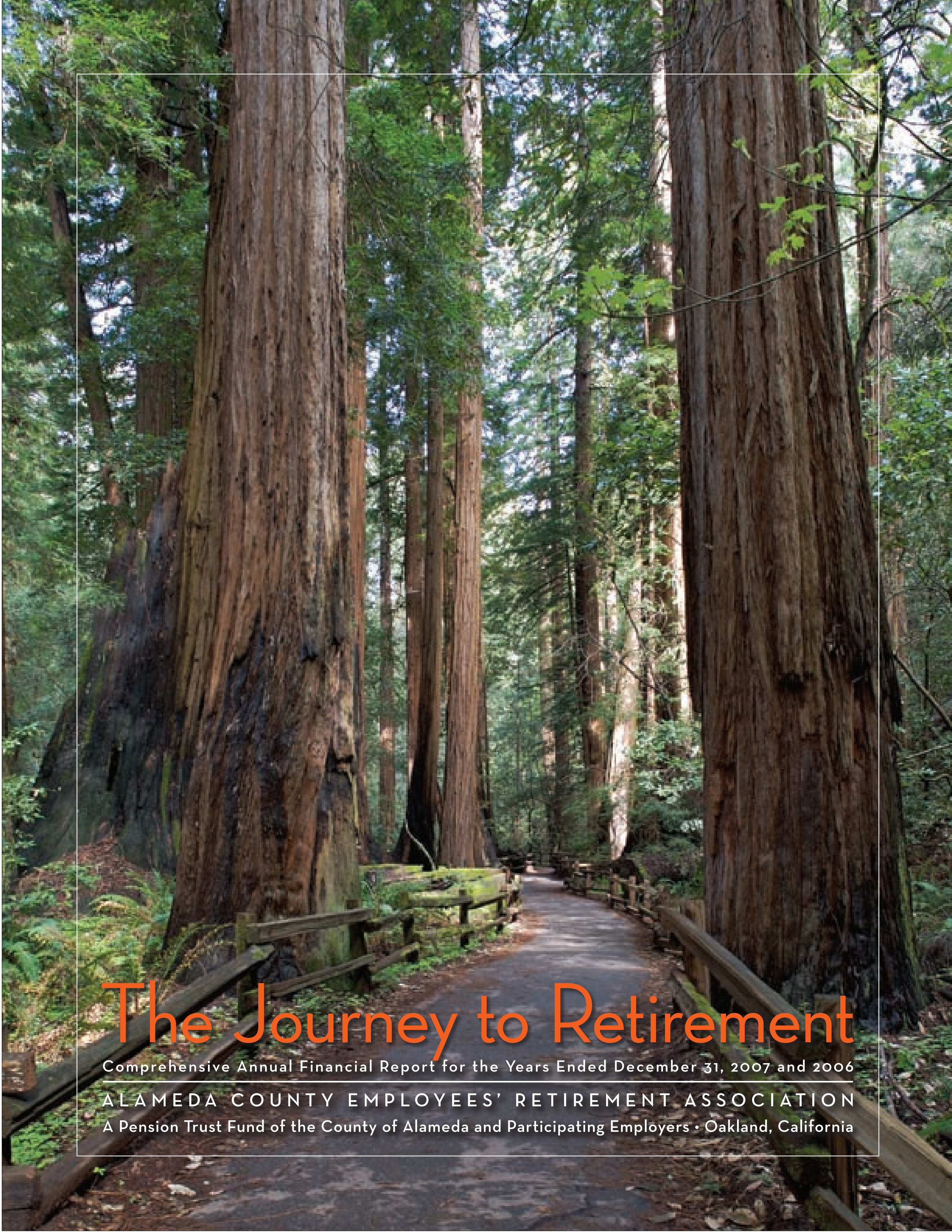

The Journey to Retirement

Comprehensive Annual Financial Report for the Years Ended December 31, 2007 and 2006

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and Participating Employers • Oakland, California

The Journey to Retirement

Comprehensive Annual Financial Report for the
Years Ended December 31, 2007 and 2006

Issued By

Charles F. Conrad

Chief Executive Officer

Catherine E. Walker, CPA

Assistant Chief Executive Officer

ACERA

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

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Louise Pietila

1

Year Hired:

1948

2

First Job:

I went to work as a clerk for Bill Hageman and together we started the retirement system. I'm its first employee! Although Bill's office was in the balcony of the Treasurer's Office in the County Courthouse, I spent my first three months in the basement going through all the old payroll records so that I could establish the employment history of everyone employed by the County at that time. From all that information I created a system for posting the employees' payroll information.

3

Last Job:

After working as Bill's assistant for five years, I needed to earn more to support my young daughter, so I took an exam and landed the job of business manager for the County's new Public Health Services department. I prepared all the County health services budgets, which were submitted to the Supervisors on the first of February every year.

4

Date Retired:

1976 after 25 years with the Public Health Services Department

*

On Retirement:

When my husband retired, we moved to Arizona, built a house in Lake Havasu, and traveled. After 19 years I moved back to the Bay Area to be near family and now play golf four times a week in the Rossmore community where I live. I also go to all the meetings of REAC and ACERA.

On Retiree Benefits:

Our retirement system is one of the best in the State. Before I retired I was familiar with all the other county retirement systems. Back then, ours was considered one of the best, and still is! ACERA has done an excellent job with its investments, with keeping us level and our benefits stable.

Section 1

1

INTRODUCTION

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

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, 2007 and 2006*.

This report presents the financial status of the Pension Plan, the Postemployment Medical Benefits (OPEB), and the Other Postemployment Benefits, as well as the actuarial valuation and investment results. All data and information presented in this report are accurate and reliable, and conform to generally accepted accounting principles and are free of material misstatement.

Our Mission is to provide members and participating employers with flexible, cost-effective, participant-oriented benefits through prudent investment management and superior member services. Our Management Team is committed to achieving the goals established by the Board. We will utilize 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.

The Board of Retirement has completed another successful year in which investment performance was good despite U.S. recessionary symptoms due to a weakening economy and the crisis in the mortgage industry. The actuarial funded ratio of the plan improved, member services improved, the Supplemental Retiree Benefits Reserve was strengthened, the OPEB funded status reached a conservatively calculated 84%, the enterprise risk management structure was established, and currently ACERA is complying with the disability timeline process. Also ACERA embarked on a conversion to a paperless office environment.

Performance Overview

- The Board of Retirement adopted a more aggressive asset allocation to ensure the long-term financial integrity of the system despite lower capital market return expectations
- The Emerging Manager Program was initiated and designed to identify smaller investment firms, and to initially allocate 1% of the investment portfolio
- The Fund grew to $5.6 billion, an increase of 7% from the prior year, and provided a rate of return of 8.8%, which slightly underperformed the policy index of 9.4%
- Active Membership grew to 10,980, an increase of 2.8% from the prior year
- Members receiving Pension Benefits rose to 7,244, an increase of 5.1% from the prior year

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. 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"). The Participating Employers include the following:

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

ACERA provides lifetime retirement, disability, and death benefits to its members. In addition, ACERA also provides other supplemental benefit programs: (1) Postemployment Medical Benefits; (2) a supplemental cost-of-living (COLA), and (3) death benefit program. The first program provides an insurance subsidy for medical premiums, and also provides coverage under ACERA-sponsored dental and vision care plans. All three programs are non-vested benefits funded by a Supplemental Retiree Benefit Reserve (SRBR), which is separately maintained in accordance with Article 5.5 of the County Employees Retirement Law of 1937 (the "CERL").

BOARD OF RETIREMENT

The Board of Retirement consists of eleven members, including a Retiree alternate and a Safety alternate. Six Board seats, which include the alternates, are filled by election and four seats are appointed by the Alameda County Board of Supervisors. The Alameda County Treasurer is an ex-officio member.

Board elections were held in December 2007 for five positions, and the following members were elected:

- General—Trevor White
- Safety—Dale Amaral
- Alternate Safety—Darryl L. Walker
- Retired—Liz Koppenhaver
- Alternate Retired—David Safer

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 regulations, and Board policies.

FINANCIAL REPORTING

ACERA's management is responsible for the accuracy, completeness, and 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 Management Discussion and Analysis (MDA) Section provides a thorough analysis of ACERA's operations and financial status.

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

In the year 2007, ACERA established an Internal Audit function to implement an enterprise risk management process.

For the year ended December 31, 2007, ACERA met the reporting requirements of the Governmental Accounting Standards Board (GASB) Statement No. 43 (*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*) and Statement No. 50 (*Pension Disclosures*).

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 is presented in this CAFR. The December 31, 2007 actuarial valuation will include a triennial experience study, and will not be completed until after the publication of this report.

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, 2006 was $4,825.1 million; the actuarial value of assets was $4,127.8 million; the unfunded actuarial accrued liability was $697.3 million; and the funded ratio was 85.5%. For the year ended December 31, 2007, Participating Employers contributed 100% of the annual required contributions to the Pension Plan. The Pension Plan, the Postemployment Medical Benefits, and the Non-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 50–52.

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, 2007 and 2006, ACERA's investments provided a 8.8% and 14.4% rate of return, respectively. ACERA's annualized rate of return over the last three years was 10.6%, and over the last five years was 14.0%.

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

2007 Accomplishments

- In accordance with the Asset Allocation Plan, ACERA allocated more investments towards the real estate asset class to move closer to the 9% real estate allocation target
- ACERA developed and adopted the first Emerging Investment Manager Policy
- One percent (1%) of the investment portfolio was allocated to the Emerging Manager Program
- ACERA's new international equity manager structure was instituted and AQR Capital Management was retained as our first quantitative international equity manager

BENEFITS

Benefit Changes for Members

The Board adopted revisions to the 401(h) accounts to implement changes to the Monthly Medical Allowance (MMA) and Retiree health benefit premiums for plan year 2007. The Board also adopted a revised version of Resolution 07-29, Appendix A that reflects the changes to the MMA, the dental and vision plan premiums, and the Medicare Part B Reimbursement Plan Benefit amount for plan year 2008.

Implicit Subsidy

ACERA implemented a process by which the County is now reimbursed for the implicit subsidy, which is the additional premium cost incurred from having early retirees, who are non-medicare eligible, included in the County's medical insurance plans.

Supplemental Retiree Benefits Reserve

ACERA is one of three '37 Act counties to administer a Supplemental Retiree Benefits Reserve (SRBR), which is funded from earnings in excess of the assumed actuarial investment rates. The SRBR provides funding for the following non-vested and non-Pension Benefits: Supplemental COLA; health, dental, and vision care; Medicare Part B Reimbursement Plan; most of the Retiree Death Benefit and the Monthly Medical Allowance, which is a fixed dollar contribution toward eligible retiree ACERA health plan premium costs. The SRBR program also reimburses Alameda County for the extra cost incurred in allowing ACERA early retirees to enroll in County medical plans, the implicit subsidy.

As of December 31, 2007, the SRBR held $695.9 million in net assets. This total will fund the current benefit structure through the year 2025 even if no new excess investment earnings are available. The current funded level of the SRBR is at 83.9%, using a very conservative methodology based on GASB Statement No. 43 OPEB guidelines.

The 2007 SRBR Study extended the Postemployment Medical Benefits from 2023 to 2025, and the Non-OPEB Benefits from 2023 to 2024. Projected cash flows were computed based on the retiree population and assume no future crediting of excess earnings. The Segal Company, ACERA's actuarial firm, restructured the annual medical inflation assumptions to anticipate a lower initial rate of medical inflation (down from a first year assumption of 12% to 9%) for the short-term, and a more gradual decrease from 1% to 0.5% in each subsequent year. This revised inflation assumption is based on long-term trends in medical costs. All SRBR benefits can only be paid from available assets, and pension assets are not available to finance such benefits in the event of a short fall. Liability projections can, therefore, reasonably be based on the assumption that OPEB (other Postemployment benefits) liabilities are limited to the reserves in the SRBR account allocated to these benefits under Article 5.5 of the County Employees Retirement Law of 1937, yielding a funded ratio of 100%. ACERA's non-OPEB liabilities are limited to the portion of the SRBR expected to be used to provide supplemental COLA, active death equity benefits, and death benefits. For retirees, a maximum health insurance allowance (MMA) of $455.38 per month was provided, effective February 1, 2007 through January 31, 2008.

HUMAN RESOURCES

Staffing Plan

To attract and retain highly qualified staff, ACERA incorporated current compensation data for most staff positions in a plan that was also designed to assist management in staffing, recruiting, compensating, training, supervising, promoting, disciplining, and developing staff.

Staff Growth

ACERA is experiencing a growth in staff and has exceeded the physical capacity of office space. The build-out on the 12th floor, which began in August 2007, will add 7,000 square feet of office space.

LEGAL ACCOMPLISHMENTS

Disability Case Processing

As stated previously the backlog of disability cases was reduced by almost half. The reduction was the result of the implementation of ACERA's new, streamlined disability procedures, and the Alameda County Counsel's dedication to addressing all backlogged hearing cases.

MEMBER SERVICES

Active and Deferred Member Statements

A focus group of 200 members reviewed a redesign of member statements that incorporated retirement allowance estimates. The feedback was positive, and the redesigned statements will be launched in early 2008.

Call Center Improvements

ACERA's Call Center enhanced service quality by assigning trained, dedicated staff using computerized call tracking equipment to handle all incoming inquiries. The staff is able to accommodate the additional call volumes that resulted from the increase in membership and the additional services that ACERA offered.

Publications

To address recent survey findings that some members were unaware of ACERA's benefits, development has begun on a family of individual publications for discrete benefit areas. All ACERA members and other stakeholders will have access to these publications.

Retirees' Feedback on Open Enrollment

Retiree Annual Statements were mailed to 6,821 retired members. Each statement included an Enrollment Feedback Card containing questions regarding the Retiree Statement, open enrollment materials, and ACERA's Health Fair. The overwhelming majority of the respondents reacted positively to the Open Enrollment materials and found the Retiree Statement easy to read and understand.

Retirement Seminars

The retirement planning seminars, which were launched in 2006 to meet the needs of two different employee populations, were enhanced. Each seminar addresses various aspects of vested membership and participation in ACERA's defined benefit plan:

- The Pre-Retirement Planning Seminar is designed for members who plan to retire within three years.
- The Mid-Career Planning Seminar is designed for members who have 10 or more years of service and are 5 or more years from retirement, and intend to work for Alameda County or an ACERA Participating Employer until they retire and want to start planning ahead.

PARTICIPATING EMPLOYERS RELATIONS

ACERA hosted its second Annual Participating Employer Meeting and collaborated with Participating Employers on several projects, including GASB (OPEB), Internal Revenue Code 401(h), and payroll transmittals.

Several Participating Employer executives were profiled in the Comprehensive Annual Financial Report (CAFR) for the Years Ended December 31, 2006 and 2005.

PROJECT & INFORMATION SERVICES MANAGEMENT

With the selection of a vendor, Phase 1 of an enterprise wide conversion to an Electronic Document Management System is under way. The conversion will improve information accuracy and efficiency, reduce duplication and costs, and provide a central location to capture and share information generated from paper documents. As part of Phase I, information was gathered to conduct a needs assessment and to determine requirement specifications. The project, which consists of three phases, is targeted for completion in early 2010.

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, 2006. The certificate is reproduced on page 11. This was the eleventh consecutive year ACERA has achieved this prestigious award. To be awarded a Certificate of Achievement, a government entity must publish a readable, efficiently organized Comprehensive Annual Financial Report, which must satisfy both generally accepted accounting principles and applicable legal requirements. The award recognizes ACERA's conformance with the highest standard for state and government financial reports. It also reflects the collective effort of ACERA staff to maintain a standard of financial reporting that continues to meet the GFOA award standards.

A Certificate of Achievement is valid for a period of one year only. *This Comprehensive Annual Financial Report for the Year Ended December 31, 2007* meets the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for consideration for another Certificate of Achievement for Excellence in Financial Reporting.

ACERA also received the GFOA's Award for Outstanding Achievement in Popular Annual Financial Reporting (PAFR) for the year ended December 31, 2006.

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, and is posted on our website at www.acera.org. 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
Chief Executive Officer
May 30, 2008

Members of the Board of Retirement

Ophelia B. Basgal

Appointed by the
Board of Supervisors

Dale E. Amaral

Elected by Safety Members

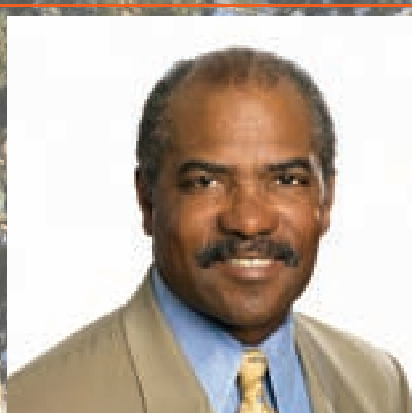
Annette Cain-Darnes

Appointed by the
Board of Supervisors

Keith Carson

FIRST VICE-CHAIR

Appointed by and Member of the
Board of Supervisors



Donald R. White

EX-OFFICIO MEMBER

Treasurer-Tax Collector,
County of Alameda

Liz Koppenhaver

Elected by Retired Members

Trevor S. White

CHAIR
Elected by General Members

L. Kenneth Brooks

Appointed by the
Board of Supervisors

Elizabeth Rogers

SECOND VICE-CHAIR
Elected by General Members

David M. Safer

ALTERNATE
Elected by Retired Members

Darryl L. Walker

ALTERNATE
Elected by Safety Members

2007 BOARD OF RETIREMENT

Dale E. Amaral, First Vice Chair

Ophelia B. Basgal, Chair

L. Kenneth Brooks

Annette Cain-Darnes

Keith Carson

Liz Koppenhaver, Alternate Retiree

Elizabeth Rogers

David M. Safer

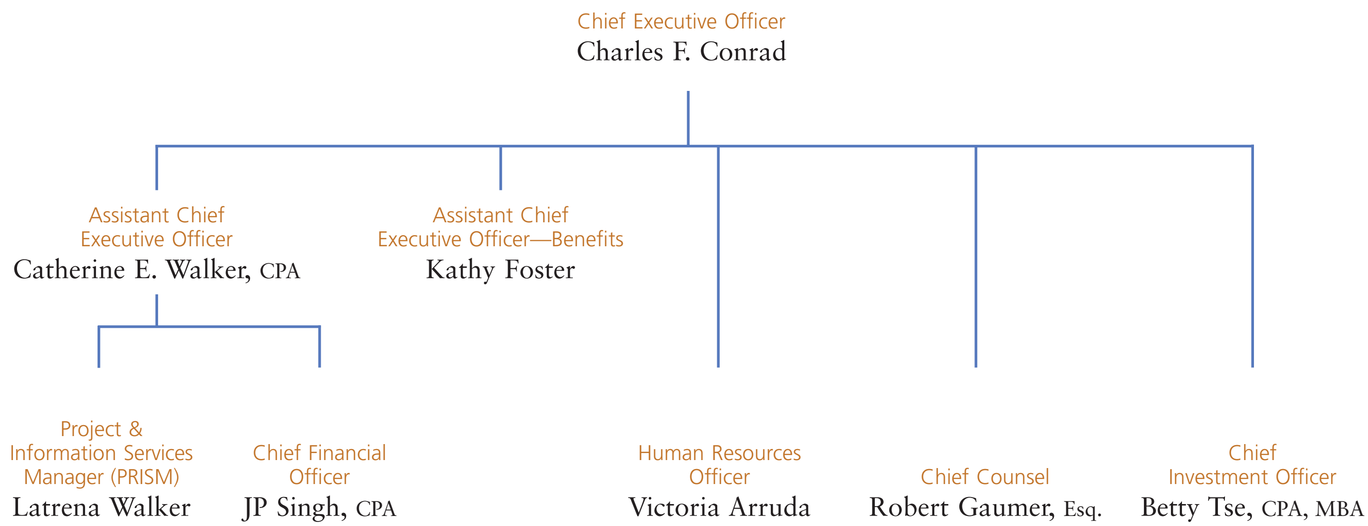
Darryl L. Walker, Alternate Safety

Donald R. White

Trevor S. White, Second Vice Chair

Administrative Organization Chart

As of December 31, 2007



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
Corthex Applied Research, Inc.
Levi, Ray & Shoup, Inc.
Linea Solutions, Inc.

