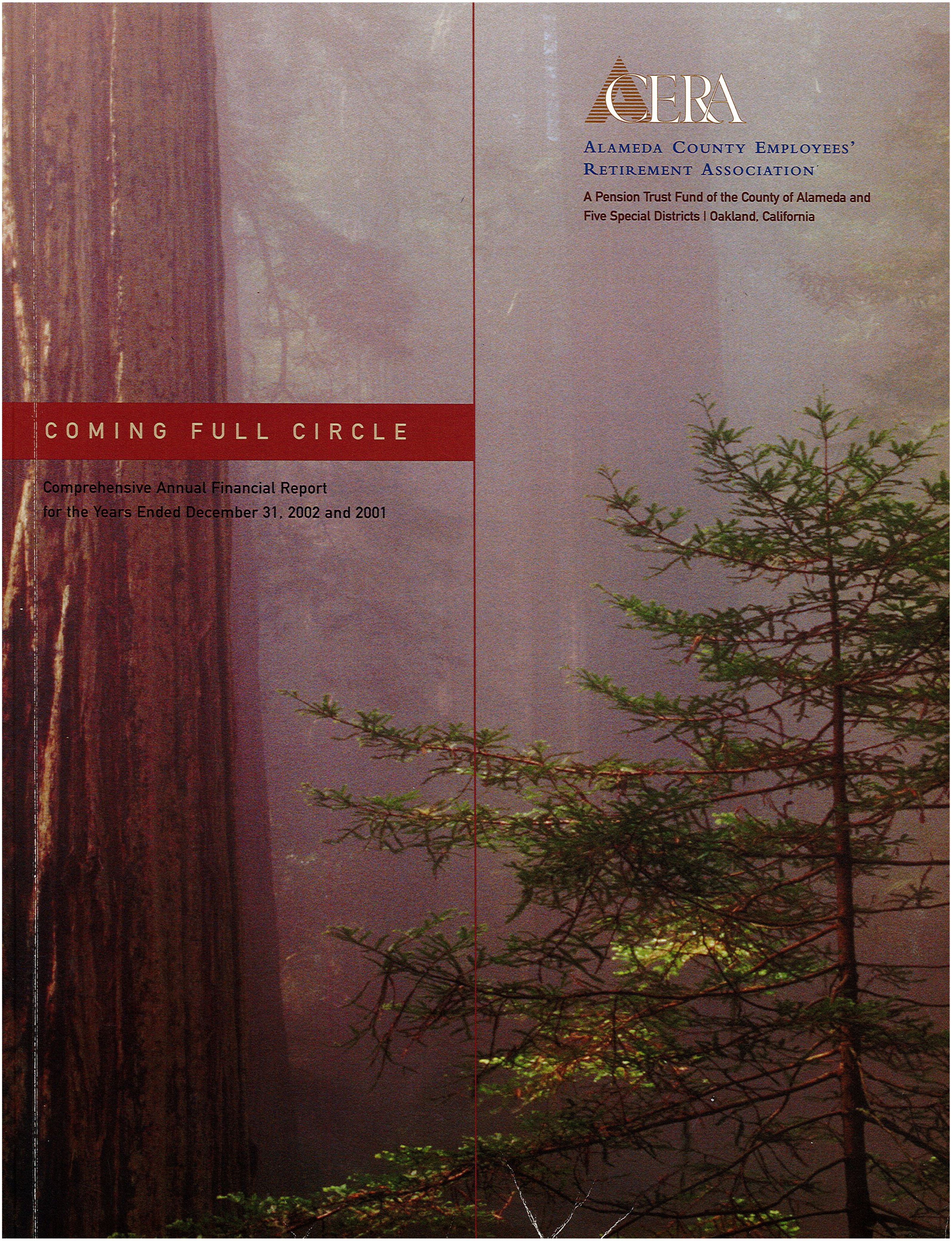


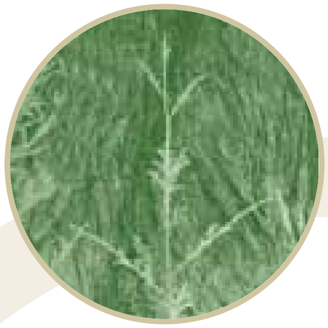
ACERA

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and Five Special Districts | Oakland, California

COMING FULL CIRCLE

Comprehensive Annual Financial Report
for the Years Ended December 31, 2002 and 2001



COMING FULL CIRCLE

Comprehensive Annual Financial Report for the Years Ended December 31, 2002 and 2001

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

A Pension Trust Fund of the County of Alameda and Five Special Districts

475-14th Street, Oakland, CA 94612

Issued By

Charles F. Conrad

General Manager

Catherine E. Walker, CPA

Accounting and Operations Manager

> CONTENTS

SECTION 1 | INTRODUCTION

SECTION 2 | FINANCIAL

FINANCIAL STATEMENTS

Required Supplemental Schedules

Supplemental Schedules

SECTION 3 | INVESTMENT

SECTION 4 | ACTUARIAL

SECTION 5 | STATISTICAL

SECTION 6 | COMPLIANCE

Jason Sjoberg Deputy District Attorney, District Attorney's Office, two and a half years with Alameda County

