	9,279	9,135	9,138	9,725	9,839	9,502
Safety Members	1,383	1,368	1,418	1,495	1,499	1,472
Total	**10,662**	**10,503**	**10,556**	**11,220**	**11,338**	**10,974**

1 As permitted by the Actuarial Standard of Practice Statement No. 4 (Measuring Pension Obligation), the actuarial valuation has been prepared based on participant data provided by ACERA as of November 30.

2 Included as County of Alameda General Members before 2004.

Total Active Membership



Principal Participating Employers Pension Plan
Current Year and Nine Years Ago

As of December 31

	2006			1997		
Participating Employers	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
County of Alameda	7,654	1	71.69 %	9,118	1	98.60 %
Alameda County Medical Center (ACMC)	2,010	2	18.83	-	-	-
Superior Court of California for the County of Alameda	811	3	7.60	-	-	-
Housing Authority of the County of Alameda	75	4	0.70	65	2	0.70
Livermore Area Recreation & Park District	67	5	0.63	56	3	0.61
First 5 Alameda County	57	6	0.53	-	-	-
Alameda County Office of Education	2	7	0.02	8	4	0.09
Total	**10,676**		**100.00 %**	**9,247**		**100.00 %**

Notes: Separate schedule on Principal Participating Employers for ACERA's Post Employment Medical Benefits is not presented. ACERA implemented GASB 44 for year ended December 31, 2006. Historical data on covered employees by participating employers for this plan are not available due to system constraints. Total number of covered employees is 4,550 for 2006.

Separate schedule on Principal Participating Employers for ACERA's Non-OPEB Benefits is not presented. ACERA implemented GASB 44 for year ended December 31, 2006. Historical data on covered employees by participating employers for this plan are not available due to system constraints.


EXIT

my name is TOM ORLOFF

first job IRRIGATING SUGAR BEETS

what I do now ALAMEDA COUNTY DISTRICT ATTORNEY

what I like most about my job THE PEOPLE

what I like least about my job THE PEOPLE

fondest memory JUNE 18, 1967; JULY 30, 1970; OCT. 10, 1972

songs that make me sing in the car I DON'T

favorite vacation SLEEPING IN UNTIL 7:30 a.m. on SAT. MORNINGS

I wish OCCASIONALLY

proudest moment BECOMING ALAMEDA COUNTY DISTRICT ATTORNEY

biggest challenge LIVING UP TO THE JOB

most people don't know that I AM SHY

perfect day ONE WITH NO MORE THAN ONE CRISIS

guilty pleasure CHOCOLATE

I'm secretly a fan of IF ANSWERED, IT WOULD NOT BE A SECRET, WOULD IT?

favorite book WOODEN

favorite movie BLAZING SADDLES

person I'd love to meet BILL RUSSELL

inspiration PARENTS

dream retirement ANY THAT'S IN GOOD HEALTH

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Management Consultants

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*

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, 2006 and 2005, and have issued our report thereon dated May 7, 2007. Our report on the financial statements was modified to indicate that ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*; and GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section, an Amendment of NCGA Statement 1*. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of ACERA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ACERA's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as described above.

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of ACERA in a separate letter dated May 7, 2007.

This report is intended solely for the information and use of management, the Audit Committee, the Board of Retirement, others within the entity, 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 7, 2007

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A Pension Trust Fund of
the County of Alameda
(State of California) and
Participating Employers
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