Tobico LLC dba Tobi Designs
Laurla Myers Design, Inc.
Siemons Mailing Services, Inc.
L.R. Wechsler, LTD.

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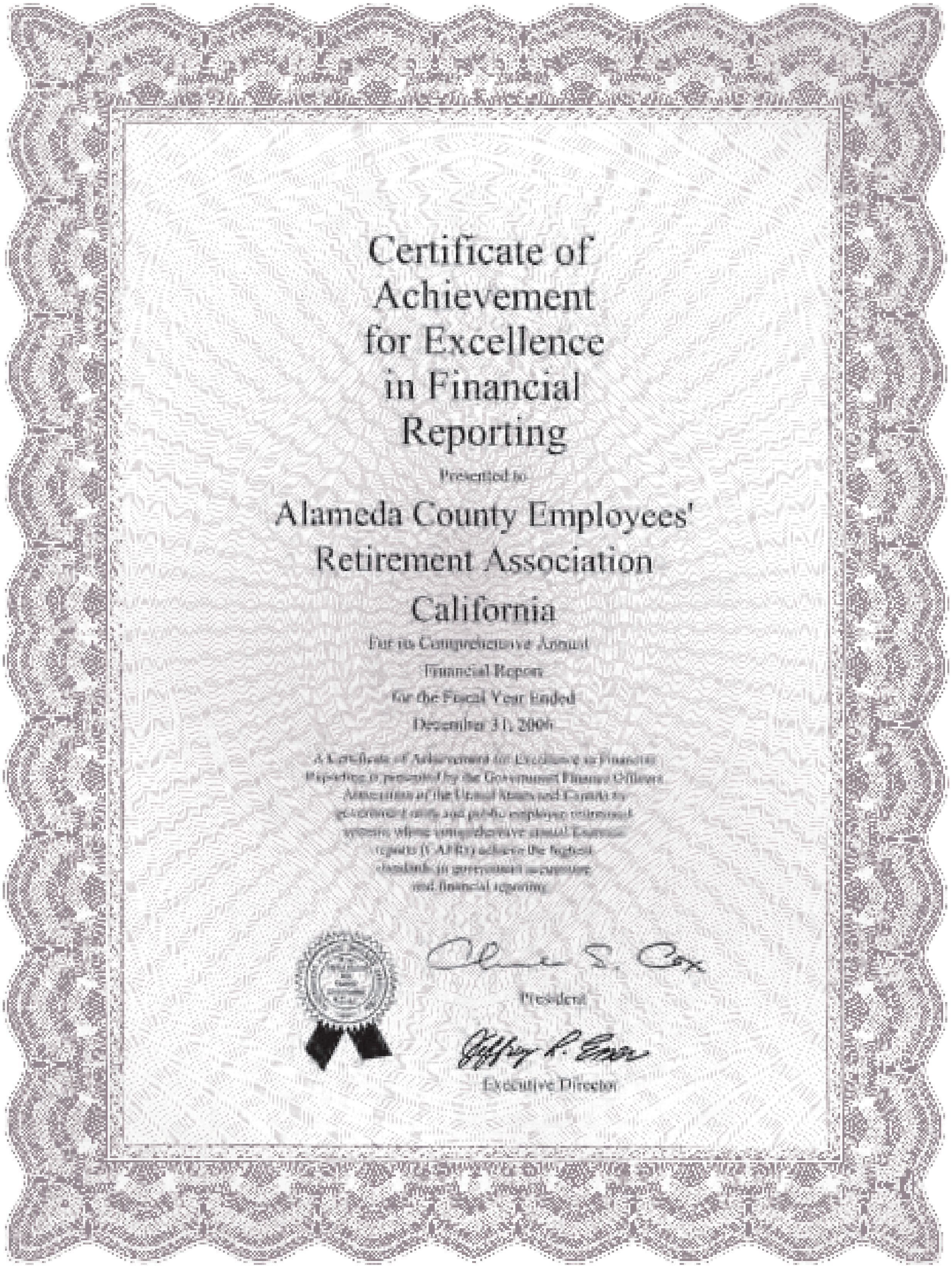
[1] Investment Professionals are listed on page 69 of this report.



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, 2006

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

President

Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999, 2000, 2001, 2002, 2003, 2004, 2005

F. Dennis Valentine

1

Year Hired:

1971

2

First Job:

Started out as a laborer in Maintenance & Construction (M&C), working on the crews that maintain over 300 miles of flood control channels located throughout the county.

3

Last Job:

Field Supervisor I of the M&C troubleshooting crew.

4

Career Memory:

Back when flood control was fairly new, I had real good mentors and tried to glean as much knowledge and experience to make things easier on the men and women I eventually supervised. During the Oakland Hills fires, all of us in flood control were on 24-hour call, expediting crews and coordinating with fire departments and the Coast Guard. We worked long hours and didn't eat too much, but we didn't mind. It was pretty sad to see people lose everything.

5

Date Retired:

June 15, 2007 from the Public Works Department

*

On Retirement:

I'm a Tier I and have nothing to complain about. For 36 years I was able to take care of my family real well. I tell the young, with the County you don't worry...you can put money in deferred compensation, which really accumulates. Now my wife and I are enjoying retirement thoroughly. We're not world travelers but we get away to the coast with family and relax at favorite restaurants.

Advice:

Be wise with spending and keep your nose clean. Do your work and do it well, and everything will be okay. Don't carry grudges or have a chip on your shoulder. You'll miss the folks you worked with. I still meet them out in the field for coffee now and just talk.

Section 2

FINANCIAL

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, 2007 and 2006, 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, 2007 and 2006, 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. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27* for the year ended December 31, 2007; and 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 30, 2008 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 important for assessing the results of our audits.

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

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

The management's discussion and analysis on pages 16-22 and the schedules of funding progress and employer contributions on pages 50-52 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit this information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the basic financial statements taken as a whole. The schedules of investment expenses, payments to consultants, and administration expense on pages 54 and 55 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 expense 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 30, 2008

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 Postemployment Medical Benefits, and the Non-OPEB Benefits for the years ended December 31, 2007 and 2006. 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 2007 were $5.6 billion (net assets held in trust for Pension, Postemployment 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 $364.7 million more than the prior year. The increase of 7% primarily was a result of investment returns.
- ACERA's funding objective is to meet benefit obligations through contributions and investment income. As of December 31, 2006, the date of ACERA's most recent actuarial valuation, the funded ratio for ACERA's Pension Plan was 85.5%. In general, this indicates that for every dollar of benefit obligations, ACERA has about $0.86 of assets to cover that dollar.
- Total additions to ACERA's net assets for the year were $661.5 million. These include employer contributions of $130.0 million, member contributions of $72.4 million, and net investment income of $431.8 million, which includes miscellaneous income of $0.9 million. Total additions to ACERA's net assets were $199.3 million lower than those in 2006 primarily because the net investment income in 2007 of $430.9 million was lower than the 2006 net investment income of $637.8. The net investment income in 2007 decreased by $206.9 million, or 32%, from the prior year. This is partially offset by an increase of $2.9 million in employer contributions, $2.2 million in member contributions, and $8.3 million for Postemployment Medical Benefit Transfers.
- Total deductions from plan net assets for the year were $296.8 million. These include $218.6 million for pension benefit payments, $6.2 million for Non-OPEB benefits payments, $24.7 million for the Postemployment medical benefit payments, $7.8 million for member refunds, and $12.2 million for administration expense. In addition, there was a transfer of $27.3 million from the Postemployment Medical Benefits to the Pension Plan for medical benefits. Total deductions for 2007 were $26.9 million higher than for 2006, primarily due to an increase of $19.0 million in benefit payments. This increase was caused by a net

increase in the number of retirees and beneficiaries and the fact that the higher average retirement allowance of those added to the retirement payroll exceeded the average allowance of those removed. The Postemployment Medical Benefit transfers were higher by $8.3 million, Postemployment medical program expenses were higher by $2.5 million, member refunds were higher by $2.0 million, and administrative expenses were higher by $1.4 million. This was partially offset by the implicit subsidy transfer of $6.3 million reported in 2006 for the years 2005 and 2006. No such deduction is reflected in 2007 since the Board has not approved the $3.1 million implicit subsidy transfer.

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.

The *Statements of ACERA's Net Assets* show a snapshot of account balances at year-end. Also, it indicates the assets available for future benefit payments as well as current liabilities outstanding at year-end.

The *Statements 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 depreciated component of capital assets is depreciated over its useful life.

The financial statements report ACERA's net assets held in trust for Pension Benefits, Postemployment Medical Benefits and Non-OPEB Benefits (plan net assets) as one way to measure the system's financial position. The Pension Plan's funded ratio (actuarial valuation assets divided by actuarial liabilities) improved from 83.2% in 2005 to 85.5% in 2006. According to the Supplemental Retirees Benefits Reserve (SRBR) actuarial valuation completed as of December 31, 2006, the Postemployment Medical Benefits, and the Non-OPEB Benefits were 83.9% and 35.6% funded, respectively. The increase in ACERA's net assets for the year ended December 31, 2007 was 7%. This increase is predominately due to appreciation of the fair value of investments during the year. ACERA's total gross fund return of 8.8% for the year came very close to ACERA's current 8.0% actuarial assumed interest rate. Additionally, ACERA has a net deferred investment gain of $257.1 million that will be used to increase net actuarial assets or to reduce or offset the actual loss over the next five years.

Statements of ACERA's Net Assets and Statements 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 26–49.

The notes to the Financial Statements and the Required Supplementary Information show ACERA's funding progress with obligations to provide Pension, Postemployment 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 50–52 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 Postemployment Benefits as of December 31, 2007 totaled $5.6 billion. This amount is $364.7 million or 7% more than the prior year amount. This result essentially reflects the 7% increase in the fair value of ACERA's investments from 2006 to 2007.

Plan net assets had a net increase of 13% in 2006 due to a 14% increase in the fair value of investments during the year. The Investment Section provides further details about ACERA's investment performance and management's strict adherence to ACERA's *Investment Guidelines, Policies, and Procedures*.

Current Assets

Current assets grew from $852.2 million in 2006 to $923.8 million in 2007. The main components of current assets were as follows: (1) securities lending cash collateral of $754.2 million, (2) receivables for unsettled securities sales of $7.2 million, (3) cash collateral of $103.9 million related to ACERA's obligation to replace equity securities sold short (reported as an investment receivable), and (4) $35.4 million in other investment receivables. The remaining balance in current assets represents cash of $7.1 million, contributions receivable of $15.2 million, prepaid expenses of $0.5 million, and other receivables of $0.3 million. Regarding the securities lending cash collateral, an equal amount of offsetting securities lending liability was reported as part of ACERA's current liabilities.

Table 1: ACERA's Net Assets (Condensed)

As of December 31, 2007 and 2006 (Dollars in Millions)

	2007	2006	Increase (Decrease) Amount	Percent Change
Current Assets	$ 923.8	$ 852.2	$ 71.6	8%
Investments at Fair Value	5,529.4	5,184.3	345.1	7%
Capital Assets, net	2.0	3.1	(1.1)	–35%
Total Assets	**6,455.2**	**6,039.6**	**415.6**	**7%**
Current Liabilities	880.4	829.5	50.9	6%
Total Liabilities	**880.4**	**829.5**	**50.9**	**6%**
ACERA's Net Assets	**$5,574.8**	**$5,210.1**	**$364.7**	**7%**

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%**

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

For the Years Ended December 31, 2007 and 2006 (Dollars in Millions)

	2007	2006	Increase (Decrease) Amount	Percent Change
ADDITIONS				
Member Contributions	$ 72.4	$ 70.2	$ 2.2	3%
Employer Contributions	130.0	127.1	2.9	2%
Net Investment Income	430.9	637.8	(206.9)	–32%
Other Income	0.9	0.4	0.5	125%
Postemployment Medical Benefits Transfers on Behalf of Employers	27.3	19.0	8.3	44%
Employer Implicit Subsidy from Postemployment Medical Benefits	-	6.3	(6.3)	–100%
Total Additions	**661.5**	**860.8**	**(199.3)**	**–23%**
DEDUCTIONS				
Retirement Benefit Payments	224.8	205.8	19.0	9%
Postemployment Medical Benefits	24.7	22.2	2.5	11%
Postemployment Medical Benefits Transfers to Pension Plan on Behalf of Employers	27.3	19.0	8.3	44%
Member Refunds	7.8	5.8	2.0	34%
Employer Implicit Subsidy to Pension Plan	-	6.3	(6.3)	–100%
Administration	12.2	10.8	1.4	13%
Total Deductions	**296.8**	**269.9**	**26.9**	**10%**
Beginning ACERA's Net Assets	**5,210.1**	**4,619.2**	**590.9**	**13%**
Increase in ACERA's Net Assets	**364.7**	**590.9**	**(226.2)**	**–38%**
Ending ACERA's Net Assets	**$5,574.8**	**$5,210.1**	**$ 364.7**	**7%**

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	-
Postemployment Medical Benefits Transfers on Behalf of Employers	19.0	-	19.0	-
Employer Implicit Subsidy from Postemployment 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%
Postemployment Medical Benefits	22.2	22.0	0.2	1%
Postemployment 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%**

The net increase in current assets was $71.6 million during 2007. The growth of $66.9 million in securities lending cash collateral due to a higher level of securities lending activity combined with an increase of $4.6 million in cash balance predominately explains the increase in current assets from the prior year. Current assets increased by only $58.5 million in 2006. This was mainly due to the increased securities lending activity.

Investments

The fair value of ACERA's investments grew from $5,184.3 million in 2006 to $5,529.4 million in 2007, an increase of $345.1 million or 7%. 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 2007 exceeded deductions from ACERA's net assets by $364.7 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 discussed on page 21). In 2006, the fair value of investments increased $625.5 million, or 14%, due to an excess of plan additions over deductions in that year of $590.9 million, which was due to significantly higher net investment income.

Capital Assets

ACERA's capital assets (net of accumulated depreciation and amortization) balance declined from $3.1 million in 2006 to $2.0 million in 2007. The $1.1 million 2007 capital assets (net) balance decrease was largely due to scheduled depreciation and amortization of $1.2 million. Capital assets include information systems, equipment, furniture, leasehold improvements, and construction-in-progress. In 2007 there were no significant capital expenses.

The balance of ACERA's capital assets (net of accumulated depreciation and amortization) declined from $4.3 million in 2005 to $3.1 million in 2006. This decline was also primarily due to scheduled depreciation and amortization of $1.5 million, which was offset by a $0.3 million addition in equipment and furniture.

Current Liabilities

Current liabilities increased from $829.5 million in 2006 to $880.4 million in 2007. The main components of current liabilities were securities lending cash collateral of $754.2 million, payables for unsettled securities purchases of $9.2 million, payables for equity securities sold short of $105.8 million, other investment-related payables of $6.8 million, and a combined total of $4.4 million for other payables, including accrued administration expenses, member benefits, refunds, and other.

Current liabilities increased by $50.9 million for 2007. The net increase in current liabilities was primarily due to an increase of $66.9 million in securities lending cash collateral, which was partially offset by member benefits, and refund related payables. Current liabilities increased by $91.9 million for 2006, mainly due to an increase in securities lending cash collateral of $212.7 million, which was in large part offset by a reduction in investment payables related to unsettled trades.

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 $364.7 million and $590.9 million for the years ended December 31, 2007 and 2006 respectively. The magnitude of these increases was largely due to the favorable net investment income earned during 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, 2007 and 2006 totaled $661.5 million and $860.8 million, respectively. For 2007, the $199.3 million reduction in additions to ACERA's net assets versus prior year additions was primarily due to a decrease in net investment income of $206.9 million, or 32%, and an offsetting increase of $8.3 million for Postemployment Benefit transfer. For 2006, overall additions to plan net assets versus prior year additions increased by $337.8 million, which was mainly due to an increase of $279.8 million or 78% in net investment income.

Employer Contributions

Total employer contributions for 2007 were $130.0 million, up $2.9 million over the prior year, primarily as a result of a pensionable wage increase of 7.4% from prior year. This increase was partially offset by an average employer rate decrease, which became effective as of September 2007 based on the actuarial investment return assumption of 8% for the 2006 valuation. Total employer contributions for 2006 were $26.3 million higher than in 2005 due to an increase in the average contribution rate along with the moderate aggregate payroll increase. The average employer rate increase was mainly due to changes in actuarial assumptions, including changes in the actuarial interest rate of 7.9% along with other changes in demographic assumptions.

Member Contributions

Total member contributions for 2007 were $72.4 million. This $2.2 million increase over 2006 was mainly due to higher compensation. 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 $6.0 million in 2006 over 2005. This increase resulted from a higher compensation and modest increase in member contribution rates.

Net Investment Income

For 2007, the net investment income of $430.9 million was 32% lower compared to 2006. The lower investment income reflected the year-on-year decrease in ACERA's total gross investment return of 8.8% in 2007 compared to 14.4% in 2006. The 2007 investment return was 60 basis points below the plan's policy index return of 9.4%. However, it was 50 basis points above the average large public fund return, and it exceeded ACERA's current 8.0% actuarial rate of return expectation. The Investment Section of this report describes investment results in greater detail.

For 2006, net investment income was $637.8 million, a 78% increase from the 2005 amount. This investment income increase reflected the year-on-year increase in ACERA's total gross investment return from 14.4% in 2006 and from 8.8% in 2005.

Other Income

Other income was $0.9 million in 2007 compared to $0.4 million for the prior year. The increase in the amount of other income resulted primarily from the increased amount of class action litigation settled during the year 2007. Other income was $0.4 million in 2006, compared to zero for 2005, and also resulted from the settlement of class action litigation.

Deductions from ACERA's Net Assets

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

Overall, deductions from ACERA's net assets for 2007 totaled $296.8 million, an increase of $26.9 million or 10% over the prior year. Most of this increase was a result of the fact that retirement benefits rose 9%. As previously stated, there was a transfer of $27.3 million from the Postemployment Medical Benefits to the Pension Plan for medical benefits. Deductions from plan net assets for 2006 increased $43.7 million, or 19%, over the prior year. This increase was also largely due to increases in retirement benefits and Postemployment Medical transfers to the Pension Plan for health benefits and implicit subsidy.

Retirement Benefits

Retirement benefits were $224.8 million, an increase of $19.0 million or 9% 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 the following: (1) the net increase in the number of retirees and beneficiaries for the year and (2) the fact that the average retirement allowance of those who were added to the retirement payroll was much larger than the average retirement allowance of those who were removed from the retirement payroll.

Retirement benefit payments were $205.8 million in 2006, an increase of $18.0 million, or 10%, over 2005. The growth in retirement benefit payments in 2006 occurred for the exact same reasons as the growth in 2007.

Postemployment Medical Benefits

The Postemployment Medical Benefits expense for 2007 was $24.7 million, up $2.5 million or 11% over the prior year largely due to the higher number of retirees receiving these benefits. However, there was no change in the retiree monthly medical allowance benefits from 2006. The Postemployment Medical Benefits expense increased by 1% in 2006. There was no change in the monthly medical allowance in 2006 from the prior year. See Note 6—Postemployment Medical Benefits on page 38 for more information.

Member Refunds

Member refunds were $7.8 million in 2007, an increase of $2.0 million or 34% from 2006. The level of member refunds went down 5% in 2006. Member refunds, which depend on the retirement allowance payment option a member has selected, arise from either member separation from service (termination) or retiree death.