Gary Sjoberg Management Analyst, Social Services Agency, 27 years with Alameda County, retired for three months

Maricruz Melero

Clerk II, Human Resources, one and a half years with Alameda County

SECTION 1

> INTRODUCTION

ACERA
ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14TH STREET, SUITE 1000, OAKLAND, CA 94612
800 838-1932 510 628-3000 FAX 510 287-5412

LETTER OF TRANSMITTAL

Charles F. Conrad
General Manager

Dear Board Members:

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the Alameda County Employees' Retirement Association (ACERA) for the year ended December 31, 2002.

We had all hoped that the U.S. economy would revive in 2002. Instead, the year brought the worst financial market performance in decades and left institutional investors like ACERA with huge losses. The economy continues to struggle and economic forecasts seem to be of little value. But economic, social and political events follow cycles, so knowing where you are in a cycle can be useful even if your ultimate destination is not precise.

It is worth remembering that cycles are not only inevitable, but some "old rules" really do apply—what goes up must come down. The impact of a cycle is made worse by our failure to remember the past. John Kenneth Galbraith once noted, "Past experience, to the extent that it is part of memory at all, is dismissed as the primitive refuge of those who do not have the insight to appreciate the incredible wonders of the present."

Cycles are also self-correcting and are more symmetrical than many would like to admit. It took a number of years to create the ultra-high-profit-growth-forever market of 1999. It will take time to absorb the losses, eliminate surprises and dispel the cynicism. Cycles—the economic cycle, credit cycle, corporate cycle, life cycle and market cycle—all interact, often in ways that can surprise us.

ACERA continues to stress diversification of assets, professional asset management and prudent oversight. We also continue to strive for improved member services and efficient administration. Better times will return. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 16.

The Comprehensive Annual Financial Report

The CAFR of ACERA for the years ending December 31, 2002 and December 31, 2001 is submitted for your review. Responsibility for both accuracy of the data and the completeness and fairness of the presentation rests with ACERA's management. It is our intent to ensure that the presentation of financial information is accurate and fair and that all material disclosures have been made. The CAFR is divided into six sections:

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

Financial Section: Presents the Independent Auditors' Report, and the financial statements of the system including notes and required supplementary information.

Investment Section: Contains reports on investment activity, investment policies, investment results, and various investment schedules.

Actuarial Section: Contains the Actuary's Certification Letter and the results of the annual actuarial valuation. Also, provides an overview of the funding status of the Association and other actuarial related information.

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

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

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

ACERA And Its Services

Established by the Alameda County Board of Supervisors by Ordinance No. 446, dated October 21, 1947, operative January 1, 1948, and governed by the provisions of the County Employees Retirement Law of 1937, ACERA provides retirement allowances and other benefits to the safety and general members employed by the County of Alameda and members employed by the following special districts:

- Livermore Area Recreation & Park District
- Housing Authority of Alameda County
- Alameda County Superintendent of Schools
- Alameda County Medical Center
- Alameda County Fire Department

ACERA provides lifetime retirement, disability, and death benefits to its general and safety members. In addition, ACERA administers retiree health care, dental care, vision care, and cost-of-living programs. The Association is also responsible for the prudent investment of both member and employer contributions and for defraying reasonable expenses of administration.

The ACERA Board of Retirement is responsible for establishing policies governing the administration of the retirement plan, making benefit determinations, and managing the investment of the System's assets. The Board operates under authority granted by Article XVI of the Constitution of the State of California.

Article XVI, Section 17(b) of the Constitution of the State of California provides that "the members of the Retirement Board of a public retirement system shall discharge their duties…solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and for the defraying of reasonable expenses of administering the system. A Retirement

Board's duty to its participants and their beneficiaries shall take precedence over any other duty." Section 17(a) further provides that the Board has "…the sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries."

The ACERA Board of Retirement is a nine-member Board. The Alameda County Board of Supervisors appoints four members, and four are elected by ACERA's membership. The County Treasurer is an ex-officio member. Board members, with the exception of the County Treasurer, serve three-year terms in office, with no term limits. The four elected Board members are selected as follows:

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

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

Member Benefits Update

ACERA contributes a monthly amount towards the purchase of health care for members who are enrolled in an Alameda County health benefit plan. ACERA does not control plan choice, eligibility, enrollment or benefits. The Supplemental Retiree Benefit Reserve (SRBR) provides the funds for ACERA's contribution.

In 2002 the Board voted to continue ACERA's contributions to the health, dental and vision programs. It also approved the Medicare Part B reimbursement and the 85% purchasing power cost-of-living benefit (COLA), which are also covered by the SRBR.

The Board is committed to maintaining the viability of ACERA's retiree health insurance program. However, the future cost of health coverage is impossible to predict, and today's increasing health care costs are a discouraging trend. Maintaining adequate health care coverage for active and retired members will remain a critical challenge for ACERA and Alameda County in the years to come.