Administration Expense

Administration expense was $12.2 million for 2007. Administration expense covers the basic costs of operating the retirement system. These include staffing, professional fees, office expenses, IT systems, depreciation, and miscellaneous expenses. Approximately half of the administration expense is for staffing (wages, fringe benefits, and temporary labor). Administration expense grew $1.4 million, or 13%, 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 $10.8 million for 2006. Administration expenses for 2006 increased by only 5% over 2005, mainly due to the additional cost of staffing and 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 2007 and for 2006 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 2007 or in 2006.

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 15, 2008

Statements of ACERA's Net Assets

As of December 31, 2007 and 2006 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits	Total 2007	Total 2006
ASSETS					
Cash	$ 7,094	$ -	$ -	$ 7,094	$ 2,498
Securities Lending Cash Collateral	754,202	-	-	754,202	687,289
Receivables					
Contributions	15,203	-	-	15,203	16,263
Investment Receivables	139,198	-	-	139,198	138,519
Unsettled Trades—Investments Sold	7,230	-	-	7,230	6,941
Other Receivables	344	-	-	344	261
Total Receivables	**161,975**	**-**	**-**	**161,975**	**161,984**
Prepaid Expenses	513	-	-	513	465
Total Current Assets	**923,784**	**-**	**-**	**923,784**	**852,236**
Investments at Fair Value					
Short-Term Investments	164,745	-	-	164,745	123,332
Domestic Equities	1,267,870	-	-	1,267,870	1,197,954
Domestic Equity Commingled Funds	851,607	-	-	851,607	936,556
International Equities	1,378,007	-	-	1,378,007	1,223,732
International Equity Commingled Funds	61,607	-	-	61,607	53,808
Domestic Fixed Income	1,135,462	-	-	1,135,462	1,109,634
International Fixed Income	288,227	-	-	288,227	264,210
Real Estate—Separate Properties	114,985	-	-	114,985	144,007
Real Estate—Commingled Funds	261,976	-	-	261,976	130,404
Futures Contracts—Equity Index	-	-	-	-	130
Equity Index Swaps	476	-	-	476	-
Currency Swaps	4,417	-	-	4,417	485
Total Investments	**5,529,379**	**-**	**-**	**5,529,379**	**5,184,252**
Due from Pension Plan	(695,961)	617,535	78,426	-	-
Capital Assets at Cost (Net of Accumulated Depreciation and Amortization)	1,988	-	-	1,988	3,085
Total Assets	**5,759,190**	**617,535**	**78,426**	**6,455,151**	**6,039,573**
LIABILITIES					
Securities Lending Liability	754,202	-	-	754,202	687,289
Unsettled Trades—Investments Purchased	9,250	-	-	9,250	25,171
Investment-Related Payables	110,245	-	-	110,245	107,560
Futures Contracts	1,765	-	-	1,765	-
Equity Index Swaps	528	-	-	528	-
Currency Swaps	90	-	-	90	3,371
Accrued Administration Expenses	1,693	-	-	1,693	1,680
Members Benefits & Refunds Payable	1,781	-	-	1,781	3,426
Retirement Payroll Deductions Payable	20	-	-	20	4
Other Payables	797	-	-	797	971
Total Liabilities	**880,371**	**-**	**-**	**880,371**	**829,472**
Net Assets Held in Trust for Benefits	**$ 4,878,819**	**$617,535**	**$78,426**	**$5,574,780**	**$5,210,101**

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

Statements of Changes in ACERA's Net Assets

For the Years Ended December 31, 2007 and 2006 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits	Total 2007	Total 2006
ADDITIONS					
Contributions					
Member	$ 72,342	$ -	$ -	$ 72,342	$ 70,174
Employer	102,749	27,291	-	130,040	127,096
Total Contributions	**175,091**	**27,291**	**-**	**202,382**	**197,270**
Investment Income					
From Investment Activities:					
Net Appreciation in Fair Value of Investments	278,308	-	-	278,308	515,523
Dividends, Interest, & Net Real Estate Operating Income	173,174	-	-	173,174	141,739
Total Income from Investment Activities	451,482	-	-	451,482	657,262
Total Investment Expenses	(24,355)	-	-	(24,355)	(21,060)
Net Income from Investment Activities	**427,127**	**-**	**-**	**427,127**	**636,202**
From Securities Lending Activities:					
Securities Lending Income	46,498	-	-	46,498	30,409
Securities Lending Expenses					
Borrower Rebates	(41,778)	-	-	(41,778)	(28,367)
Management Fees	(944)	-	-	(944)	(400)
Total Securities Lending Activity Expenses	**(42,722)**	**-**	**-**	**(42,722)**	**(28,767)**
Net Income from Securities Lending Activities	3,776	-	-	3,776	1,642
Earnings Allocated to OPEB and Non-OPEB Reserves	(164,264)	145,957	18,307	-	-
Total Net Investment Income	**266,639**	**145,957**	**18,307**	**430,903**	**637,844**
Miscellaneous Income	886	-	-	886	461
Transfer from Postemployment Medical Benefits on Behalf of Employers	27,291	-	-	27,291	19,008
Transfer from Postemployment Medical Benefits for Behalf of Employers	-	-	-	-	6,304
Total Additions	**$ 469,907**	**$ 173,248**	**$ 18,307**	**$ 661,462**	**$ 860,887**

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

For the Years Ended December 31, 2007 and 2006 (Dollars in Thousands)

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits	Total 2007	Total 2006
DEDUCTIONS					
Benefits					
Service Retirement and Disability Benefits	$ 216,836	$ -	$ 811	$ 217,647	$ 198,635
Death Benefits	1,782	-	-	1,782	1,840
Burial Benefits	-	-	1,032	1,032	748
Supplemental Cost of Living Allowance	-	-	4,374	4,374	4,622
Postemployment Medical Benefits	-	24,668	-	24,668	22,205
Total Benefit Payments	**218,618**	**24,668**	**6,217**	**249,503**	**228,050**
Member Refunds	7,778	-	-	7,778	5,817
Administration					
Administrative Expenses	9,597	-	-	9,597	8,714
Legal Expenses	2,160	-	-	2,160	1,821
Actuarial Expenses	249	-	-	249	204
Business Continuity Expenses	205	-	-	205	39
Total Administration	**12,211**	**-**	**-**	**12,211**	**10,778**
Transfer to Pension Plan on Behalf of Employers	-	27,291	-	27,291	19,008
Transfer to Pension Plan for Employers Implicit Subsidy	-	-	-	-	6,304
Total Deductions	**238,607**	**51,959**	**6,217**	**296,783**	**269,957**
Excess of Additions over Deductions	**231,300**	**121,289**	**12,090**	**364,679**	**590,930**
NET ASSETS HELD IN TRUST FOR BENEFITS					
January 1	**4,647,519**	**496,246**	**66,336**	**5,210,101**	**4,619,171**
December 31	**$ 4,878,819**	**$ 617,535**	**$ 78,426**	**$ 5,574,780**	**$ 5,210,101**

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 pooled account share earnings and losses proportionately.

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

Investment Income

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

Securities Lending Activity

Securities lending transactions are short-term collateralized loans of ACERA securities for the purpose of generating additional investment income.

For each lending transaction, ACERA receives either cash collateral or non-cash collateral.

The underlying securities out on loan are reported on ACERA's statements 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 statements 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 statements 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, equity index 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 and equity index 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.

Implementation of New Accounting Principle

ACERA has adopted early implementation of Governmental Accounting Standards Board (GASB) Statement No. 50, Pension Disclosures—an Amendment of GASB Statements No. 25 and No. 27. This Statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits (OPEB). The reporting changes required by this Statement amend applicable note disclosures and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and* No. 27, *Accounting for Pensions by State and Local Governmental Employers,* to conform with requirements of Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and* No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

ACERA implemented 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*.

GASB Statement No. 43 establishes uniform financial reporting standards for other Postemployment benefits (OPEB) plans. OPEB includes Postemployment healthcare, as well as other forms of Postemployment benefits (for example, life insurance) when provided separately from a pension plan. Postemployment 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 Postemployment benefit plans.

Postemployment healthcare benefits currently provided by ACERA include medical, dental, and vision benefits. These benefits are reported in the Postemployment Medical Benefits in the financial statements consistent with GASB Statement No. 43. Other forms of Postemployment 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 Postemployment 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 Postemployment 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 govern 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 Postemployment 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 the use of the SRBR funds to the Board of Retirement. Supplemental benefits currently provided through the SRBR include supplemental COLA, supplemental retired member death benefits, active death equity benefit and the retiree monthly medical allowance, vision, dental, and Medicare Part B coverage (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 Postemployment 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, deferred firefighters, 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, 2007 and 2006

	2007	2006
Members Now Receiving Benefits		
Service Retirement	5,362	5,156
Disability Retirement	779	751
Beneficiaries and Survivors	1,103	985
Subtotal	**7,244**	**6,892**
Active Members		
Active Vested Members	8,031	7,683
Active Non-vested Members	2,949	2,993
Subtotal	**10,980**	**10,676**
Deferred Members	1,766	1,658
Total Membership	**19,990**	**19,226**

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 subsequently change to part-time employment 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, or age 70, regardless of service years.

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 2007 COLA increase granted for Tier 1 and Tier 2 members was determined by the members' retirement date:

1. Tier 1 benefit recipients as of April 1, 2007 received a 3.0% COLA adjustment.
2. Tier 2 benefit recipients, as of April 1, 2007, received a 2.0% COLA adjustment.

Postemployment Medical Benefits

ACERA administers a medical benefits program for retired members. Benefits include monthly medical allowances, Medicare Part B premium reimbursements. However, all retirees are entitled to dental and vision coverage. 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 if they enroll in one of the ACERA-sponsored medical plans. 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 Postemployment dental and vision benefits.

Non-OPEB Benefits

ACERA also provides other non-health Postemployment 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.

The active death equity benefit is available to active members with five or more years of service credit. 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.

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 Postemployment 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). The Pension Plan under the 1937 Act, has no legal or contractual maximum contribution rates.

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 2007). Each pair of percentages ranges from youngest to oldest age-at-date-of-entry within the category.

Current Member Contribution Rates

Effective September 2007

Rates: Youngest to Oldest at Date of Entry

Tier 1: (entry date prior to July 1, 1983)	
General	9.38%–13.76%
Safety	15.55%–19.62%
Tier 2: (entry date July 1, 1983 or later)	
General	6.29%–10.22%
Safety	12.67%–17.30%

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).

Postemployment 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 semi-annually 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 Postemployment Medical Benefits and Non-OPEB Benefits are part of the SRBR.

In accordance with federal tax law, the Postemployment 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 Postemployment 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 Postemployment Medical Benefits and Non-OPEB Benefits. These Postemployment 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 $27 million in the year ended December 31, 2007 and $34 million in the year ended December 31, 2006.

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 statements 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 ended June 30 and December 31. It involves spreading the difference between actual and expected market return over ten successive semi-annual periods.

Semi-annual Interest Crediting

ACERA updates reserve balances on a semi-annual basis as of June 30 and December 31 each year. At these times, ACERA carries out a multi-step process to calculate new reserve balances as specified in Article 5.5 of the 1937 Act. The amount of "net earnings" to be credited for the semi-annual period is calculated based on the actuarial smoothing process described above. To the extent that net earnings are available, interest is credited at the actuarial assumed interest rate to specified components of reserves in a prescribed sequence and to the Contingency Reserve. Of any excess net earnings remaining, 50% is credited to the Supplemental Retiree Benefit Reserve and the remaining 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 Postemployment insurance subsidies, Medicare Part B reimbursement, vision, dental, supplemental COLA, increased death benefits to retirees, and employers implicit subsidy payments.

Effective as of December 31, 2006, the Board of Retirement approved an allocation from the SRBR and other reserves to the Postemployment Medical Benefits and Non-OPEB Benefits Reserves. The balances in these allocations as of December 31, 2007 are $617.5 million and $78.4 million. For December 31, 2006, the balances were $496.2 million and $66.3 million, respectively.

The Postemployment Medical Benefits Reserve represents funds used to pay for retiree insurance subsidies 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 Postemployment Medical Benefits Reserve supplements the employer

Reserves

As of December 31, 2007 and 2006 (Dollars in Thousands)

2007	Pension	Postemployment Medical Benefits	Non-OPEB Benefits	Total
Member Reserve	$ 1,088,497	$ -	$ -	$ 1,088,497
Employers' Advance Reserve	397,398	-	-	397,398
Retired Member Reserve	3,071,228	-	-	3,071,228
Supplemental Retiree Benefit Reserve				
Postemployment Medical Benefits Reserve	-	617,535	-	617,535
Non-OPEB Benefits Reserve	-	-	78,426	78,426
Contingency Reserve	64,552	-	-	64,552
Market Stabilization Reserve	257,144	-	-	257,144
Total Reserves	**$4,878,819**	**$617,535**	**$78,426**	**$5,574,780**

2006	Pension	Postemployment 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				
Postemployment 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**

contributions when they make contributions to the 401(h) account. For the years ended December 31, 2007 and 2006, the employers funded $27.3 million and $19.0 million towards the 401(h) contributions, and an equal amount was transferred from the Postemployment Medical Benefits Reserve to supplement the employer contributions. The reserve is increased through excess investment earnings. The transfer of $24.7 million of Postemployment Medical Benefits is reflected as a deduction.

The Non-OPEB Benefit Reserve is used to pay for the supplemental COLA and death benefits. For the years ended December 31, 2007 and 2006 $4.4 million and $4.6 million was paid from the Non-OPEB Benefits Reserve for supplemental COLA. A combined amount of $1.8 million in death benefits and continuance payments for deceased members was paid for each of the years ended December 31, 2007 and 2006. The reserve is increased through net regular and excess investment earnings.

The Contingency Reserve represents reserves a ccumulated 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 2007 and 2006

For the years ended December 31, 2007 and 2006, ACERA's allocations of earnings to reserves were a total amount of $419.6 million and $627.5 million, respectively; $4.2 million and $7.7 million were allocated to the Contingency Reserve for the years ended December 31, 2007 and 2006, respectively, to maintain the Contingency Reserve balance at 1% of total assets. The Market Stabilization Reserve dropped by $202.1 million for 2007 and increased by $186.6 million for the year ended December 31, 2006 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 Postemployment Medical Benefits and the Non-OPEB Benefits.

Pension Plan

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. For the Pension Plan, the actuarial assumptions have been selected in order to estimate as closely as possible what the actual cost of the plan will be so as to permit an orderly method for setting aside contributions today to provide benefits in the future, and to maintain equity among generations of participants and taxpayers.

Contribution requirements are determined under the entry age normal actuarial cost method. This method is designed to collect contributions as a level percentage of pay. Any gains or losses that occur under this method are amortized as a level percentage of pay. To minimize any investment gains or losses, the Board of Retirement has adopted a smoothing process that involves spreading the difference between actual and expected market return over ten successive semi-annual periods to determine the actuarial value of assets.

The information for funded status of the Pension Plan, which includes the funded ratio, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial accrued liability, the annual covered payroll, and the ratio of unfunded actuarial accrued liability to annual covered payroll are all presented on Status and Funding Progress—Pension Plan table. There are no legal or contractual

The funded status of the Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits as of December 31, 2006, the most recent actuarial valuation date, is as follows:

Status and Funding Progress – Pension Plan

(Dollars in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) [2] (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
$4,127,841 [3]	$4,825,157	$ 697,316	85.5	$ 762,139	91.5

[1] Excludes assets for SRBR and other non-valuation reserves.

[2] Excludes liabilities for SRBR and other non-valuation reserves.

[3] Includes $6,303,514 in reimbursement of implicit retiree health benefit subsidy paid to the County for 2005 and 2006.

Status and Funding Progress – Postemployment Medical Benefits

(Dollars in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
			Without Limit [2]		
$ 496,200	$ 591,400	$ 95,200	83.9	$ 762,139	12.5

[1] Amount of SRBR assets allocated to the Postemployment Medical Benefits Reserve.

[2] The funded status for the Postemployment Medical Benefits does not explicitly incorporate the potential effect of legal or contractual funding limitations. Please refer to Required Supplementary Information and Supporting Schedules for limitations imposed under Article 5.5 of the County Employees Retirement Law of 1937.

Status and Funding Progress – Non-OPEB Benefits

(Dollars in Thousands)

Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
			Without Limit [2]		
$ 66,300	$ 186,300	$ 120,000	35.6	$ 762,139	15.7

[1] Amount of SRBR assets allocated to the Non-OPEB Benefits Reserve to provide for Supplemental COLA and death benefits, which are Non-OPEB benefits.

[2] The funded status for the Non-OPEB Benefits does not explicitly incorporate the potential effect of legal or contractual funding limitations. Please refer to Required Supplementary Information and Supporting Schedules for limitations imposed under Article 5.5 of the County Employees Retirement Law of 1937.

maximum contribution rates under the County Employees Retirement Law of 1937 that would affect the projection of benefits for financial reporting purposes.

SRBR

The Postemployment Medical Benefit Reserve and the Non-OPEB Benefit Reserve available to fund Supplemental COLA and death benefits as of December 31, 2007 are $617.5 million and $78.4 million, respectively.

The December 31, 2006 actuarial valuation determined that the Postemployment Medical Benefits was 83.9% funded using the GASB guidelines which assume a substantive plan that will continue into perpetuity. The Postemployment Medical Benefits and Non-OPEB Benefits funded status consist of the funded ratio, the actuarial accrued liability, the actuarial value of assets, the unfunded actuarial accrued liability, the annual covered payroll, and the ratio of unfunded actuarial accrued liability to annual covered payroll. The funding progress as of the most recent actuarial valuation date for the Postemployment Medical Benefits and Non-OPEB Benefits is presented in two separate tables as shown on page 36.

Under current actuarial assumptions, it is anticipated that the SRBR will be sufficient to fund the following: (1) The Postemployment Medical Benefits through year 2025; and (2) the Supplemental COLA and death benefits program through year 2024.

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, clarifies that the benefits provided by the Supplemental COLA and death benefits program be considered as Pension Benefits and should be reported consistent with GASB Statement No. 25.

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

These projection results for Pension Plan, Postemployment Medical Benefits, and Non-OPEB Benefits are based on the following actuarial methods and assumptions:

	Pension Plan	Postemployment Medical Benefits	Non-OPEB Benefits
Valuation Date	12/31/06		
Actuarial Cost Method	Entry Age Normal		
Amortization of UAAL	Closed period 30 years (decreasing)		
Remaining Amortization Period	26 years	29 years	29 years
Assets Valuation Method	Difference between actual and expected market return smoothed over ten 6-months periods		
Actuarial Assumptions	Interest Rate: 8.00% Inflation Rate: 3.75% Across-the-Board Salary Increases: 0.25% Salary Increases: General 4.73% – 7.68% Safety 4.26% – 7.61% Demographic: refer to page 76		
Healthcare Cost Trend Rates Monthly Medical Allowance (MMA)		Graded down from 9% by 0.5% per annum until ultimate rate of 5%	
Dental and Vision		5%	
Medicare Part B		5%	
Postemployment Benefit Increases	For Tier 1 Members: 3.00% For Tier 2 Members: 2.00%	Dental & vision and Medicare Part B subsidies are assumed to increase at 100% of the healthcare cost trend rates for these benefits. MMA subsidies are assumed to increase at 50% of the healthcare cost trend rates for the MMA benefit.	Supplemental COLA benefits are assumed to increase by the difference between inflation and the cost-of-living benefit guaranteed in the pension plan (3.00% for Tier 1 and 2.00% for Tier 2), subject to other limitations.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The required schedules of funding progress immediately following the notes to the basic financial statements present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits. The calculation of the unfunded actuarial accrued liabilities each year is based on the benefits provided under the terms of the respective plan in effect at the time of each valuation and on the pattern of cost sharing between the employer and plan members up to that date.

6. POSTEMPLOYMENT 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 early retirees not yet medicare-eligible 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 for the blended medical premium rates for the years 2005 and 2006 was $6.3 million, and for year 2007 was $3.1 million. The implicit subsidy of $6.3 million for the years 2005 and 2006 was reported as an addition to the Pension Plan and as a deduction from the Postemployment Medical Benefits in the year 2006. The transfer of $3.1 million from the Postemployment Medical Benefits to the Pension Plan for the 2007 implicit subsidy is not reflected in the financial statements since the Board has not approved the transfer. As of December 31, 2007 approximately 76% of ACERA retirees purchased medical and 98% of retirees enrolled in vision and dental through this program during 2007.

For several years, ACERA retirees have been eligible to receive a subsidy for medical premiums funded by ACERA's Supplemental Retiree Benefit Reserve. This subsidy takes the form of a monthly medical allowance. 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, 2007 and 2006
(Dollars in Thousands)

	2007	2006
County's Medical Premium Account Balance	$ 2,978	$ 292
Health Insurance Subsidies Paid	$ 24,668	$ 22,205
Number of Subsidized Retirees		
Medical	4,639	4,550
Medicare Part B	2,700	2,546
Dental	5,995	5,809
Vision	5,995	5,809

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:

a. "The members of the retirement board shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system.

b. The members of the retirement board shall discharge their duties 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 with like aims.

c. The members of the retirement board 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 not prudent 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, 2007, eleven external investment managers managed securities portfolios and seven 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, 2007 and 2006, ACERA held \$219.1 million and \$192.8 million in Collateralized Mortgage Obligations respectively. In addition, there was a net exposure of \$3.1 million in combined fair value for currency forward contracts, stock index futures and equity index swaps as of December 31, 2007 and a net exposure of (\$2.5) as of December 31, 2006.

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, 2007 and 2006, on behalf of ACERA, the securities lending agent lent ACERA securities (government bonds, corporate stocks, corporate bonds, and international equities and fixed income) 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, 2007 and 2006 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, 2007 and 2006 resulting from a default of the borrowers or the securities lending agent.

For the years ended December 31, 2007 and 2006, 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, 2007 and 2006, this investment pool had an average duration of 40 and 59 days, and an average weighted maturity of 476 and 539 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, 2007 and 2006, 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, 2007 and 2006, ACERA had securities on loan with a total fair value of $745.0 million and $696.7 million, respectively and the cash collateral held against the loaned securities of $754.2 million and $687.3 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 $1.4 million and $1.2 million, as of December 31, 2007 and 2006 respectively. The cash held in the Alameda County Treasurer's investment pool was $5.7 million and $1.3 million as of December 31, 2007 and 2006, 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 ($10.8 million and $10.3 million as of December 31, 2007 and 2006, respectively) and cash in a margin account for the long-short equity arbitrage investment program ($103.8 million and $106.7 million, as of December 31, 2007 and 2006, 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, 2007 and 2006, ACERA had no investments in a single issuer that equaled or exceeded 5% of ACERA's net assets.

Credit Risk

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

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

Credit Risk Analysis

As of December 31, 2007 (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	$ 219,136	$ 134,826	$ -	$ -	$ -	$ -	$ -	$ -	$ 84,310
Convertible Bonds	14,895	-	-	-	633	199	6,608	4,271	3,184
Corporate Bonds	591,244	41,356	57,228	103,782	209,606	52,542	69,680	27,033	30,017
Federal Home Loan Mortgage Corp.	34,916	34,916	-	-	-	-	-	-	-
Federal National Mortgage Assn.	111,369	111,369	-	-	-	-	-	-	-
Government Issues	322,302	218,646	-	45,529	19,903	19,288	-	-	18,936
Government National Mortgage Assn. I, II	989	989	-	-	-	-	-	-	-
Other Asset-Backed Securities	128,838	116,609	6,258	-	4,274	1,697	-	-	-
Subtotal Debt Investments	**1,423,689**	**658,711**	**63,486**	**149,311**	**234,416**	**73,726**	**76,288**	**31,304**	**136,447**
External Investment Pools of Debt Securities									
Securities Lending Cash Collateral Fund	754,202	-	-	-	-	-	-	-	754,202
Master Custodian Short-term Investment Fund	121,459	-	-	-	-	-	-	-	121,459
Subtotal External Investment Pools	**875,661**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**875,661**
Total	**$2,299,350**	**$658,711**	**$63,486**	**$149,311**	**$234,416**	**$73,726**	**$76,288**	**$31,304**	**$1,012,108**

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	5,801
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**

[1] Adjusted Moody's Investor Services (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 Standard & Poor's (S&P) Credit 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 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, 2007 and 2006.

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 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

Interest Rate Risk Analysis—Duration

As of December 31, 2007 and 2006 (Dollars in Thousands)

	2007		2006	
Debt Investments by Type	**Fair Value**	**Duration in Years**	**Fair Value**	**Duration in Years**
Collateralized Mortgage Obligations	$ 219,136	2.7	$ 191,097	2.4
Convertible Bonds	14,895	2.7	21,477	3.2
Corporate Bonds	558,098	7.4	496,802	6.8
Federal Home Loan Mortgage Corp.	34,916	3.4	26,021	3.2
Federal National Mortgage Assn.	111,369	4.2	122,292	3.6
Government Issues	322,302	5.3	364,345	7.5
Government National Mortgage Assn. I, II	989	4.7	1,135	4.4
Other Asset Backed Securities	115,510	2.9	78,586	3.7
Subtotal of Investments with Duration	**1,377,215**		**1,301,755**	
Collateralized Mortgage Obligations	-	-	1,670	No Duration
Corporate Bonds	33,146	No Duration	26,581	No Duration
Government Issues	-	-	12,734	No Duration
Other Asset-Backed Securities	13,328	No Duration	31,104	No Duration
Subtotal of Investments without Duration	**46,474**		**72,089**	
Total of Debt Investments	**$ 1,423,689**		**$ 1,373,844**	
External Investment Pools of Debt Securities	**Fair Value**	**Duration**	**Fair Value**	**Duration**
Securities Lending Cash Collateral Fund	$ 754,202	40 days	$ 687,289	59 days
Master Custodian Short-Term Investment Fund	121,459	15 days	92,521	59 days
AFL-CIO Housing Investment Trust	-	-	50,677	4.4 Years
Total External Investment Pools	**$ 875,661**		**$ 830,487**	

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, 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, 2007 and 2006, 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, 2007 and 2006 (Dollars in Thousands)

Type of Non-Cash Collateral and Custodial Arrangement	2007 Fair Value	2006 Fair Value
US Corporate Bonds, US Equity, and Non-US Equity Collateral—Held with Securities Lending Agent	$ 17,186	$ 2,924
US Treasury and Agency Securities Collateral—Held with Third-Party Custodians	6	29,160
Irrevocable Bank Letters of Credit	285	0
Total Securities Lending Non-Cash Collateral	**$17,477**	**$32,084**

Interest Rate Risk Analysis—Highly Sensitive

Fair Value of Investments with Fair Values Highly Sensitive to Changes in Interest Rates
As of December 31, 2007 and 2006 (Dollars in Thousands)

		2007		2006	
Investment Type	Investment Description	Interest Rates	Fair Value	Interest Rates	Fair Value
Zero Coupon Bond	Privately Placed Securities	Zero-Coupon	$ 11,867	Zero-Coupon	$ 7,731
AFL-CIO Housing Investment Trust	Various Mortgage-related Securities	Various	-	Various	50,677
Total			**$11,867**		**$ 58,408**

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 schedules show 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 Analysis

Fair Value of Investments Exposed to Foreign Currency Risk by Currency
As of December 31, 2007 (Dollars in Thousands)

	Investment Type							
Currency	Common Stock and Depository Receipts	International Equity Mutual Funds	Corporate Bonds	Foreign Currency	Government Issues	Currency Swaps	Equity Index Swaps	Total Exposure Net of Currency Swaps
Argentine Peso	$ -	$ -	$ -	$ -	$ -	$ 3	$ -	$ 3
Australian Dollar	77,290	-	17,384	162	21,234	(164)	-	115,906
Brazilian Real	8,920	-	-	1	-	120	-	9,041
Canadian Dollar	56,176	-	10,099	45	31,035	-	-	97,355
Chilean Peso	-	-	-	-	-	24	-	24
Colombian Peso	-	-	-	-	962	5	-	967
Czech Koruna	-	-	-	-	-	(23)	-	(23)
Danish Krone	4,270	-	-	15	-	6	-	4,291
Egyptian Pound	2,348	-	-	-	-	-	-	2,348
Euro Currency	431,549	-	-	27,680	-	942	-	460,171
Hong Kong Dollar	44,715	-	-	36	-	-	-	44,751
Hungarian Forint	-	-	-	-	-	2	-	2
Iceland Krona	-	-	2,762	-	-	-	-	2,762
Indian Rupee	10,768	-	-	-	-	12	320	11,100
Indonesian Rupiah	6,897	-	5,241	-	8,203	(2)	-	20,339
Israeli Shekel	812	-	-	-	-	10	-	822
Japanese Yen	244,578	-	14,845	1,997	4,394	(125)	-	265,689
Malaysian Ringgit	6,540	-	4,107	-	14,550	-	-	25,197
Mexican Peso	2,913	-	1,552	1,108	26,416	9	-	31,998
New Russian Ruble	-	-	-	-	-	(12)	92	80
New Taiwan Dollar	10,458	-	-	383	-	(55)	-	10,786
New Turkish Lira	5,532	-	-	-	-	937	-	6,469
New Zealand Dollar	5,551	-	7,655	(6)	1,556	-	-	14,756
Norwegian Krone	4,053	-	-	-	16,262	(55)	-	20,260
Polish Zloty	2,051	-	-	-	23,175	8	-	25,234
Pound Sterling	205,926	-	-	119	21,700	2,605	-	230,350
Singapore Dollar	14,568	-	5,309	3	21,446	(5)	-	41,321
South African Rand	7,404	-	1,505	-	15,378	99	-	24,386
South Korean Won	7,471	-	8,372	-	-	-	-	15,843
Swedish Krona	15,041	-	-	19	27,423	(89)	-	42,394
Swiss Franc	86,031	-	-	138	-	210	-	86,379
Thailand Baht	1,661	-	-	-	-	(134)	-	1,527
Various Currencies	-	61,607	-	-	-	-	-	61,607
Total	**$1,263,523**	**$61,607**	**$78,831**	**$31,700**	**$233,734**	**$4,328**	**$412**	**$1,674,135**

Foreign Currency Risk—Equity Index Swaps

Equity index swaps are derivatives and represent an agreement between two parties to swap two sets of equity index values.

For those equity index swaps which are dollar-denominated securities issued by foreign countries there is an exposure to a foreign currency risk.

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, 2007 and 2006). 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.

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**

Real Estate

The remaining balances of real estate-related debt outstanding associated with the acquisition of separate properties as of December 31, 2007 and 2006 were $26.0 million and $40.1 million respectively.

Real Estate Investment Income—Separate Properties

For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Real Estate Investment Income	$ 17,413	$ 21, 088
Real Estate Expenses		
Non-Operating Expenses[1]	2,237	2,827
Operating Expenses	8,938	9,473
Total Expenses	**11,175**	**12,300**
Real Estate, Net Income	**$ 6,238**	**$ 8,788**

[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 $1.2 million and $1.5 million for the years ended December 31, 2007 and 2006, respectively. The schedule of Capital Assets and Accumulated Depreciation on the next page 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 2007, ACERA occupies two and a half floors in the building, totaling approximately 36,000 square feet. The term of the lease is seven years seven months, 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 $54,000 and $58,000 for the years ended December 31, 2007 and 2006, respectively.

ACERA leases photocopy machines and mailing equipment to support operations. Equipment rental expenses were $38,000 and $31,000 for the years ended December 31, 2007 and 2006, 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
2008	$ 40
2009	38
2010	38
2011	38
2012	38
Total	**$192**

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 its 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 could 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 2006 was in compliance with this

Capital Assets and Accumulated Depreciation

For the Years Ended December 31, 2007 and 2006 (Dollars in Thousands)

	January 1, 2007	Additions	Deletions/ Transfers/ Additions	December 31, 2007
CAPITAL ASSETS—DEPRECIABLE				
Equipment and Furniture	$ 3,143	$ 50	$ (296)	$ 2,897
Information Systems	10,457	-	-	10,457
Leasehold Improvements	852	21	-	873
Subtotal	**14,452**	**71**	**(296)**	**14,227**
CAPITAL ASSETS—NON DEPRECIABLE				
Construction-in-Progress	1	94	(47)	48
Total Capital Assets (Cost)	**14,453**	**165**	**(343)**	**14,275**
ACCUMULATED DEPRECIATION AND AMORTIZATION				
Equipment and Furniture	(2,632)	(167)	296	(2,503)
Information Systems	(8,627)	(1,017)	-	(9,644)
Leasehold Improvements	(109)	(31)	-	(140)
Total Accumulated Depreciation and Amortization	**(11,368)**	**(1,215)**	**296**	**(12,287)**
Capital Assets—Net of Accumulated Depreciation and Amortization	**$ 3,085**	**$ (1,050)**	**$ (47)**	**$ 1,988**

	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)**	**$ -**	**$ 3,085**

limitation. For 2007, Section 31580.3 is no longer applicable. ACERA has reverted back to 0.18% of the total assets.

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, which totaled $2.6 million for 2007 and $2.1 million for 2006, and investment-related expenses, were offset against investment income.

Application of Statutory Limit on Administration Expense

For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

2007

Total Assets as of June 30, 2006	$6,080,145
Limit: Maximum Allowable fraction of Total Assets (0.18%) times Total Assets	10,944
Portion of Administration Expenses for the Fiscal Year subject to the Statutory Limit	9,597
Excess of Limit over Portion of Administration Expense Subject to Limit	**$1,347**
Portion of Administration Expense Subject to Limit as a Percentage of Total Assets	**0.16%**

2006

Plan Net Assets at March 31, 2000	$3,947,312
Limit: Maximum Allowable fraction of Plan Net Assets (0.23%) times Plan Net Assets	9,079
Portion of Administrative Expenses for the Fiscal Year subject to the Statutory Limit	8,714
Excess of Limit over Portion of Administration Expense Subject to Limit	**$365**
Portion of Administration Expense Subject to Limit as a Percentage of Plan Net Assets	**0.22%**

Consistent with the past practice, for the year 2007 the total administration expenses were charged to the pension plan, and were not allocated to the Postemployment 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, 2007 not yet reimbursed to the County was approximately $376,086, 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, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Reimbursed Cost of ACERA Staff Members	$ 7,700	$ 5,778
Reimbursed Costs of County Services	265	230
State-Mandated Benefit Replacement Program (415(m))	42	41
Personnel Services	75	58
Partial Salary/Benefits Reimbursement for Elected Board Members	133	39
Total	**$8,215**	**$6,146**

Required Supplementary Schedules

Schedule of Funding Progress – Pension Plan

(Dollars in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets [1] (a)	Actuarial Accrued Liability (AAL) [2] (b)	Unfunded (Overfunded) AAL (UAAL) (b–a)	Funded Ratio (%) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
12/31/01	$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 [3]	82.1 [3]	694,626	112.0
12/31/05	3,781,843	4,548,213	766,370	83.2	709,783	108.0
12/31/06	4,127,841 [4]	4,825,157	697,316	85.5	762,139	91.5

[1] Excludes assets for SRBR and other non-valuation reserves.

[2] Excludes liabilities for SRBR and other non-valuation reserves.

[3] 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%.

[4] Includes $6,303,514 in reimbursement of implicit retiree health benefit subsidy paid to the County for 2005 and 2006.

Schedule of Employer Contributions – Pension Plan[1]

(Dollars in Millions)

Year Ended December 31	Annual Required Contribution	Percentage (%) Contributed
2002	$ 27	100
2003	49	100
2004	85	100
2005	101	100
2006	127	100
2007	130	100

[1] This schedule is prepared by ACERA's management, based on the financial data.

Schedule of Funding Progress – Postemployment 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)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
				With Limit	Without Limit		
12/31/05	$ 449,100	$ 567,900	$ 118,800	100 [2]	79.1	$ 709,783	16.7
12/31/06	496,200	591,400	95,200	100 [2]	83.9	762,139	12.5

Schedule of Employer Contributions – Postemployment Medical Benefits

(Dollars in Thousands)

Year Ended December 31	Annual Required Contribution		Percentage (%) Contributed
	With Limit	Without Limit	
2005	$ 0 [2]	$ 26,333	0
2006	0 [2]	25,989	0

[1] Amount of SRBR assets allocated to the Postemployment Medical Benefits Reserve.

[2] The funding of these benefits is limited to reserves in the SRBR account allocated to the Postemployment Medical Benefits 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 established by the Board of Retirement in accordance with that Article. If the SRBR reserves are depleted, no additional money will be available to reimburse the employer for their 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, 2006 for this purpose, there are sufficient Postemployment Medical Benefits Reserve assets to provide retiree health benefits through the year 2025. These benefits are contingent upon continued employer contribution to the 401(h) account.

Note: No historical data is available prior to 2005. The three year funding progress trend will be built prospectively.

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)		Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (%) (b–a) /c
				With Limit	Without Limit		
12/31/05	$ 62,800	$ 170,800	$ 108,000	100 [2]	36.8	$ 709,783	15.2
12/31/06	66,300	186,300	120,000	100 [2]	35.6	762,139	15.7

Schedule of Employer Contributions – Non-OPEB Benefits

(Dollars in Thousands)

Year Ended December 31	Annual Required Contribution		Percentage (%) Contributed
	With Limit	Without Limit	
2005	$ 0 [2]	$ 16,041	0
2006	0 [2]	17,224	0

1 Amount of SRBR assets allocated to the Non-OPEB Benefits Reserve to provide for Supplemental COLA and 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 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, 2006 for this purpose, there are sufficient Non-OPEB Reserve assets to provide Non-OPEB benefits through the year 2024.

Note: No historical data is available prior to 2005. The three year funding progress trend will be built prospectively.

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, 2006, 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. For valuation purposes 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 26-year period following December 31, 2006.

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 26 years following December 31, 2006.

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: 8.00% 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

POSTEMPLOYMENT MEDICAL BENEFITS

The actuarial assumptions used for the Postemployment Medical Benefits valuation were consistent with those applied to the Pension Plan with the exception of remaining amortization period which is

29 years and Postemployment benefit increase, which for Tier 1 is 3% and Tier 2 is 2%. All other assumptions noted for the Pension Plan were applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of Unfunded Actuarial Accrued Liability, Amortization Approach, 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 Postemployment 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: 9%, graded down 0.5% per annum until ultimate rate of 5%

Dental and Vision: 5%

Medicare Part B: 5%

NON-OPEB BENEFITS

The actuarial assumptions used for the Non-OPEB Benefits valuation were consistent with those applied to the Pension Plan with the exception of remaining amortization period which is 29 years and Postemployment benefit increase which for Tier 1 is 3% and Tier 2 is 2%. All other assumptions noted for the Pension Plan were applicable, including: the Actuarial Cost Method, Asset Valuation Method, Amortization of Unfunded Actuarial Accrued Liability, Amortization Approach, Actuarial Assumed Interest Rate, Assumed Salary Increases, Assumed Inflation Rate, and Assumed Across the Board Salary Increase.

Supplemental COLA benefits are assumed to increase by the difference between inflation and the cost-of-living benefit guaranteed in the pension plan (3% for Tier 1 and 2% for Tier 2), subject to other limitations.