Member Services

Staffing Impact on Service

Although the overall volume of service requests increased in 2002, no major changes were made to ACERA's organizational structure. However, workflow and team structure were regularly reviewed to ensure timely delivery of member services and to reduce the service requests backlog. As a result, the response time to requests such as service audits and retirement allowance estimates has been significantly shortened and the backlog reduced.

New Member Orientations

In December 2002, ACERA capitalized on an opportunity to collaborate with Alameda County by participating in the County's New Employee Orientation process. Each pay period Alameda County provides employees with information regarding payroll, health and dental benefits, general County policies, and retirement membership. The orientation was videotaped and is now readily available to employees across the County.

Improved Member Statements

In 2002 ACERA provided its members with a more comprehensive member statement that included demographic, service, salary and contribution details for their review.

The implementation of the Retirement Information System (RIS) made this possible.

The yearly statement is now a more effective communications tool for delivering important information in our database to every member. ACERA's former information system could not store much historical data, so paper file records were required. The 2002 member statements also included a response form to expedite member inquiries to ACERA regarding their individual records.

Call Center Opens

In November 2002 ACERA opened its new Customer Service Call Center, which is a key part of our continuing and sustained efforts to improve member service. The Call Center, whose infrastructure was developed in 2001 and implemented in 2002, is a blend of technology and ACERA's personnel resources. It was designed with ACERA's members in mind. Calls are not answered by a message-driven system but by experienced staff who have been trained to answer a broad range of questions regarding benefits and services. Their top priority is to provide members with fast, accurate, high-quality service. The Call Center handles about 2,000 calls per month.

Member Communications

To enhance communications with members, ACERA launched a quarterly newsletter, *What's Up, News for ACERA Members,* in the fall of 2002. Distributed to all members—active, deferred and retired, it delivers up-to-date news on member benefits and services, important information regarding the activities of ACERA's Board of Retirement, and insight into Board decisions that impact members and the Fund.

Headquarters Build Out

The 2001 purchase of the building housing our headquarters at 475–14th Street in Oakland is proving a solid investment. In 2002 we began building out the 11th floor so that we could consolidate all staff offices and benefit functions on the 10th and the 11th floors, rather than having them distributed throughout the building.

We also began construction of our new training center. The 1,697-square-foot space on the 11th floor is now the venue for retiree seminars, internal training as well as business-related events. Configured with computers, it is expanding our ability to meet the training and counseling needs of all our members.

Technology Update

ACERA met its target date for the implementation and full integration of the Retirement Information and Accounting Information Systems (RIS and AIS) in January 2002. The milestone, a culmination of a process that began in 1998, was a significant achievement. Over a three-year period, thousands of member records were integrated, tested, balanced and converted into the new system.

The two automated systems ensure timely, efficient transmission of transactions and thus free our staff to focus on member service needs. Prior to the adoption and integration of these systems, staff had to track and monitor the flow of data between our benefits and retirement databases and records manually! Now staff can quickly access a member's data online.

To ensure the accuracy of information shared by the two systems, staff are developing reports to track data from each. With these reports we expect to test and verify the data workflow between the systems, enabling us to guarantee greater completeness and accuracy of our records.

Accounting System And Reports

Management of ACERA is responsible for establishing and maintaining an internal control structure designed to ensure that ACERA's assets are protected from loss, theft, or misuse. Responsibility for the accuracy, completeness, and fair presentation of information, and all disclosures rests with ACERA's management. The accounting firm of Williams, Adley & Co., LLP provides financial statement and audit services. The financial audit ensures that ACERA's financial statements are presented in conformity with generally accepted accounting principles and are free from material misstatement. Internal controls are reviewed to ensure that ACERA's operating policies and procedures are being adhered to and are sufficient to safeguard ACERA's assets.

This report has been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (GASB) and its predecessor, the National Council on Governmental Accounting.

ACERA's transactions are reported on the accrual basis of accounting. Revenues are taken into account when earned, regardless of the date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when the payment is made.

Actuarial Funding Status

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

ACERA engages an independent actuarial consulting firm to conduct annual actuarial valuations and to make recommendations to the Board of Retirement.

With the decline in the U.S. economy, ACERA's funded ratio has declined from 105.8% to 92.5% as of December 31, 2001 and 2002, respectively. Because of the weak economy and investment losses, the Board of Retirement will need to increase employer contribution rates to maintain a prudent funding plan. In other years, investment gains subsidized employers contribution rates. But ACERA, like all institutional investors, is now forced to raise contribution rates to replenish benefit reserves. The Actuarial Section of this report contains a more detailed discussion of funding.

The actuarial accrued liability of ACERA on December 31, 2002 and December 31, 2001 amounts to $3,559,613,000 and $3,140,216,000, respectively. The actuarial value of assets at December 31, 2002 and December 31, 2001 amounts to $3,294,053,000 and $3,321,794,000, respectively.

Investments

General Authority

Article XVI, Section 17 of the Constitution of the State of California provides that "Notwithstanding any other provisions of law or this Constitution, the Retirement Board of a public pension or retirement system shall have plenary authority and fiduciary responsibility for investment of moneys and administration of the system…"

Article XVI, Section 17(a) of the Constitution of the State of California provides that "the Retirement Board of a public pension or retirement system shall have the sole and exclusive fiduciary responsibility over the assets…"

Prudent Expert Duty

Article XVI, Section 17(c) of the Constitution of the State of California, provides that "the members of the Retirement Board of a public pension or retirement system 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 aim." By permitting further diversification of investments within a fund, the prudent expert standard may enable a fund to reduce overall risk and increase returns. A summary of ACERA's asset allocation can be found in the Investment Section of this report.

The prudent expert rule permits the Board to establish an investment policy based upon professional advice and counsel and allows for delegation of investment authority to professional investment advisors. ACERA's Investment Policy outlines the responsibility for the investments of the Fund and the degree of risk that is deemed appropriate for the Fund. Investment advisors are to carry out their responsibilities in accordance with the Board of Retirement's policies and guidelines.

For the years ended December 31, 2002 and December 31, 2001, ACERA investments provided a –6.8% and –3.1% rate of return, respectively. ACERA's annualized rate of return over the last three years was –3.4%. Over the last five years, it was 3.9%.

Professional Services

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

An opinion from ACERA's certified public accountant, a letter from its investment consultant, and a letter of certification from ACERA's actuary are included in this report. The consultants and investment managers retained by the Board are listed on pages 10 and 46 of this report.

Certificate Of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (see page 11) to ACERA for its CAFR for the year ended December 31, 2001. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The CAFR must satisfy both generally accepted accounting principals and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. ACERA has received a Certificate of Achievement for the last six years. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting this CAFR to the GFOA.

Acknowledgments

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 report is being mailed to all employers and to employee and retiree organizations. Their cooperation contributes significantly to the success of ACERA. The Annual Report to Members is being mailed to all members. The complete CAFR is available upon request. We hope our employers and our members find this report informative.

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

Respectfully submitted,

Charles F. Conrad

Charles F. Conrad
General Manager
June 11, 2003

MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2002

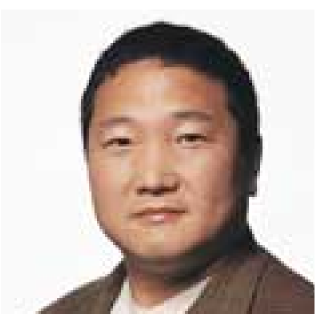
Dave Safer
Chair
Elected by General Members

Annette Cain-Darnes
1st Vice-Chair
Appointed by the Board of Supervisors

Keith Carson
Appointed by and Member of the Board of Supervisors

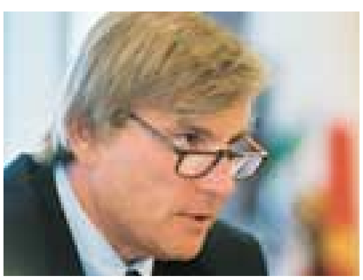
Sandre Swanson
Appointed by the Board of Supervisors