Supporting Schedules

Investment Expenses

For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Investment Manager Fees[1]	$ 18,126	$ 15,907
Investment Custodians	330	258
Investment Consultants	851	819
Net Brokerage Commissions	3,005	2,334
Investment Allocated Costs	2,043	1,742
Total Investment Expenses	**$24,355**	**$21,060**

[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, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Actuarial & Audit Services	$ 353	$ 319
Disability Medical	72	109
Human Resources Consulting	156	84
Legal Services	170	207
Other Specialized Services	253	140
Total Payments to Consultants	**$ 1,004**	**$ 859**

Administration Expense

For the Years Ended December 31, 2007 and 2006
(Dollars in Thousands)

	2007	2006
Personnel Services		
Staff Wages	$ 3,950	$ 3,337
Fringe Benefits	1,705	1,628
Temporary Services	637	670
Total Personnel Services	**6,292**	**5,635**
Professional Services		
Computer Services	281	165
Audit	78	87
Specialized Services	66	63
Total Professional Services	**425**	**315**
Communications		
Printing	228	275
Communication	52	55
Postage	140	89
Total Communications	**420**	**419**
Rental / Utilities		
Office Space	38	42
Equipment Leasing	27	23
Total Rentals / Utilities	**65**	**65**
Other		
Training	137	163
Supplies	72	60
Maintenance-Equipment	57	83
Insurance	191	140
Software Maintenance and Support	424	381
Board Operating Expenses	221	228
Depreciation and Amortization	849	1,135
Miscellaneous	444	90
Total Other	**2,395**	**2,280**
Subtotal: Administration Expense (subject to Statutory Limit)	**9,597**	**8,714**
Legal Expenses	2,160	1,821
Actuarial Expenses	249	204
Business Continuity	205	39
Total Administration Expense	**$12,211**	**$10,778**

Charlotte Yip

1 Year Hired:

1986

2 First Job:

Clerk II in the Personnel Department at Fairmont Hospital. I was secretary to Norma Imwalle, the Personnel Director.

3 Last Job:

Supervising Clerk I in Social Services at the Franklin Street satellite office.

4 Career Highlight:

When I was a supervisor in Central Personnel, I got to see how departments changed and consolidated, and how new positions were created. You think government stands still but it doesn't. It evolves and changes.

5 Date Retired:

September 1, 2001

* On Retirement:

It's wonderful. I don't have to get up early and fight traffic. And now I have time to volunteer for Meals on Wheels for Japanese seniors and to do my crafts. I throw pots, make jewelry, and can jump in and out of all kinds of classes, like Japanese doll-making.

On Retiree Benefits:

You can't beat ACERA's benefits. Whenever I compare with other seniors, I always come out on top. We even get a COLA, something most other retirees don't get.

Charlotte Yip, circa 1995, while working with the Department of Social Services.

Section 3

INVESTMENT

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

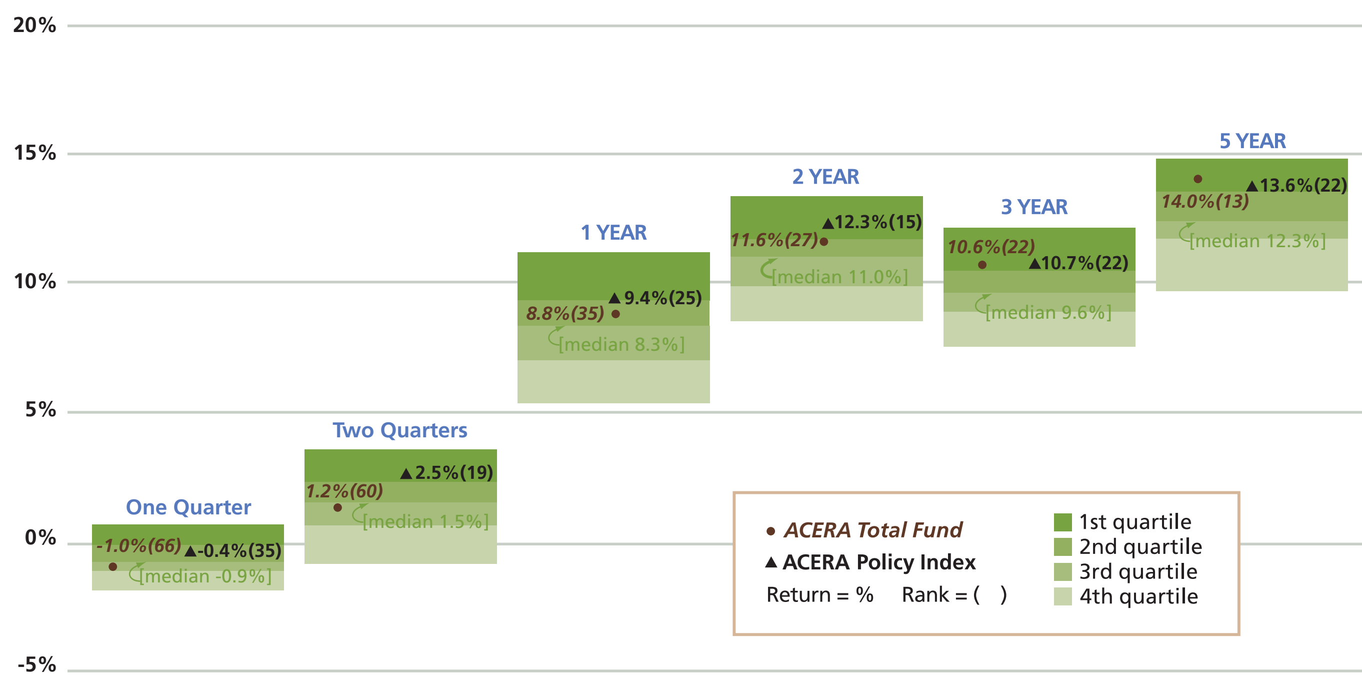
Chief Investment Officer's Report

Performance Highlights of the 2007 ACERA Investment Portfolio

Total Fund Return	8.8%
Domestic Equity Return	4.2%
International Equity Return	17.1%
Fixed Income Return	6.4%
Real Estate Return	14.2%
Year-end Fund Value	$5.6 billion

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

Periods Ended December 31, 2007



The primary goals of the ACERA Board of Retirement (the Board) in managing the Fund are the following:

1) To ensure that sufficient funds are available to pay vested benefits and maintain supplemental benefits
2) To comply with all applicable fiduciary standards
3) To add marginal value that will help reduce the costs of the plan and/or increase the benefits for ACERA's beneficiaries

In the year 2007, ACERA achieved the three primary goals, which are delineated in the ACERA General Investment Guidelines, Policies and Procedures (the Policy). The Fund, which in 2006 topped $5 billion for the first time, grew even further in 2007, to $5.6 billion, the highest figure since the Fund's inception in 1948. The 2007 investment return of 8.8% was within basis points of the Fund's actuarial investment return assumption (a measurement of investment return necessary to pay out ACERA's future liabilities as assessed by ACERA's actuarial consultant for the current year) of 8.0% on a net of fees basis. The ACERA Fund remains well-funded, and has strong controls in place for managing risk and ensuring compliance with all relevant fiduciary standards.

The total ACERA Fund not only returned 8.8% in 2007, but also ranked in the upper 35th percentile for public pension funds of greater than $100 million in assets. The Fund slightly underperformed its Policy Index (a weighted average of the Fund's asset classes and their respective benchmarks) by 0.6%, but it outperformed the public pension fund median by 0.5%. Over the longer term, the Fund also fared well. Its three-year return of 10.6% was only 0.1% short of the Policy Index and ranked in the upper 22nd percentile, while the five-year return of 14.0% beat the Policy Index by 0.4% and ranked in the upper 13th percentile. The ten-year return of 8.9% beat the Policy Index by 0.8% and ranked in the upper 9th percentile. On a risk-adjusted basis, the Fund's performance rankings of the upper 28th and 30th percentiles for the three-year and five-year periods respectively were respectable.

During the year 2007, the Fund maintained its target asset allocation of 41.0% U.S. Equity, 22.0% International Equity, 28.0% Fixed Income, and 9.0% Real Estate. Many academic studies suggest that about 80 to 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 indices. Our success can be attributed to the astute, carefully structured asset allocation strategy adopted by ACERA's Board and to its timely implementation and rigorous monitoring by ACERA's investment staff in collaboration with ACERA's investment consultants.

ANALYSIS OF FACTORS AFFECTING ACERA'S PORTFOLIO IN 2007

The Board's Actions

In 2007 the Board continued to guide ACERA's portfolio with sound and stable strategies designed to meet the portfolio's investment goals over the long term. The Board made two significant changes to the structure of the domestic and international equities asset classes while maintaining their previously adopted target asset allocation. In the real estate asset class, the Board made several important decisions to move the portfolio closer to the allocation target.

In March 2007, after considering data that suggests that newly formed investment management firms often produce better investment returns than their more established counterparts, the Board adopted the ACERA Emerging Investment Manager (EM) Policy. The EM Policy governs ACERA's EM Program implementation. As stipulated by the Board in July 2007, the EM Program will consist of a single emerging investment manager-of-managers (MoM) who will blend portfolios of various emerging "long-only" equity investment managers in a Russell 3000 mandate. The Emerging MoM will receive an initial funding of 1% of ACERA's total portfolio.

In September 2007, after considering a need for further diversification within the Fund's international equity asset class, the Board selected AQR Capital Management (AQR) as ACERA's new quantitative international equity investment manager to complement its two existing international equity managers, Capital Guardian Trust Company (Capital Guardian) and Mondrian Investment Partners, Inc (Mondrian). AQR was selected by the Board after an extensive search, which culminated with the interviews of three final candidates. It was initially funded with approximately $300 million in November 2007 by assets transferred from Capital Guardian and Mondrian. After hiring AQR, the asset allocation target for the international equity asset class remained unchanged at 28%.

Within the real estate asset class the Board aggressively pursued its goal of realizing a 9% allocation in ACERA's portfolio. At the beginning of 2007, ACERA's funded real estate level stood at 5.3%. At the end of the year, it stood at 6.8%. Three important Board actions, along with the ongoing liquidation strategy previously implemented in ACERA's RREEF Core account, contributed to this overall increase:

1) In January 2007, the Board voted to allocate an additional $25 million to Prudential PRISA II, an open-end commingled fund,
2) In March 2007, the Board voted to terminate its relationship with AFL-CIO Housing Investment Trust
3) In August 2007 the Board voted to allocate $50 million each to BlackRock Granite Fund, JPMorgan Specific Property Fund, and Prudential PRISA Fund. All three are open-end commingled real estate funds.

The addition to Prudential PRISA II increased ACERA's existing enhanced style real estate portfolio by 0.4% to 32.7% while the allocations to BlackRock Granite Fund, JP Morgan Specific Property Fund and Prudential PRISA Fund further increased ACERA's overall Stable real estate portfolio by 2.7% to 67.3%. At the end of 2007, both the Stable and Enhanced real estate portfolios were within reach of their targets of 70% and 30% respectively.

In addition to these important decisions, the Board continued to carry out its fiduciary duties in evaluating the effectiveness of all investment policies/programs and investment managers included in the investment portfolio. The Board also presided over the first full year of operation of ACERA's Directed Brokerage program, which recaptured broker commissions it would have otherwise forfeited.

ACERA's Portfolio

ACERA's portfolio is designed to take moderate risk by diversifying among four major asset classes (domestic equities, international equities, fixed income, and real estate), and by maintaining an overall style-neutral posture. This prudent foresight helps ACERA weather the ups and downs of volatile markets, such as those of 2007. As a result, despite last year's volatile financial markets, ACERA's portfolio still achieved a solid return. Its 8.8% gross return, although slightly below its Policy Index of 9.4%, was above the median return for public pension funds of a similar size. All of its major asset classes experienced positive returns, with international equities leading the way at 17.1%.

Among the highlights for ACERA in 2007 in the domestic equity asset class was the performance of ACERA's small and micro cap growth portfolios. These two portfolios, which constitute approximately 4.1% of the Fund, had an outstanding year. They significantly outperformed their benchmark the Russell 2000 Growth Index by 28.3% and 11.8% respectively. The small cap portfolio's 35.3% return also landed it in ACERA's investment consultant's upper 1st percentile of all managers of a similar style. ACERA's large cap growth portfolio, which constitutes approximately 7.8% of the Fund, outperformed the Russell 1000 Growth Index by 3.6%. This return and portfolio weighting, combined with the return of ACERA's S&P 500 index portfolio, reduced the impact of the losses posted by ACERA's two value style managers. These two managers, whose collective holdings constitute about 9.4% of the Fund, underperformed the Russell 1000 Value Index and Russell 2000 Value Index by 11.9% and 1.7% respectively. One of the factors contributing to the double-digit decline in performance for one of these two managers was the downturn in the financial sector. Some securities in that sector, such as Fannie Mae, were negatively impacted by the subprime crisis.

International equities fared very well for ACERA in 2007. A positive fourth quarter allowed the Fund's international equity composite to match its MSCI ACWI ex-U.S. benchmark and finish at 17.1% for the year. The Board's decision to increase its emerging market exposure during 2006 paid off as international emerging markets contributed significantly to overall international equity returns. The emerging market components in ACERA's two international equity portfolios returned 40.7% and 28.7% in 2007.

ACERA's fixed income returned 6.4% in 2007, slightly under the return of its blended benchmark of 75% Lehman Brothers Aggregate Bond Index, 15% Citigroup World Bond Index ex-U.S. and 10% Lehman Brothers Corporate High Yield Index by 0.7%. Again, a 2006 Board decision proved fruitful. The increased exposure to the international bond market, approved in 2006, brought a higher return in 2007, particularly the return of emerging market debt, which added an additional 1.4% to ACERA's international bond portfolio. Indeed, during the first half of the year, ACERA's fixed income composite outperformed its blended benchmark by 0.6%. Its global bond manager contributed significantly to that return, outperforming the Citigroup index by 2.2%. Despite the slight underperformance, ACERA's fixed income asset class weathered the subprime crisis extraordinarily well. There was no direct exposure to subprime mortgages in ACERA's fixed income investments; all of our mortgage-backed investments were classified as institutional investment grade.

ACERA's real estate portfolio returned 14.2% in 2007. This marked its fourth consecutive year of double-digit returns. Although the portfolio slightly trailed its NPI benchmark by 1.6%, its stable component, which constitutes 79.5% of the total real estate portfolio, nearly matched its NPI benchmark at 15.2% for the year. Its enhanced component, which for the most part was only recently funded and thereby impacted by what is known as the "J-curve" effect (initial lower/negative investment return primarily influenced by start-up costs), underperformed its benchmark NPI plus 1.5% by 4.3%.

The economy and the capital markets have been unpredictable, particularly of late. 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. Solid investment performance in various asset classes allowed ACERA's portfolio to realize its investment goal of adding marginal value to help reduce the cost of the plan and increase future benefits. By diversifying among four major asset classes, the Board was able to achieve an adequate return in a challenging year without assuming undue risk.

General Economy and Investment Markets

For all the turmoil witnessed by investors during 2007, most markets still managed to advance. In the U.S., the path of the equity market was characterized by a bell shaped curve, as strong advances in the first half of the year were significantly reduced by the onset of the subprime crisis in the second half. U.S. fixed income, while initially riding the wave of the stock market in the first quarter, dipped as equities raced ahead in the second and then rose again in the third and fourth as investors fled to quality. Global stocks and bonds generally followed the patterns of their U.S. counterparts.

Equity Markets

The traditional equity markets finished the year on a positive note for the most part. The three major stock indices in the U.S.—the Dow Jones Industrial Average, the S&P 500 and the Nasdaq Composite—posted gains of 8.9%, 5.5% and 10.7% respectively in 2007. In general, for both small cap and large cap stocks, growth style outperformed value style. For example, the large cap Russell 1000 Growth Index returned 11.8% while the Russell 1000 Value Index returned -0.2%, a difference of 12%. The small cap Russell 2000 Growth Index returned 7.0%, while the small cap Russell 2000 Value Index returned -9.8%. On the sector level, broad market investors fared better in the sectors of energy and materials, up 33.8% and 24.7% respectively, which combined to thwart the negative influence of financials and consumer discretionary, down 18.6% and 15.0% respectively.

International equity markets also did well. The MSCI EAFE Index, generally accepted as a major international equity benchmark, produced an 11.2% return in 2007. But those investors overweighted in the international emerging markets were the big winners as indicated by the MSCI Emerging Markets Index. It followed a strong year in 2006 with a 39.4% return in 2007. Contributing to this stellar year were Eastern Europe, the Middle East, Asia, and Latin America, which alone logged a 50.4% return for the year.

Fixed Income Markets

2007 was one marked by high volatility for the bond market, yet all major bond indices produced positive returns for investors in 2007. The Lehman Aggregate Bond Index and the Citigroup World Government ex-U.S. Bond Index were good examples, posting annual returns of 7.0% and 10.9% respectively. Within the broad sectors, U.S. Treasuries was a top performer with a 9.0% return as investors sought quality investments. Not surprisingly, asset-backed securities, however, had the lowest return for investment grade sectors at 2.2%. In summary, bond investors, who endured a somewhat flat first half of the year, benefited enormously from the equity market volatility of the second half, as overall annual returns beat or equaled those of the traditional equity markets.

Commercial Real Estate Markets

Commercial real estate markets offered investors exceptional returns with less volatility in 2007. The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index returned 8.4% in the first half of the year. Its second half return of 6.9% reflected the influence of the subprime mortgage crisis, but its annual return of 15.8%, comprised of 5.6% income and 9.9% appreciation, was exceptional. All of the five major commercial real estate sectors within the index posted strong positive returns for the year. The office sector finished first with a return of 20.5%, followed by the hotel sector at 18.1%. The apartment sector, whose return was the lowest of the five, was still very respectable at 11.4%.

The 2007 economic and market performance highlights are as follows:

- The annual growth of the U.S. economy measured by Real Gross Domestic Product (Real GDP) was 2.2% in 2007 compared to 2.9% in 2006 and 3.1% in 2005. The U.S. GDP for 2007 was $13.8 trillion, up 4.9% over 2006's previous record amount.
- The Federal Funds rate was lowered three times during 2007. It started the year at 5.25%, was lowered to 4.75% on September 18, then lowered to 4.50% on October 31, and lowered again to 4.25% on December 11.
- The U.S. budget deficit for the fiscal year ending September 30, 2007 was $163 billion, a 34% decline versus 2006's figure of $248 billion.
- Net job creation averaged 94,500 per month, down 38% from 153,000 in 2006. The unemployment rate for the year was 4.6%, about the same as 2006.
- The U.S. international deficit in goods and services (the trade deficit) decreased to $711.6 billion in 2007, down from a record $763.6 billion in 2006. As a percentage of U.S. GDP, the goods and services deficit was down 0.7% versus 2006, to 5.1%.
- Housing starts, new building permits, and new home sales have fallen more than 40% since their annual peaks in 2005. The drop in home-construction activity subtracted an average of almost 1 percentage point at an annual rate from real GDP growth during the last three quarters of 2006 and the four quarters of 2007.
- The price of oil closed at $95.98 per barrel at year end, a record high, up $35.18 over the previous year end close or 58%.
- The price of gold closed at $833.75 an ounce at year end, a record high, up $201.75 over the previous year end or 32%.

ECONOMIC OUTLOOK FOR 2008

One of the big concerns facing investors in 2008 is how the housing slowdown and other factors, such as rising food and energy prices, will affect consumer spending in the U.S. On the plus side, the government reported that personal income and disposable income reached all time highs in 2007. Personal income rose to $11.7 trillion, more than 6% higher than 2006, while disposable income topped $10 trillion. But keeping interest rates on the nation's $2.5 trillion of consumer debt and resettable home loans at bay will be a sizeable task for the Fed in 2008. Its three interest rate cuts during 2007, which dropped the Fed Funds Rate to 4.25% as of December 31, 2007, were meant to combat an upward interest rate trend before it could start. Further cuts throughout 2008 are expected, but no one knows whether they will be enough or if they will contribute to unwanted inflation. And if consumers carrying heavy credit card debt also face difficulties with their mortgage payments, food bills, and prices at the gas pump, discretionary spending will almost certainly decrease.