Charles L. Harrington
Elected by Retired Members



William Schaff
Appointed by the Board of Supervisors

Liz Koppenhaver
Elected by Safety Members

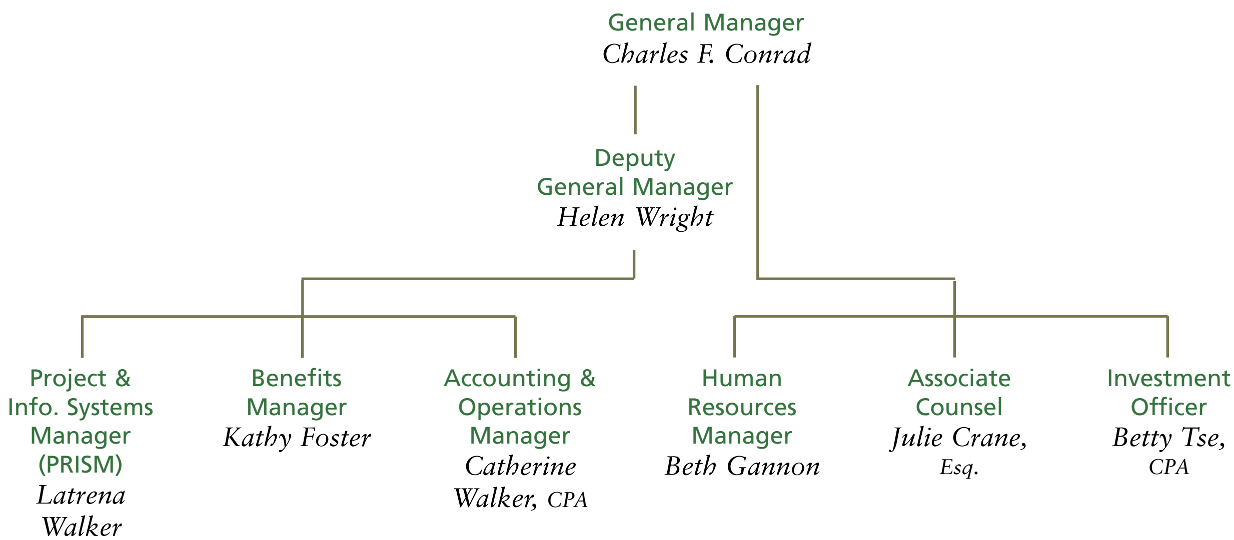


Robert Chambers
2nd Vice-Chair
Elected by General Members

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

ADMINISTRATIVE ORGANIZATION CHART

As of December 31, 2002



LIST OF PROFESSIONAL CONSULTANTS†

Actuary

Mercer Human Resource Consulting

Auditor

Williams, Adley & Co., LLP

Custodian

State Street Bank

Legal

Bob Pickus, Esq.
Hanson, Bridgett, Marcus, Vlahos, Rudy, LLP
Jones, Day, Reavis & Pogue
Meyers, Nave, Riback, Silver & Wilson
Morrison & Foerster, LLP
Sheppard, Mullin, Richter & Hampton, LLP

Personnel Coordination

Lakeside Group

Publications, Layout & Design

Laura Meyers Design
Tobi Designs

Technical Support & Other Specialized Services

Accounting Systems & Solutions
Coleen A. Magorian
Information Resources
Intermedia Communications
Levi, Ray & Shoup, Inc.
Linea Solutions
Xapnet

† List of Investment Professionals is located on page 46 of the Investment Section of this report.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Alameda County Employees' Retirement Association, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
December 31, 2001

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

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

President

Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999, 2000

Daisy Fong

**Administrative Specialist,
Auditor Controller's Office,
seven years with
Alameda County**

SECTION 2

> FINANCIAL

INDEPENDENT AUDITORS' REPORT

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

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, 2002 and 2001, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of ACERA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets as of December 31, 2002 and 2001, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated May 21, 2003 on our consideration of ACERA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

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 page 34 are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants on pages 36 and 37, and introduction, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The information in the introduction, investment, actuarial, and statistical sections has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we express no opinion on it.

Williams, Adley & Company, LLP

Williams, Adley & Company, LLP
May 21, 2003

ACERA
ALAMEDA COUNTY EMPLOYEES'
RETIREMENT ASSOCIATION

475 14TH STREET, SUITE 1000, OAKLAND, CA 94612
800 838-1932 510 628-3000 FAX 510 287-5412

MANAGEMENT'S DISCUSSION AND ANALYSIS

We are pleased to provide this overview and analysis of the financial activities of ACERA for the years ended December 31, 2002 and 2001. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our Letter of Transmittal, which begins on page 2 of this report.

Financial Highlights

- The net assets of ACERA at the close of the year 2002 are $3,182,940,172 (net assets held in trust for pension benefits). All of the net assets are available to meet ACERA's ongoing obligations to plan participants and their beneficiaries.
- ACERA's total net assets held in trust for pension benefits decreased by $334,142,190, or 9.5%, primarily as a result of market declines.
- ACERA's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2002, the date of our last actuarial valuation, the funded ratio for ACERA was approximately 92.5%. In general, this indicates that for every dollar of benefits due we have approximately $0.93 of assets to cover it.
- Revenues (Additions to Plan Net Assets) for the year were $(165,328,832), which includes member and employer contributions of $80,271,348, an investment loss of $(246,640,428), net securities lending income of $921,977, and miscellaneous income of $118,271.
- Expenses (Deductions in Plan Net Assets) increased from $166,876,794 to $168,813,358 over the prior year, or approximately 1.2%.

Overview of the Financial Statements

The following discussion and analysis are intended to serve as an introduction to ACERA's financial statements, which are comprised of these components:

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

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

The Statement of Plan Net Assets is a snapshot of account balances at year-end. It indicates the assets available for future payments to retirees and any current liabilities that are owed at this time.

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

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets report information about ACERA's activities. These statements include all assets and liabilities, using the full accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All investment gains and losses are shown at trade date, not settlement date. In addition, both realized and unrealized gains and losses are shown on investments, and all property and equipment (capital assets) are depreciated over their useful lives.

These two statements report ACERA's net assets held in trust for pension benefits (net assets)—the difference between assets and liabilities—as one way to measure the system's financial position. Over time, increases and decreases in ACERA's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors, such as market conditions, should also be considered in measuring ACERA's overall health. (See ACERA's financial statements on pages 23–24 of this report).

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements. (See Notes to Financial Statements on pages 25–33 of this report).

Other Information. In addition to the financial statements and accompanying notes, this report presents certain required supplementary information concerning ACERA's progress in funding its obligations to provide pension benefits to members (see Required Supplementary Information on page 34 of this report).