Indeed, discretionary spending already started trending down in the fourth quarter of 2007 and was reflective of the steady decline of the US dollar. According to the U.S. Department of Commerce Bureau of Economic Analysis, 4th quarter Personal Consumption Expenditures Excluding Food and Energy increased only 1.6% over the 3rd quarter. This was the second lowest quarterly increase in the last five years, and less than half of the average quarterly increase of 3.3% over the same period.

In an International Monetary Fund (IMF) report issued in early 2008, the IMF stated that the U.S. dollar's 25% inflation-adjusted decline since 2002 is "one of the largest dollar depreciation episodes" since the early 1970s. Indeed, although the dollar has been sliding steadily since 2002, its decrease in value has been more noteworthy in recent months. For the 12-month period ending in approximately the first quarter of 2008, the dollar has lost about 15% in value against such currencies as the Japanese Yen. The dollar's weakness has made U.S. goods and services more competitive overseas, thereby slowing the trade gap expansion. However, the dollar's weakness will push already expensive energy prices to record heights, thus increasing pressure on inflation, pushing interest rates higher, and lowering consumer spending.

A downturn in consumer spending is consistent with the International Monetary Fund's 2008 outlook for the U.S. In its December 2007 World Economic Outlook Update, the IMF predicted a slowing of growth in the U.S. by 1% to a total of 1.9% (Gross Domestic Product – GDP). Such a slowing would almost certainly mean at least one negative quarter of GDP and possibly two, breaking a consecutive increase streak of twenty-five quarters. Two consecutive negative quarters of GDP would make a recession in the U.S. a reality.

A recession, if it occurs, will certainly dominate the political scene in the U.S., especially since 2008 is a presidential election year. Both parties have discussed stimulus plans and taken some action. In December 2007, the Bush Administration announced an agreement with the mortgage industry to freeze interest rates for up to five years for borrowers with subprime mortgages. It is also expected that a $150 billion plan for tax rebates, which won bipartisan approval, will positively affect the economy by mid-2008. These are clearly steps in the right direction, but it remains to be seen what further actions politicians will propose.

Although the result of the 2008 presidential election will have little impact on the economy in 2008, it will almost certainly affect it in the following years, particularly as related to the war in Iraq and Afghanistan. In August of 2007, the Congressional Budget Office released a report that the U.S. has already allocated more than $500 billion to the war effort. Whether this level of spending continues under a new presidential administration certainly depends on the outcome of the election as well as on the progress of peace and stability in a region of the world that has proven unpredictable and challenging.

The global economic outlook is stable, despite the potential effects of a possible slowdown in the U.S. Although the IMF predicts a decrease in world output by 0.4% versus 2007, its figure of 4.8% is still as healthy as any of the last four years. Moreover, it is not predicting losses for any of its major economic categorizations. It expects that most advanced economies will grow at a rate of around 2.0%, and that the majority of world growth will be buoyed by the emerging market economies, as has been the case since 2003. China's economy is expected to grow at a rate of 10% for the year, India's at a rate of 8.4%, and Russia's and that of the Commonwealth of Independent States at a rate of 7.0%. Growth in the emerging market economies of the Western Hemisphere, though slightly lower than any of the previous four years, is expected to remain steady at 4.3%.

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 non-traditional assets (real estate, international equities, global fixed income) are included in the mix.

OTHER ACERA INVESTMENT RELATED POLICIES

Directed Brokerage Policy

In May 2006, the Board adopted ACERA's Directed Brokerage Policy. The Directed Brokerage Policy governs the Directed Brokerage (DB) program, whose strategic objective is to recapture a portion of trade commissions paid to brokers. The primary goals of the DB program are as follows: 1) to recapture 50% or more of commissions paid on a specific percentage of trades sent to correspondent brokers on a timely basis; 2) to construct the percentage of trades subject to recapture so as to allow investment managers to have access to the research they need; 3) to seek "Best Execution" through third-party administration and outside consultant monitoring; and 4) to encourage local and emerging broker participation through the use of an open correspondent network program.

Emerging Investment Manager Policy

In March 2007, the Board adopted ACERA's first Emerging Investment Manager Policy. The Emerging Investment Manager Policy governs the Emerging Manager Program, whose strategic objective is to add incremental value to the Fund through the hiring of the most talented Emerging Investment Managers (EMs) to manage ACERA's assets. The primary goals of the EM Program are to 1) identify and gain early access to the most talented investment managers in their early business stages;

2) to generate superior Fund return performance through the EM Program; 3) to identify superior EMs and/or investment opportunities in California and Alameda County that are equal or superior to comparable available investments; and 4) to further diversify the Fund's overall investment program so as to enhance risk-adjusted returns of the Fund.

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, 2007, ACERA's Fund was overweighted in total equities, with 66.2% in total equities versus the target of 63.0%. Domestic equities were slightly underweighted at 38.7% versus the target of 41.0%, while international equities were overweighted at 27.5% versus the target of 22.0%. Fixed income was 27.0%, slightly under the target of 28.0%. Real estate was under its 9.0% target at 6.8%.

During 2007, ACERA's U.S. equity composite returned 4.2%, trailing its benchmark Russell 3000 by 0.9% and the median equity manager by 1.4%. ACERA's international equity composite returned 17.1%, matching its benchmark MSCI-ACWI ex-U.S. but significantly outperforming the median international equity manager by 4.6%. ACERA's all-fixed income composite returned 6.4%, underperforming its benchmark, 75% Lehman Aggregate/15% Citigroup WGBI ex-U.S./10% Lehman High Yield, by 0.7% and the U.S. fixed income manager median return by 0.3%. ACERA's real estate composite returned 14.2%, while its benchmark, NCREIF Property Index, returned 15.8%.

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

Respectfully Submitted,

Betty Tse, CPA, MBA
Chief Investment Officer, ACERA
May 15, 2008

Investment Consultant's Report

STRATEGIC INVESTMENT SOLUTIONS, INC.

333 BUSH STREET, STE. 2000
SAN FRANCISCO, CALIFORNIA 94104

TEL. 415/362-3484 • FAX 415/362-2752

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION INVESTMENT CONSULTANT'S REPORT

Summary

The year of 2007 witnessed an almost mid-year change in investor sentiment, going quickly from "nothing can go wrong" to "nothing can go right." At the end of May, the US stock market was up over 9%, but ended the year at 5%. Worries concerning the sub-prime mortgage market began to dampen broad economic forecasts and virtually halted corporate lending activity. Along with high commodity prices, a dark shadow formed over the US stock market, particularly the Financial and Consumer Discretionary sectors. The last half of the year had the market on edge, featuring large daily swings, both up and down, but primarily down. The bond market provided highly diversifying results, up only 1% in the first half, but up 6% in the last half.

The Federal Reserve Bank began to aggressively address the potential economic slow-down with a 50 basis point cut to 4.75% in September, followed by subsequent 25 basis point cuts in October and December. By year end, anticipation of further cuts was apparent in bond prices.

International Equity returned 17.1% for the year, with Developed Markets returning 11.6% and Emerging Markets 39.8%. Bolstered again by a weak US dollar, Non-US Equity returns were about triple the US return of 5.1% In the US, Large Caps (Russell 1000) were up 5.8%, ahead of Small Caps (Russell 2000) at -1.6%. Investment Grade US Bonds (Lehman Aggregate) returned 7.0% for the year, with 85% of the year's return coming in the second half.

For the year, ACERA returned 8.8%, slightly above its 8.0% actuarial return expectation. While slightly behind its Policy Benchmark return of 9.4%, it was above the large public fund median return of 8.3% due to ACERA's robust allocation to Non-US Equities.

ACERA's individual manager performance were mixed, but in aggregate detracted from the year's result. Significant underperformances by the Fund's Large Cap Value manager, who held large weights in Financials, led to the US Equity portfolio underperforming its benchmark, 4.2% versus 5.1%. The Fixed Income portfolio returned 6.4%, behind its benchmark of 7.1%, while the Non-US Equity portfolio matched its benchmark return of 17.1%.

Investment Guidelines, Policies and Practices

ACERA completed several plan initiatives during 2007. The plan developed and adopted a new Emerging Manager Policy statement and selected an initial program allocation of 1% of plan assets under a broad US Equity investment mandate. At the end of the year, ACERA was in progress in executing a search to fulfill the new Emerging Manager mandate. The plan also adopted a new International Equity manager structure with a 20% Quantitative manager allocation. Following a comprehensive search, a new manager was selected and funded to fill the mandate late in the year.

In addition, ACERA reviewed and adopted several amendments to its general investment policy, including the integration of its high alpha manager program into its general U.S. equity manager structure framework. Finally, ACERA also reviewed and updated the specific investment guidelines for each of its fixed income managers.

Investment Objectives

In 2007 ACERA was successful in meeting its goal to ensure the availability of sufficient funds to pay vested benefits and maintain supplemental benefits, and its goal of complying with applicable fiduciary standards, while it fell short of the goal of adding marginal value over its Policy Index. The Fund continues to outperform its peers, and its five-year returns are ahead of the Policy Index.

Investment Results*

		Annualized	
	2007	3 Years	5 Years
DOMESTIC EQUITY			
Total Domestic Equity	4.2%	7.3%	12.9%
Median	5.6	9.3	15.2
Benchmark: Russell 3000	5.1	8.9	13.6
INTERNATIONAL EQUITY			
Total International Equity	17.1	20.6	23.0
Median	12.5	18.0	23.3
Benchmark: MSCI ACWI ex US	17.1	20.4	24.5
FIXED INCOME			
Total Fixed Income	6.4	5.2	7.6
Median	6.7	4.7	4.9
Benchmark: Hybrid Index	7.1	4.4	5.6
REAL ESTATE			
Total Real Estate	14.2	17.5	14.2
Benchmark: NCREIF	15.8	17.3	15.0
TOTAL FUND			
ACERA Total Fund	8.8	10.6	14.0
Median	8.3	9.6	12.3
Benchmark: Policy Index	9.4	10.7	13.6

* NOTE: Returns for periods greater than one year are annualized. Monthly return calculations are time-weighted, and market value based. Results of all publicly traded investments are presented in a format consistent with the CFAI Global Investment Performance Standards®.

Asset Allocation

	Percentage Target	12/31/07 Actual
US Equity	41.0%	38.7%
Non-US Equity	22.0%	27.5%
Fixed Income	28.0%	27.0%
Real Estate	9.0%	6.8%
Cash	0.0%	0.0%

In 2007, the Plan again performed well against its peers, exceeded its actuarial return expectation, and completed several initiatives designed to enhance its overall performance versus the policy index. Overall 2007 was another successful year for ACERA.

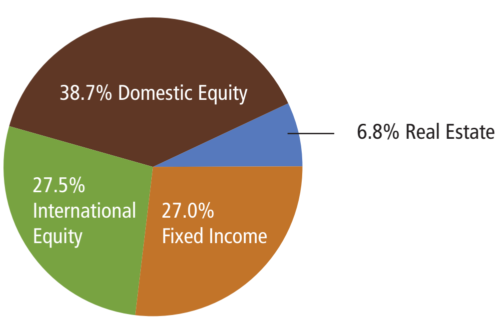
Patrick Thomas, CFA
Vice President
March 14, 2008

Asset Allocation

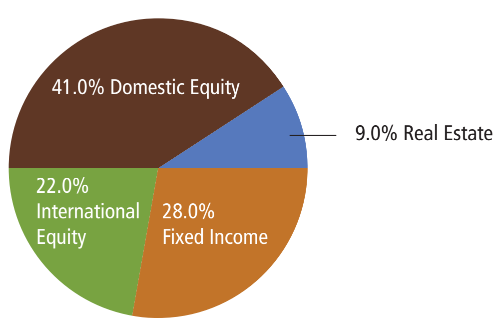
As of December 31, 2007

Investment Manager Type	Actual Asset Allocation	Target Asset Allocation	Actual Allocation Over/–Under Target Allocation
Domestic Equity	38.7%	41.0%	–2.3%
International Equity	27.5%	22.0%	5.5%
Fixed Income	27.0%	28.0%	–1.0%
Real Estate	6.8%	9.0%	–2.2%
Total	**100.0%**	**100.0%**	**0.0%**

Actual Asset Allocation



Target Asset Allocation



Investment Professionals

For the Year Ended December 31, 2007

INVESTMENT MANAGERS

Domestic Equity

Bank of New York—Mellon Asset Management

Brandywine Global Investment Management

Next Century Growth Investors (Small Cap. Growth and Micro Cap. Growth)

Pzena Investment Management

Salus Capital Management, Inc.

Trust Company of the West

International Equity

AQR Capital Management, LLC

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 (Terminated in March 2007)

Black Rock, Inc

CIM Urban REIT

Heitman Capital Management

JPMorgan Asset Management (APF and SPF)

Prudential Real Estate Investors (PRISA and PRISA II)

RREEF America (Core SA and RAR II)

INVESTMENT CONSULTANTS

Doug McCalla—Optimized Portfolio Rebalancing

Risk Metrics Group—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, 2007 (Dollars in Thousands)

Investment Type	Fair Value	Percentage of Total Fair Value
Short-Term Investments	$ 164,745	3.0%
Domestic Securities	1,267,870	22.9
International Securities	1,378,007	24.9
Equity Commingled Funds	913,214	16.5
Fixed Income Securities	1,423,689	25.8
Real Estate—Separate Properties	114,985	2.1
Real Estate—Commingled Funds	261,976	4.7
Future Contracts—Equity Index	4,417	0.1
Currency Swaps	476	0.0
Total Investments at Fair Value	**$ 5,529,379**	**100.0%**

Largest Stock Holdings[1]

As of December 31, 2007 (Dollars in Thousands)

Rank	Shares	Issuer	Fair Value	%
1	829,600	Qualcomm Inc	$ 32,645	1.23
2	518,400	Salesforce.com	32,498	1.23
3	46,700	Google Inc.	32,292	1.22
4	303,205	Schlumberger Ltd	29,826	1.13
5	300,765	Amazon.com, Inc.	27,863	1.05
6	254,300	Genzyme Corp.	18,930	0.72
7	372,950	Autodesk Inc.	18,558	0.70
8	88,600	Intercontinent Exchange, Inc.	17,056	0.64
9	2,318,325	Alcatel Lucent ADS	16,970	0.64
10	565,775	Citigroup Inc.	16,656	0.63
Total Of Largest Stock Holdings			**$ 243,294**	**9.19**
Total Stock Holdings			**$2,645,877.00**	**100.00**

Largest Bond Holdings

As of December 31, 2007 (Dollars in Thousands)

Rank	Par Value	Issuer	Securities	Description	Fair Value	%
1	64,325,000	United States Treasury Bonds	6.250%	15-Aug-23	$ 77,009	5.41
2	30,059,347	FNMA Pool	5.500%	1-Apr-36	30,016	2.11
3	57,000,000	Government of Poland	5.750%	24-Jun-08	23,175	1.63
4	21,730,000	New South Wales Treasury	5.500%	1-Mar-17	17,383	1.22
5	87,305,000	Norway (Kingdom of)	5.500%	15-May-09	16,262	1.14
6	101,270,000	Sweden (Kingdom)	4.000%	1-Dec-09	15,630	1.10
7	13,460,000	Federal National Mortgage Association	6.000%	18-Apr-36	14,432	1.01
8	12,315,000	Canada Government	6.000%	1-Jun-2011	13,334	0.94
9	144,000,000	Mexico (United Mexican States)	8.000%	19-Dec-13	13,188	0.93
10	6,295,000	United Kingdom Treasury	4.750%	7-Sep-15	12,728	0.89
Total Of Largest Bond Holdings					**$ 233,157**	**16.38**
Total Bond Holdings					**$1,423,689.00**	**100.00**

[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, 2007 and 2006
(Dollars in Thousands)

Investment Manager Type	2007	2006
Domestic Equity	$ 2,151,942	$ 2,174,635
International Equity	1,526,305	1,307,429
Fixed Income	1,501,127	1,436,913
Real Estate	376,405	273,872
Cash	580	3,231
Total Investment Assets Under Management	**$5,556,359**	**$5,196,080**

[1] This schedule includes Investment receivable and payable balances as of December 31, 2007.

Investment Manager Fees

For the Years Ended December 31, 2007 and 2006
(Dollars In Thousands)

Investment Manager Type	2007	2006
Domestic Equity	$ 7,128	$ 5,895
International Equity	4,724	4,239
Fixed Income	2,744	2,628
Real Estate	3,529	3,145
Total Investment Manager Fees	**$18,125**	**$15,907**

Brokerage Commissions

For the Year Ended December 31, 2007

Brokerage Firm	Rank	Commissions (in Thousands)	Shares/Par Value Traded (in Thousands)	Commission Per Share
Merrill Lynch International	1	$ 308	$ 14,634	$ 0.021
UBS Financial Services Inc	2	216	129,703	0.002
State Street	3	154	14,902	0.010
Citigroup Global Markets Inc	4	142	23,059	0.006
Morgan Stanley	5	126	9,238	0.014
Capital Institutional Services Inc	6	114	3,011	0.038
Credit Suisse	7	101	8,114	0.012
Deutsche Bank	8	95	7,290	0.013
Instinet	9	92	3,090	0.030
BNY Brokerage & Co	10	91	3,378	0.027
Goldman	11	86	3,789	0.023
Cantor Fitzgerald & Co	12	85	2,821	0.030
Liquidnet Inc	13	83	3,451	0.024
JP Morgan Inc	14	67	10,532	0.006
Lehman Brothers Inc	15	64	3,986	0.016
Jones Trading Institution Services	16	57	1,891	0.030
Pershing LLC	17	54	1,975	0.027
Credit Lyonnais Securities Inc	18	50	4,779	0.010
Jefferies & Company Inc	19	44	1,396	0.032
Intercapital Investors Inc	20	44	1,447	0.030
Top 20 Firms by Commission Dollars		**2,073**	**252,486**	**0.008**
All Other Brokerage Firms		1100	54,026	0.020
Total Brokerage Commissions		**$ 3,173**	**$ 306,512**	**$ 0.010**
Brokerage Commission Recapture		(168)	-	-
Net Brokerage Commission		**$ 3,005**	**$ 306,512**	**$0.010**

Kenneth Burr

1

Year Hired:

1979

2

First Job:

Deputy District Attorney, Alameda County District Attorney's Office

3

Last Job:

Senior Deputy District Attorney

4

On My Career as a DA:

I tried more felony jury trials than any other attorney in the Alameda County District Attorney's Office. Most were murder and sexual assault cases, and a number of them attracted extensive media attention, even at a national level. I developed a reputation as an expert in the trial of these types of cases and frequently lectured to prosecutors and law enforcement agencies across the U.S.

5

Date Retired:

November 19, 1997 on appointment to the Alameda County Superior Court as a judge.

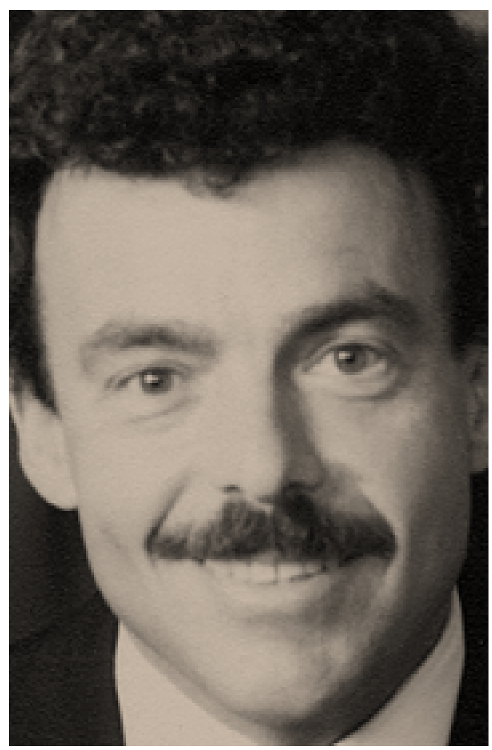
*

On Retirement:

I am honored and privileged to serve the People of California as a judge, though I do wish that I could have continued under the ACERA Tier I retirement system.

On Work as a Judge:

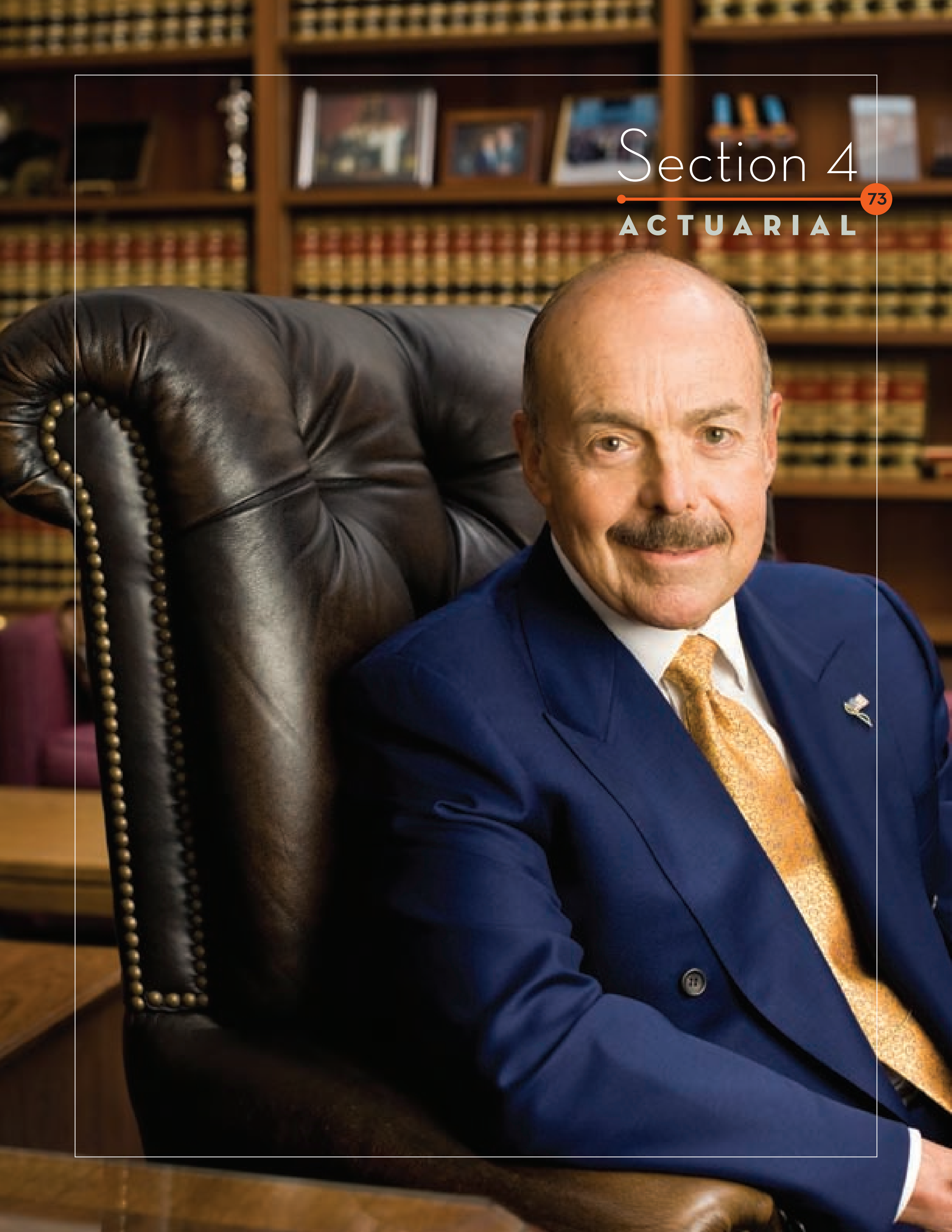
Ironically, I have spent most of my time on the bench handling civil cases. My friends tell me that I am a lot more boring now as a judge than I was as a Deputy DA. In a civil case what is fascinating to a judge isn't fascinating to most other people, including attorneys. However, you hear a wide variety of cases, so you are constantly learning and being mentally challenged.



Kenneth Burr, circa 1985, while working with the Alameda County District Attorney's Office.

Section 4

ACTUARIAL



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 28, 2008

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, 2006 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, 2006 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.

One 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 26-year period. The progress being made towards meeting the funding objective through December 31, 2006 is illustrated in the Schedule of Funding Progress.

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

Board of Retirement
May 28, 2008
Page 2

Exhibit I	Schedules of active member valuation data[(1)];
Exhibit II	Retirees and beneficiaries added to and removed from retiree payroll[(1)];
Exhibit III	Solvency test;
Exhibit IV	Actuarial analysis of financial experience;
Exhibit V	Schedule of average benefit payments for retirees and beneficiaries;
Exhibit VI	Schedule of participating employers and active member statistics[(1)];
Exhibit VII	Schedule of benefit expenses by type[(1)];
Exhibit VIII	Schedule of retired members by type of benefit;
Exhibit IX	Schedule of funding progress[(2)];
Exhibit X	Schedule of retiree members and beneficiaries by type of benefit and option selected; and
Exhibit XI	Employer contribution rates (percent of payroll).

(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, 2006 adjusted to December 31, 2006 (to reflect estimated increase in Salary and Service for active members) in calculating the liabilities for the December 31, 2006 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, 2006 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, 2006 valuation, the ratio of the valuation assets to actuarial accrued liabilities increased from 83.2% to 85.5%. The employer's rate has decreased from 17.26% of payroll to 16.08% of payroll, while the employee's rate has decreased from 8.90% of payroll to 8.71% of payroll.

Sincerely,

Andy Yeung, ASA, EA, MAAA
Vice President and Associate Actuary

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

DNA/kek
Enclosures

4037645v1/05579.001

Summary of Assumptions and Funding Method

The following assumptions have been adopted by the Board as of December 31, 2006.

Assumptions

Actuarial Assumed Interest Rate	8.00%
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	8.00%

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

Retirement Age and Benefit for Deferred Vested Members

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

General	Age 58
Safety	Age 55

We assume that 40% of future General and Safety deferred vested members will continue to work for a reciprocal employer. For these members we assume that their salaries will increase by 5.4% 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 experience and salary assumptions are based on the plan's actuarial experience through the last triennial experience study as of December 31, 2004.
These were adopted by the Board of Retirement and remain effective as of January 1, 2007.

(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

8.0%, net of administration and investment expenses (approximately 1% of assets).

Employee Contribution Crediting Rate

8.0%, 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	1.60%	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. For valuation purposes, 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 26-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[8]

Year	Plan Type	Number	Annual Payroll	Annual Average Pay	Percent Increase in Average Pay[1]
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	596,346,000	65,281	2.96%
	Safety	1,368	113,437,000	82,922	2.02%
	Total	**10,503**	**$709,783,000**	**$67,579**	**2.70%**
2006[6]	General	9,279	639,880,000	68,960	5.64%
	Safety	1,383	122,259,000	88,401	6.61%
	Total	**10,662**	**$762,139,000**	**$71,482**	**5.78%**
2007[7]	General	9,415	662,309,000	70,346	2.01%
	Safety	1,497	131,249,000	87,675	-0.82%
	Total	**10,912**	**$793,558,000**	**$72,723**	**1.74%**

[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 (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 and merit.

[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 and merit.

[7] Salary projected from 11/30 to 12/31 (2007). Projected compensation was calculated by increasing the prior year's compensation (assuming every employee will work full time) by one year of inflation and merit. 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.

[8] 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
2002	335	$ 12,671	(206)	$ (3,060)	5,996	$ 133,697	7.75%	$ 22,298
2003	447	17,558 [2]	(156)	(2,732)	6,287	148,523	11.09%	23,624
2004	571	23,349 [2]	(383)	(5,355)	6,475	166,517	12.12%	25,717
2005	500	23,171 [2]	(257)	(4,362)	6,718	185,326	11.30%	27,586
2006	444	21,784 [2]	(226)	(4,018)	6,936	203,092	9.59%	29,281
2007	494	25,051 [2]	(247)	(4,971)	7,183	223,172	9.89%	31,069

[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 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)
12/31/01	$ 802,356	$1,503,393	$ 834,467	$3,140,216	$3,321,794	100%	100%	100%
12/31/02	821,702	1,664,465	1,073,446	3,559,613	3,294,053	100%	100%	75%
12/31/03	802,442	1,833,917	1,253,684	3,890,043	3,381,757	100%	100%	59%
12/31/04	789,556	2,092,355	1,358,642	4,240,553[2]	3,557,918	100%	100%	50%
12/31/05	802,277	2,353,106	1,392,830	4,548,213	3,781,843	100%	100%	45%
12/31/06	842,479	2,550,170	1,432,508	4,825,157	4,127,841	100%	100%	51%

[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:

12/31/2002 - 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 - Investment return assumption increased from 7.80% to 7.90%; inflation assumption decreased from 4.0% to 3.75%

12/31/2006 - Investment return assumption increased from 7.90% to 8.00%

Actuarial Analysis of Financial Experience[1]

(Dollars in Millions)

	2006	2005	2004	2003	2002	2001
Prior Valuation Unfunded/(Prefunded) Actuarial Accrued Liability	$766	$ -	$508	$266	$(182)	$(233)
a) Before Safety Improvements	-	683	-	-	-	-
b) After Safety Improvements	-	778	-	-	-	-
Salary Increase Greater (Less) than Expected	2	(35)	(33)	93	17	10
Asset Return Less (Greater) than Expected	(57)	30	74	133	207	34
Other Experience (Including Scheduled UAAL Payment)	42	55	31	26	20	13
Economic Assumption Changes	(56)	(81)	-	-	190	-
Non-economic Assumption Changes	-	-	103	(10)	14	35
Benefit Change[3]	-	19	-	-	-	-
Data Corrections	-	-	-	-	-	(41)
Ending Unfunded/(Prefunded) Actuarial Accrued Liability	$697	$766	$683[2]	$508	$266	$(182)

[1] This schedule is based on the actuarial valuation of 12/31/2006, 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 31664.1 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, 2006, 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%

* Only available for those members who terminated after the County improved the benefit to Sec. 31664.1

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

Ernestine McHugh

1

Year Hired:

1965

2

First Job:

Emergency Room Nurse at Fairmont Hospital, San Leandro

3

Last Job:

Assistant Director of Nursing at Fairmont. I started out there as a staff nurse and was eventually promoted to Head Nurse and then Supervising Nurse.

4

Career Highlight:

I loved the activity, the people and the challenges. As a Supervising Nurse, you can't afford to make friends with staff, but I treasure the friendships with four of the nurses in my department and some of the outstanding physicians I worked with, including Dr. Michael Callahan who is working with staff to set up a residency program in ER medicine at UC San Francisco. Dr. Callahan still comes to visit me.

5

Date Retired:

September 26, 1980

*

In Retirement:

As soon as I retired I took off and traveled the world, visiting everywhere but India and China. I wanted to see the Seven Wonders of the World, including Victoria Falls in Zimbabwe, and spent one month in Africa on safari. My companion and I also liked going to the mountains, climbing, and nature photography but broken hips limit my climbing now.

Reflection:

Material things can be replaced, but friendship cannot. It's the only thing that really matters.

Ernestine McHugh, circa 1980, while working at Fairmont Hospital.

Section 5

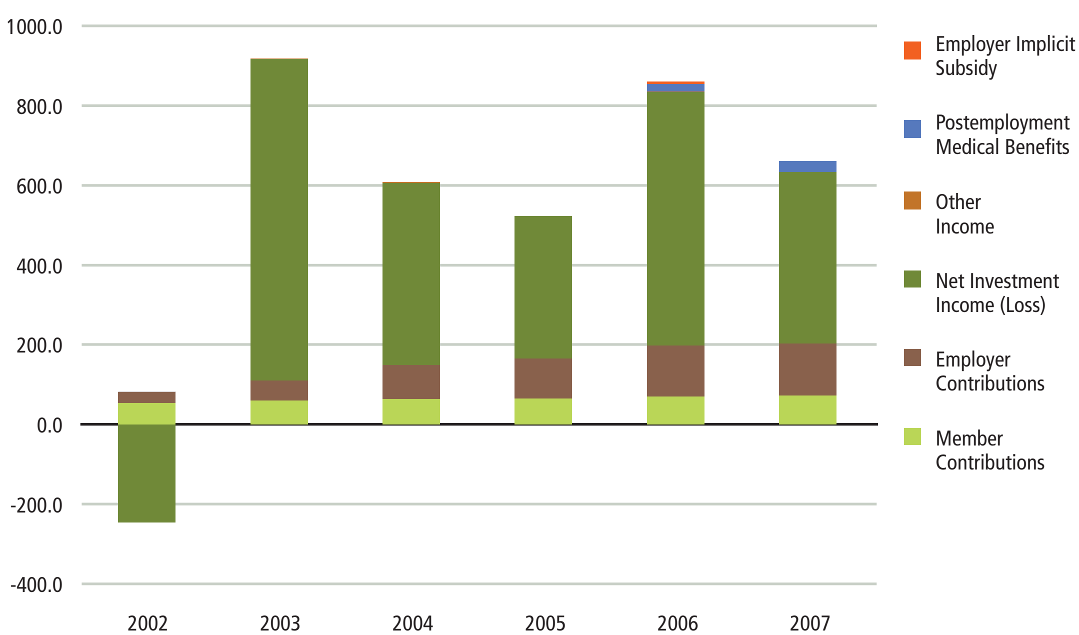
STATISTICAL

Statistical

This section provides additional historical perspective, context, and detail in order to provide a more comprehensive understanding of this year's financial statements, note disclosures, and supplementary information, which cover Pension Plan, Postemployment Medical Benefits and Non-OPEB Benefits. This section also provides multi-year trend of financial and operating information to facilitate comprehensive understanding of how the organization's financial position and performance has changed over time. More specifically, the financial and operating information provides contextual data for ACERA's net assets, benefits, refunds, contribution rates and different types of retirement benefits. The financial and operating trend information is located on the following pages.

Additions to ACERA's Net Assets by Source

(Dollars in Millions)



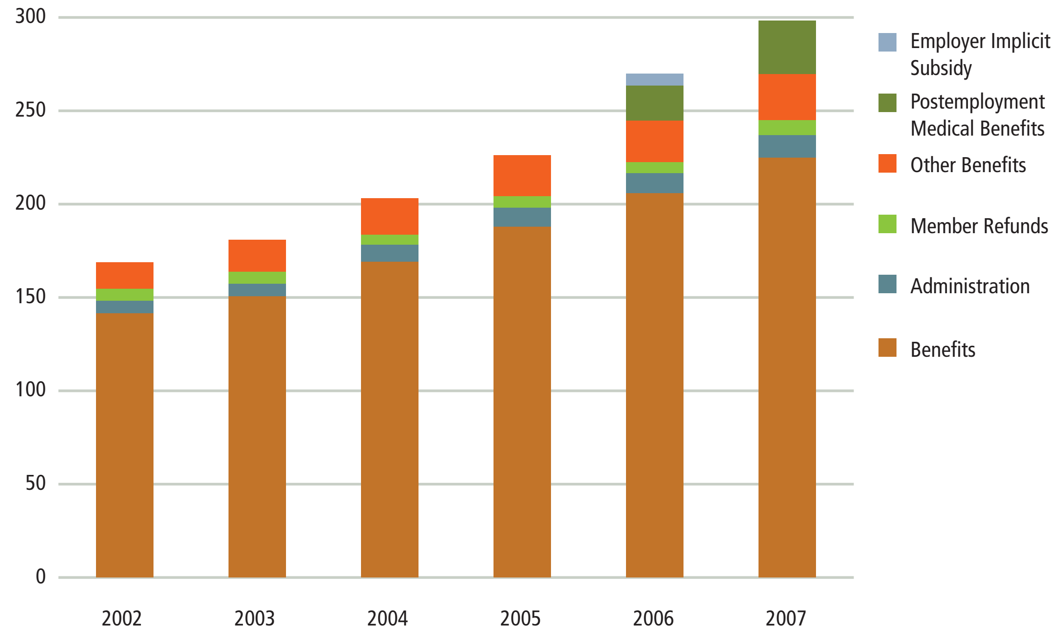
Additions to ACERA's Net Assets by Source

(Dollars in Millions)

Year Ended December 31	Member Contributions	Employer Contributions	Net Investment Income (Loss)	Other Income	Postemployment Medical Benefits	Employer Implicit Subsidy	Total Additions
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
2007	72.3	130.0	430.9	1.0	27.3	-	661.5

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
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
2007	224.8	12.2	7.8	24.7	27.3	-	296.8

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

As of December 31
(Dollars in Thousands)

	2007	2006
Additions		
Member contributions	$ 72,342	$ 70,174
Employer contributions	102,749	108,088
Total Contributions	**175,091**	**178,262**
Investment and Miscellaneous income (net of expenses)	431,789	638,305
Postemployment Medical Benefits transfers on behalf of Employers	27,291	19,008
Employer Implicit Subsidy from Postemployment Medical Benefits	-	6,304
Earnings allocated to Postemployment Medical Benefits Reserve	(145,957)	(75,636)
Earnings allocated to Non-OPEB Benefits Reserve	(18,307)	(9,962)
Total Additions	**469,907**	**756,281**
Deductions		
Benefit payments	218,618	199,423
Refunds	7,778	5,817
Administration expenses	12,211	10,778
Total Deductions	**238,607**	**216,018**
Changes in Pension Plan Net Assets	**$ 231,300**	**$ 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 Postemployment Medical Benefits Net Assets Last Ten Fiscal Years[1]

As of December 31
(Dollars in Thousands)

	2007	2006
Additions		
Employer contributions	$ 27,291	$ 19,008
Earnings allocated to Postemployment Medical Benefits	145,957	75,636
Total Additions	**173,248**	**94,644**
Deductions		
Postemployment Medical Benefits payments	24,668	22,205
Postemployment Medical Benefits transfer to Pension Plan	27,291	19,008
Employer Implicit Subsidy to Pension Plan	-	6,304
Total Deductions	**55,086**	**47,517**
Changes in Postemployment Medical Benefits Net Assets	**$ 121,289**	**$ 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)

	2007	2006
Addition		
Earnings allocated to Non-OPEB Benefits	$ 18,307	$ 9,962
Total Addition	**18,307**	**9,962**
Deduction		
Non-OPEB Benefits Payments	6,217	6,422
Total Deduction	**6,217**	**6,422**
Changes in Non-OPEB Benefits Net Assets	**$ 12,090**	**$ 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]