The schedules of administrative expenses, investment manager fees and other investment expenses, and payments to consultants are presented immediately following the required supplementary information on pensions.

Financial Analysis

Currently $3,182,940,172 in net assets is held in trust for pension benefits. All of the net assets are available to meet ACERA's ongoing obligation to plan participants and their beneficiaries.

As of December 31, 2002, net assets decreased by 9.5% over the prior year primarily due to reductions in the fair value of investments and an increase in current liabilities (See Table 1 page 18). The increase in current liabilities is primarily due to an increase of $20,650,289 in the securities

ACERA's Net Assets (Table 1)

For the Years Ended December 31, 2002 and 2001

	2002	2001	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Current and Other Assets	$ 33,169,811	$ 36,940,400	$ (3,770,589)	–10.2%
Investments at Fair Value	3,372,150,630	3,673,042,308	(300,891,678)	–8.2%
Capital Assets	9,420,705	8,176,713	1,243,992	15.2%
Total Assets	**3,414,741,146**	**3,718,159,421**	**(303,418,275)**	**–8.2%**
Current Liabilities	231,800,974	201,077,059	30,723,915	15.3%
Total Liabilities	**231,800,974**	**201,077,059**	**30,723,915**	**15.3%**
Net Assets	**$ 3,182,940,172**	**$ 3,517,082,362**	**$ (334,142,190)**	**–9.5%**

For the Years Ended December 31, 2001 and 2000

	2001	2000	Increase/(Decrease) Amount	Increase/(Decrease) Percent
Current and Other Assets	$ 36,940,400	$ 39,322,499	$ (2,382,099)	–6.1%
Investments at Fair Value	3,673,042,308	3,775,031,757	(101,989,449)	–2.7%
Capital Assets	8,176,713	5,952,152	2,224,561	37.4%
Total Assets	**3,718,159,421**	**3,820,306,408**	**(102,146,987)**	**–2.7%**
Current Liabilities	201,077,059	85,512,724	115,564,335	135.1%
Total Liabilities	**201,077,059**	**85,512,724**	**115,564,335**	**135.1%**
Net Assets	**$ 3,517,082,362**	**$ 3,734,793,684**	**$ (217,711,322)**	**–5.8%**

lending liability (which is offset by a corresponding amount, $20,650,289, in securities lending collateral assets) and an increase in the payable for security purchases of $9,045,659.

For the year ended December 31, 2002, members' contributions increased by 12.0% and employers' contributions increased by 15.7% over the prior year as a result of increases in members' salaries, retroactive salary adjustments, and a marginal increase in contribution rates. Also, securities lending income increased by 53.9% over the prior year, which resulted from adjustments to the investments held to reach the targeted asset allocation. Service retirement benefit payments increased by 1.3% due to a slight increase in the number of new retirees and the cost-of-living adjustments. Administrative expenses were reduced by 5.6% due to several factors, including the hiring of permanent staff to replace consultants and temporary staff, renegotiated phone contracts, and reduced Board expenditures.

Despite fluctuations in stock and other financial markets, ACERA's management and actuary concur that ACERA continues to remain in a sound financial position and will be able to meet its obligations to plan participants and beneficiaries.

Capital Assets

ACERA's investment in capital assets increased from $8,176,713 to $9,420,705 (net of accumulated depreciation and amortization). This investment in capital assets includes information systems, equipment, furniture, leasehold improvements, and construction-in-progress. The total increase in ACERA's investment in capital assets for the current year was 15.2% over 2001. The major capital asset investment during 2002 was the enhancement of ACERA's technology infrastructure. This enhancement includes additional customizations and improvements to ACERA's Retirement Information System (RIS).

Reserves

ACERA's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see Table 2). During the past six years the following have been implemented and have impacted the reserve accounts and the amount of interest credited to reserve accounts:

- In 1996, the adoption of GASB 25
- In 1998, the implementation of a five-year smoothing methodology of investment gain and losses
- In 2002, the implementation of an 80%–120% market value corridor to avoid the actuarial valuation asset from deviating too significantly from the actual market value

Under GASB 25, investments are stated at fair value instead of at cost and include the recognition of unrealized gains and losses in the current period. These gains and losses are held in the Market Stabilization Reserve, an account established in 1996. Initially, these gains and losses were only allocated to the Market Stabilization Reserve until the actual gains and losses were realized by the sale of the investment asset. However, with the implementation in 1998 of the five-year smoothing methodology, a portion of these unrealized gains and losses is recognized and allocated to all other reserves.

In order to avoid the smoothed value from deviating significantly from the actual mar-

ACERA's Reserves (Table 2)

As of December 31, 2002, 2001, and 2000

	2002	2001	2000
Member Reserves	$ 900,395,168	$ 863,954,729	$ 798,204,083
Employer Advance Reserve	618,278,246	634,211,957	624,874,031
Retired Member Reserves	1,890,690,935	1,831,989,629	1,701,891,271
Supplemental Retiree Benefit Reserve	518,460,112	520,349,815	486,541,835
Contingency Reserve		100,265,797	114,609,192
Market Stabilization Reserve			8,673,272
Total Reserves at Fair Value	**$ 3,927,824,461**	**$ 3,950,771,927**	**3,734,793,684**
Under-Funded Reserve Accounts			
Contingency Account	(108,296,255)		
Market Stabilization Account	(636,588,034)	(433,689,565)	
Total Reserves and Underfunded Accounts	**$ 3,182,940,172**	**$ 3,517,082,362**	**3,734,793,684**

ket value, the Retirement Board adopted a policy in 2002 that the smoothed value cannot be less than 80% nor greater than 120% of the market value. If the smoothed value is greater than 120%, then the market losses (or market gain if less than 80%) have to be recognized immediately.

For the year ending December 31, 2002, the adjustment required to reflect losses over 120% of market value was $190.9 million.

Therefore, instead of directly reducing the value of the Employer, Member or Supplemental Retiree Benefit Reserves which make up the smoothed value of assets, the losses were credited to the Contingency Reserve account resulting in a net (after offsetting the losses with positive balance left over from prior years) underfunded balance of $108.3 million and a funded balance of $100.3 million as of December 31, 2002 and 2001, respectively. The underfunded balance has been taken into account in determining how much assets are available in the valuation to defray the actuarial accrued liability of the Association. The interest crediting at the actuarial assumed interest rate of 4.125% and 8.25% was done at December 31, 2002 and 2001, respectively.

The decline in the fair value of investments in the years 2002 and 2001, interest crediting at the actuarial assumed interest rate, and the five-year smoothing of investment gains and losses resulted in a balance in the Market Stabilization Reserve of approximately $(636.6) million and $(433.7) million as of December 31, 2002 and 2001, respectively.

Revenues—Additions to Plan Net Assets (Table 3)

For the Years Ended December 31, 2002 and 2001

	2002	2001	Increase/(Decrease) Amount
Employer Contributions	$ 26,985,360	$ 23,315,033	$ 3,670,327
Members Contributions	53,285,988	47,588,887	5,697,101
Net Investment Income (Loss) *	(246,640,428)	(123,201,253)	(123,439,175)
Securities Lending Income	921,977	599,063	322,914
Miscellaneous Income	118,271	863,742	(745,471)
Total	**$ (165,328,832)**	**$ (50,834,528)**	**$ (114,494,304)**

For the Years Ended December 31, 2001 and 2000

	2001	2000	Increase/(Decrease) Amount
Employer Contributions	$ 23,315,033	$ 22,042,914	$ 1,272,119
Members Contributions	47,588,887	42,829,708	4,759,179
Net Investment Loss **	(123,201,253)	(4,515,679)	(118,685,574)
Securities Lending Income	599,063	323,483	275,580
Miscellaneous Income	863,742	1,394,247	(530,505)
Total	**$ (50,834,528)**	**$ 62,074,673**	**$ (112,909,201)**

* Net of Investment Expenses of $15,271,379 and $13,198,807 for Dec. 31, 2002 and 2001, respectively

** Net of Investment Expenses of $13,198,807 and $10,866,120 for Dec. 31, 2001 and 2000, respectively

Expenses—Deductions in Plan Net Assets (Table 4)

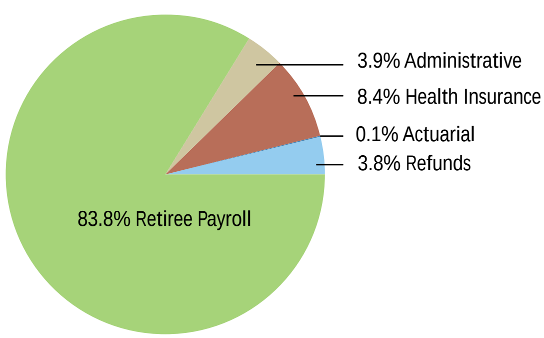
For the Years Ended December 31, 2002 and 2001

	2002	2001	Increase/(Decrease) Amount
Retiree Payroll	$ 141,462,262	$ 139,637,818	$ 1,824,444
Administrative	6,639,361	7,033,504	(394,143)
Health Insurance	14,082,662	11,724,117	2,358,545
Actuarial	181,063	168,895	12,168
Refunds	6,448,010	8,312,460	(1,864,450)
Total	**$ 168,813,358**	**$ 166,876,794**	**$ 1,936,564**

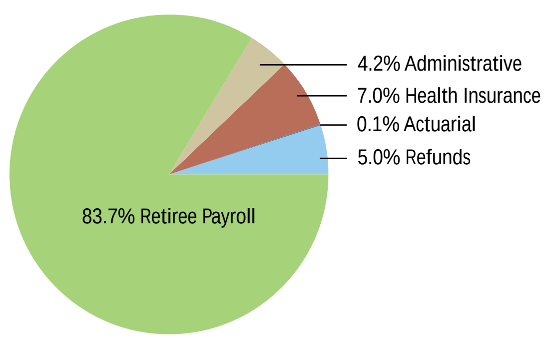
For the Years Ended December 31, 2001 and 2000