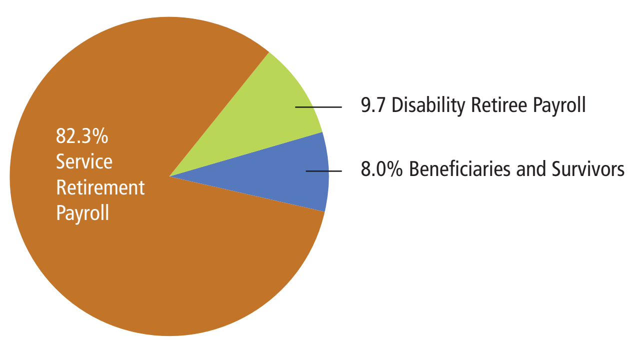
As of November 30

	2007	2006	2005	2004	2003	2002
Service Retirement Payroll						
Basic	$ 144,273,097	$ 131,381,072	$ 119,237,822	$ 105,648,412	$ 92,689,067	$ 82,721,678
COLA	39,321,355	35,620,880	33,211,334	30,836,451	29,245,633	27,025,690
Total	**183,594,452**	**167,001,952**	**152,449,156**	**136,484,863**	**121,934,700**	**109,747,368**
Disability Retiree Payroll						
Basic	17,741,212	16,180,690	14,576,027	13,118,826	10,540,547	9,540,646
COLA	3,978,243	3,536,042	3,148,063	2,800,341	2,523,517	2,241,082
Total	**21,719,455**	**19,716,732**	**17,724,090**	**15,919,167**	**13,064,064**	**11,781,728**
Beneficiaries and Survivors						
Basic	11,090,773	10,082,760	9,396,077	8,686,288	8,289,339	7,550,165
COLA	6,767,815	6,290,813	5,756,507	5,426,939	5,234,278	4,617,487
Total	**17,858,588**	**16,373,573**	**15,152,584**	**14,113,227**	**13,523,617**	**12,167,652**
Total	**$223,172,495**	**$203,092,257**	**$185,325,830**	**$166,517,257**	**$148,522,381**	**$133,696,748**

[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, 2007)



Benefit and Refund Deductions from Pension Plan, Postemployment 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	2007
COUNTY OF ALAMEDA							
Age and service benefits:							
Retirees	$ 122,998	$ 127,706	$ 137,338	$ 153,763	$ 171,924	$ 187,376	$ 205,010
Survivors	12,541	10,985	11,429	11,812	12,538	13,340	14,150
Death in service benefits:							
Survivors	1,355	1,292	1,301	1,505	1,680	1,882	2,017
Disability benefits:							
Retirees—duty	11,563	12,516	14,231	17,746	19,591	20,955	23,461
Retirees—non-duty	2,239	2,348	2,414	2,949	3,020	3,210	3,450
Supplemental disability	68	69	97	51	75	109	192
Survivors	598	629	808	906	1,036	1,178	1,223
Total Benefits	**$151,362**	**$155,545**	**$167,618**	**$188,732**	**$209,864**	**$228,050**	**249,503**
Type of Refund							
Death	1,549	1,653	1,294	1,411	2,481	1,831	2,219
Miscellaneous	850	273	97	147	123	136	89
Separation	5,913	4,522	5,194	3,632	3,476	3,850	5,470
Total Refunds	**$ 8,312**	**$ 6,448**	**$ 6,585**	**$ 5,190**	**$ 6,080**	**$ 5,817**	**$ 7,778**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data is available prior to 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	2007
COUNTY OF ALAMEDA							
Age and service benefits:							
Retirees	$ 108,078	$ 110,793	$ 118,415	$ 133,355	$ 149,934	$ 164,638	$ 180,410
Survivors	10,955	9,225	9,568	10,238	11,042	11,419	12,252
Death in service benefits:							
Survivors	1,177	1,107	1,124	1,342	1,528	1,702	1,840
Disability benefits:							
Retirees—duty	10,244	10,923	12,226	15,285	16,775	17,889	19,963
Retirees—non-duty	1,782	1,839	1,878	2,364	2,417	2,569	2,826
Supplemental disability	11	11	49	16	27	28	104
Survivors	598	629	808	906	1,036	1,178	1,223
Total Benefits	**$132,845**	**$134,527**	**$144,068**	**$163,506**	**$182,759**	**$199,423**	**218,618**
Type of Refund							
Death	1,549	1,653	1,294	1,411	2,481	1,831	2,219
Miscellaneous	850	273	97	147	123	136	89
Separation	5,913	4,522	5,194	3,632	3,476	3,850	5,470
Total Refunds	**$ 8,312**	**$ 6,448**	**$ 6,585**	**$ 5,190**	**$ 6,080**	**$ 5,817**	**$ 7,778**

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

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

As of December 31 (Dollars in Thousands)

	2001	2002	2003	2004	2005	2006	2007
TYPE OF BENEFIT							
Age and service benefits:							
Retirees	$ 10,411	$ 12,453	$ 14,908	$ 16,968	$ 18,944	$ 19,011	$ 21,030
Survivors	2	6	1	1	2	2	2
Disability benefits:							
Retirees—duty	1,057	1,323	1,752	2,222	2,595	2,787	3,207
Retirees—non-duty	254	301	342	398	426	405	429
Supplemental disability	-	-	-	-	-	-	-
Survivors	-	-	-	-	-	-	-
Total Benefits	**$11,724**	**$14,083**	**$17,003**	**$19,589**	**$21,967**	**$22,205**	**$24,668**

[1] ACERA implemented GASB 44 for year ended December 31, 2006. No historical data is available prior to 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	2007
TYPE OF BENEFIT							
Age and service benefits:							
Retirees	$ 4,514	$ 4,465	$ 4,022	$ 3,448	$ 3,055	$ 3,737	$ 3,570
Survivors	1,584	1,754	1,860	1,573	1,494	1,919	1,896
Death in service benefits:							
Survivors	173	180	170	155	143	170	177
Disability benefits:							
Retirees—duty	262	270	253	239	221	279	291
Retirees—non-duty	203	208	194	187	177	236	195
Supplemental disability	57	58	48	35	48	81	88
Survivors	-	-	-	-	-	-	-
Total Benefits	**$6,793**	**$6,935**	**$6,547**	**$5,637**	**$5,138**	**$6,422**	**$6,217**

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

Employer Contribution Rates (Percent)

As of December 31

	County[2]					ACMC, Superior Court and First 5[3]		Other Participating Employers	
	General Member		Safety Member			General Member		General Member	
Year	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate	Tier 1	Tier 2	Tier 1	Tier 2
1998	5.75	4.46	8.72	8.35	5.44	5.75	4.46	16.20	-
1999	6.27	3.11	5.39	5.70	4.26	6.27	3.11	16.83	-
2000	6.28	2.83	4.78	5.48	4.03	6.28	2.83	17.30	-
2001	6.31	2.86	5.10	5.80	4.00	6.31	2.86	17.09	-
2002	5.90	3.37	5.96	7.16	4.37	5.90	3.37	16.21	-
2003	12.78	10.53	17.40	18.76	12.16	12.78	10.53	17.37	-
2004	14.63	12.10	21.51	20.91	13.95	14.63	12.10	19.21	-
2005	17.91	14.96	36.81	29.09	18.07[1]	17.91	14.96	22.74	-
2006	16.46	14.30	37.05	29.84	17.26	16.46	14.30	21.53	-
2007	14.36	13.19	35.95	28.98	17.03	14.43	13.26	19.38	-

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

[2] County employer rates include a credit of $6.3 million amortized over 26 years for implicit health benefit subsidy.

[3] Rate combined with the County before December 31, 2007.

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
1998	8.49	7.23	10.16	10.04	8.02
1999	8.5 6	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
2007	10.09	7.35	14.98	13.54	8.71

Retired Members by Type of Benefit and Option Selected

Summary of Monthly Allowances Being Paid for the Month of November 30, 2007[1]

		Monthly Allowance		
	Number	Basic	Cost of living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	4,044	$ 7,955,868	$ 2,390,434	$ 10,346,302
Option 1	248	385,361	118,390	503,751
Option 2	224	379,147	89,563	468,710
Option 3	15	22,095	8,336	30,431
Option 4	1	5,774	414	6,188
Total	4,532	8,748,245	2,607,137	11,355,381
Disability				
Unmodified	545	892,701	194,747	1,087,448
Option 1	34	32,165	11,527	43,692
Option 2	-	-	-	-
Option 3	1	2,220	280	2,500
Option 4	1	3,466	1,113	4,579
Total	581	930,552	207,665	1,138,219
Beneficiaries	967	707,867	457,413	1,165,280
Total General	**6,080**	**10,386,664**	**3,272,217**	**13,658,881**

		Monthly Allowance		
	Number	Basic	Cost of living	Total
SAFETY MEMBERS				
Service Retirement				
Unmodified	689	3,088,636	631,735	3,720,371
Option 1	15	56,366	14,164	70,530
Option 2	42	120,109	21,386	141,495
Option 3	1	3,671	2,359	6,030
Option 4	1	5,730	-	5,730
Total	748	3,274,512	669,644	3,944,157
Disability				
Unmodified	185	531,430	117,936	649,366
Option 1	5	11,690	2,279	13,969
Option 2	-	-	-	-
Option 3	3	4,761	3,639	8,400
Option 4	-	-	-	-
Total	193	547,881	123,854	671,735
Beneficiaries	162	216,363	106,572	322,935
Total Safety	**1,103**	**4,038,756**	**900,070**	**4,938,827**
Total General and Safety	**7,183**	**$ 14,425,420**	**$ 4,172,287**	**$ 18,597,707**

[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.

Note: Results may not add due to rounding.

Retired Members by Type of Benefit Pension Plan

As of December 31, 2007

		Type of Benefit							Option Selected				
Amount of Monthly Benefit	Number of Retired Members	Duty disability retirement	Non-duty disabilit y retirement	DRO lifetime annuity	Service retirement	Survivorship	Continuance	Supplemental disability	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
$ 1 to $ 300	381	1	3	13	273	-	91	-	225	121	34	1	-
301 to 600	596	-	16	17	400	18	145	-	361	201	32	2	-
601 to 900	639	1	27	16	464	18	113	-	435	171	33	-	-
901 to 1,200	638	12	39	7	460	8	110	2	450	147	40	1	-
1,201 to 1,500	630	46	33	6	446	7	91	1	439	131	59	1	-
1,501 to 1,800	575	114	17	5	369	7	63	-	356	93	124	2	-
1,801 to 2,100	496	109	13	5	325	3	41	-	317	65	112	2	-
2,101 to 2,400	417	81	7	5	288	-	36	-	265	55	96	1	-
2,401 to 2,700	350	57	3	3	254	1	32	-	238	40	70	2	-
2,701 to 3,000	277	49	1	-	195	2	30	-	178	43	54	2	-
Over $3,000	2,245	160	7	4	2,000	2	72	-	1,875	132	230	7	1
Total	**7,244**	**630**	**166**	**81**	**5,474**	**66**	**824**	**3**	**5,139**	**1,199**	**884**	**21**	**1**

Retired Members by Type of Benefit Postemployment Medical Benefits

As of December 31, 2007

		Type of Benefit							Option Selected				
Amount of Monthly Benefit	Number of Retired Members	Duty disability retirement	Non-duty disabilit y retirement	DRO lifetime annuity	Service retirement	Survivorship	Continuance	Supplemental disability	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
$ 1 to $ 300	1,539	40	90	-	1,406	-	2	1	1,288	73	173	5	-
301 to 600	4,457	567	66	-	3,824	-	-	-	3,631	133	676	16	1
901 to 1,200	1	-	-	-	1	-	-	-	1	-	-	-	-
Total	**5,997**	**607**	**156**	**-**	**5,231**	**-**	**2**	**1**	**4,920**	**206**	**849**	**21**	**1**

Retired Members by Type of Benefit Non-OPEB Benefits

As of December 31, 2007

Amount of Monthly Benefit	Number of Retired Members	Type of Benefit: Duty disability retirement	Non-duty disability retirement	DRO lifetime annuity	Service retirement	Survivorship	Continuance	Supplemental disability	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
$ 1 to $ 300	668	9	21	7	393	13	225	-	396	255	17	-	-
301 to 600	232	9	14	-	132	8	69	-	141	81	9	1	-
601 to 900	113	8	1	-	43	5	56	-	43	62	8	-	-
901 to 1,200	46	5	-	-	28	1	12	-	28	13	5	-	-
1,201 to 1,500	12	-	-	-	12	-	-	-	11	1	-	-	-
1,501 to 1,800	4	-	-	-	4	-	-	-	4	-	-	-	-
1,801 to 2,100	5	-	-	-	4	-	1	-	4	1	-	-	-
2,700 to 3,000	1	-	-	-	1	-	-	-	1	-	-	-	-
Total	**1,081**	**31**	**36**	**7**	**617**	**27**	**363**	**-**	**628**	**413**	**39**	**1**	**-**

Average Benefit Payment Amounts

Retirement Effective Dates 1/1/2002–12/31/2007[2]	Years Since Retirement[1]: 0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
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
PERIOD 1/1/07–12/31/07							
Average Monthly Benefit	$3,407	$2,715	$2,568	$2,364	$1,775	$1,309	$926
Number of Active Retirees	2,146	1,545	1,159	844	611	536	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

Retirement Effective Dates	Years of Service[2] 0–4	5–9	10–14	15–19	20–24	25–29	30 & Over
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	18	33	65	32	46	33	60
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	$5,422	$6,161	$7,026	$7,685
Number of Retired Members	31	34	76	75	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
PERIOD 1/1/07–12/31/07							
Average Monthly Pension Benefits[4]	$936	$1,535	$1,635	$2,206	$3,287	$5,791	$6,762
Average Final Average Salary	$6,216	$6,963	$5,940	$6,000	$6,619	$8,326	$8,111
Number of Retired Members	20	22	52	66	76	53	85

[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.

[4] 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

	Years of Service[3]						
Retirement Effective Dates	0–4[1]	5–9[1]	10–14[2]	15–19[2]	20–24[2]	25–29[2]	30 & Over[2]
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
PERIOD 1/1/07–12/31/07							
Average MMA Benefits	$66	$66	$359	$505	$652	$652	$652
Number of Retired Members	20	22	52	66	76	53	85

[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

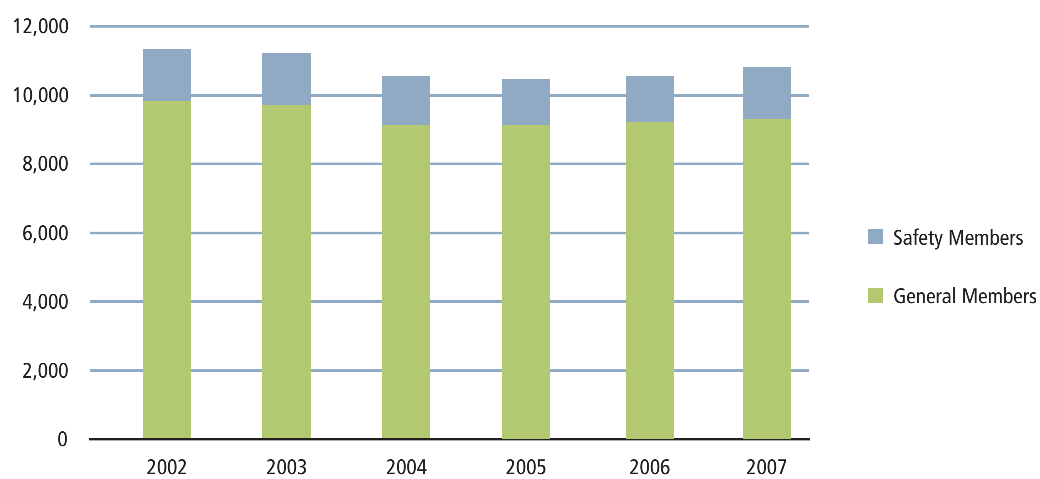
As of November 30[1]

	2007	2006	2005	2004	2003	2002
County of Alameda						
General Members	6,322	6,261	6,177	7,020	7,367	7,550
Safety Members	1,497	1,383	1,368	1,418	1,495	1,499
Total	**7,819**	**7,644**	**7,545**	**8,438**	**8,862**	**9,049**
Participating Employers (General Members)						
Alameda County Medical Center (ACMC) [1]	2,044	2,007	1,961	1,926	2,201	2,133
Alameda County Office of Education	1	2	2	2	5	5
First 5 Alameda County [2]	59	57	53	47	–	–
Housing Authority of the County of Alameda	74	75	68	74	74	75
Livermore Area Recreation & Park District	70	67	62	69	78	76
Superior Court of California for the County of Alameda	845	810	812	–	–	–
Total	**3,093**	**3,018**	**2,958**	**2,118**	**2,358**	**2,289**
Total Active Membership						
General Members	9,415	9,279	9,135	9,138	9,725	9,839
Safety Members	1,497	1,383	1,368	1,418	1,495	1,499
Total	**10,912**	**10,662**	**10,503**	**10,556**	**11,220**	**11,338**

[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

	2007			1998		
Participating Employers	**Covered Employees**	**Rank**	**Percentage of Total System**	**Covered Employees**	**Rank**	**Percentage of Total System**
County of Alameda	7,881	1	71.78 %	9,369	1	98.63 %
Alameda County Medical Center (ACMC)	2,051	2	18.68	-	-	-
Superior Court of California for the County of Alameda	844	3	7.69	-	-	-
Housing Authority of the County of Alameda	72	4	0.65	64	2	0.68
Livermore Area Recreation & Park District	72	5	0.65	61	3	0.64
First 5 Alameda County	59	6	0.54	-	-	-
Alameda County Office of Education	1	7	0.01	5	4	0.05
Total	**10,980**		**100.00 %**	**9,499**		**100.00 %**

Notes: Separate schedule on Principal Participating Employers for ACERA's Postemployment 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.

Arnold X.C.Perkins

1

Years Hired:

1980 and 1993

2

First Job:

Homeless Coordinator, Mental Health Department, Alameda County

3

Last Job:

Public Health Director, Alameda County

4

Career Highlight:

I started out as Director of Drug and Alcohol for the County in 1993 but was reassigned after eight months to begin planning the new Public Health department. As its Director, I wanted to put the "public" back in Public Health. The turning point came around 2000 when the staff came to recognize that they are both students and servants of the community.

5

Date Retired:

December 30, 2006

*

In Retirement:

Now I get to do everything I love to do but don't have the pressure of politics and budgets. I volunteer with the Manhood/Fatherhood and Positive Minds programs, serve on several boards, and advise U.S. Judge Felton Henderson and the warden of San Quentin on prison health. My passion is community wellness, especially that of young people who are reentering our community after being incarcerated.

Reflection:

I loved working with the County, which allowed me to be a community servant. It was an exquisite experience. The majority of the people were exceptional and understood that Public Health is a social justice and social change agency.

Advice:

Be open and willing to explore the outer and inner edges of oneself. Welcome the young. Let them take things to the next step.

Section 6

COMPLIANCE

WILLIAMS, ADLEY & COMPANY, LLP
Certified Public Accountants
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, 2007 and 2006, and have issued our report thereon dated May 30, 2008. Our report on the financial statements was modified to indicate that ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 50, *Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27* for the year ended December 31, 2007; and 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. 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 ACERA'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 ACERA's financial statements that is more than inconsequential will not be prevented or detected by ACERA'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 ACERA's internal control.

Our consideration of the 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.

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

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

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.*

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 30, 2008

In Memoriam

Irving Mahoney

"Retirement is wonderful, but I really enjoyed working for the County."

A fifth generation Californian whose ancestors came with Juan Battista's expedition in the 1730s, Irving Mahoney was born in Oakland and lived there all his life. When he graduated from high school during the Great Depression, jobs were hard to come by so he took any odd job he could get until his father told him about a test for a County job. Three hundred took that test and Mr. Mahoney was one of the five who got the job. In December 1936, he went to work as an elevator operator at the new County Courthouse.

Irving Mahoney, 2002.

In March 1942 Mr. Mahoney enlisted in the Army Air Force and after the war returned to work in the County Recorder's Office. Two years later he moved to the County's department of Weights and Measures down on 5th near the Estuary tube. He checked scales and anything that needed to be weighed or measured throughout the County for accuracy, including gas pumps and fabric stores.

After retiring on February 8, 1972, he and his wife took five trips to Europe, buying a Mercedes-Benz, BMW or Fiat each time and driving it around before shipping it home. Recently he and a nephew and the nephew's wife drove out to see the Grand Canyon, stopping at lookouts to admire the layers of rock and colors. Irving Mahoney died on April 18, 2008.

This report is printed with soy-based inks on 100% recycled paper with 50% post-consumer waste, processed chlorine-free, and manufactured with 100% certified renewable energy.
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ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

475-14th Street, Oakland, California 94612