	2001	2000	Increase/(Decrease) Amount
Retiree Payroll	$ 139,637,818	$ 144,590,790	$ (4,952,972)
Administrative	7,033,504	5,045,550	1,987,954
Health Insurance	11,724,117	10,692,779	1,031,338
Actuarial	168,895	145,040	23,855
Refunds	8,312,460	6,266,842	2,045,618
Total	**$ 166,876,794**	**$ 166,741,001**	**$ 135,793**

Expenses—Deductions in Plan Net Assets



2002



2001

ACERA's Activities

Net assets decreased by $334,142,190, largely due to market returns, which accounted for a 9.5% decrease over the prior year. Key elements of this decrease are described in the sections that follow.

Revenues—Additions to Plan Net Assets

The reserves needed to finance retirement benefits are accumulated through the collection of employer and employee contributions and through earnings on investment income (net of investment expense). Losses for the year ended December 31, 2002, totaled $165,328,832. (See Table 3 on page 20.)

By year-end, overall revenues had decreased by $114,494,304, from the prior year due primarily to investment losses. The investment section of this report reviews the results of investment activity for the year ended December 31, 2002.

Expenses—Deductions from Plan Net Assets

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

Deductions for the year ending December 31, 2002 totaled $168,813,358, an increase of 1.2% over December 31, 2001 (see Table 4 on page 21). Increases were due to retiree benefit payments and health insurance expenses. Health insurance costs increased due to higher premiums.

ACERA's Fiduciary Responsibilities

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

Requests for Information

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investment managers and creditors with a general overview of ACERA's finances and to account for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

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

Catherine E. Walker, CPA
Accounting & Operations Manager
June 11, 2003

Statement of Plan Net Assets

As of December 31, 2002 and 2001

	2002	2001
ASSETS		
Cash	$ 3,157,043	$ 5,196,756
Receivables		
Contributions	5,301,787	7,458,735
Accrued Interest	17,468,803	18,935,143
Dividends	1,041,888	1,073,507
Real Estate	390,936	594,040
Securities Lending	81,803	101,180
Sale of Securities	5,173,335	3,087,755
Other	131,663	111,261
Total Receivables	**29,590,215**	**31,361,621**
Prepaid Expenses	422,553	382,023
Investments, at Fair Value		
Short-Term Investment Fund	113,015,280	145,779,597
Government Bonds	268,347,608	383,546,108
Corporate Bonds	562,447,657	539,080,640
International Bonds	178,960,971	179,115,512
Corporate Stocks	381,995,462	441,345,118
Domestic Equity Index Fund	624,488,410	673,228,179
Stock Index Futures	3,188,975	5,941,257
International Equity Funds	684,575,271	706,904,981
Real Estate Investment Trusts	9,651,016	12,300,896
Real Estate Properties	262,925,839	302,583,680
Real Estate Trusts	7,732,951	15,909,122
Real Estate Mortgage Loans	78,562	208,196
AFL-CIO Housing Trust	62,780,559	75,787,242
Total Investments	**3,160,188,561**	**3,481,730,528**
Securities Lending Collateral	211,962,069	191,311,780
Total Investments Including Securities & Lending Collateral	**3,372,150,630**	**3,673,042,308**
Capital Assets (Net of Accum. Depreciation of $2,164,570 and $1,508,928, respectively)		
Information Systems, Equipment, and Furniture	8,593,781	719,240
Construction in Progress	826,924	7,457,473
Total Fixed Assets	**9,420,705**	**8,176,713**
Total Assets	**3,414,741,146**	**3,718,159,421**
LIABILITIES		
Purchase of Securities	13,786,580	4,740,921
Accrued Investment and Actuary Expenses	2,621,970	2,655,337
Accrued Administration Expenses	1,220,378	1,232,210
Members Benefits & Refunds Payable	2,078,759	1,065,704
Securities Lending Liability	211,962,069	191,311,780
Stock Dividends Payable	59,680	50,423
Retirement Payroll Deductions Payable	71,538	20,684
Total Liabilities	**231,800,974**	**201,077,059**
Net Assets Held in Trust for Pension Benefits	**$ 3,182,940,172**	**$ 3,517,082,362**

(A Schedule of Funding Progress is presented on page 34. See accompanying Notes to Financial Statements beginning on page 25.)

Statement of Changes in Plan Net Assets

For the Years Ended December 31, 2002 and 2001

	2002	2001
ADDITIONS		
Contributions		
Members	$ 53,285,988	$ 47,588,887
Employers	26,985,360	23,315,033
Total Contributions	**80,271,348**	**70,903,920**
Investment Income		
Net Depreciation in Fair Value of Investments	(341,465,348)	(183,129,199)
Interest	76,620,216	39,629,643
Dividends	10,990,018	8,752,234
Real Estate, net	22,486,065	24,744,876
Total Investment Income	**(231,369,049)**	**(110,002,446)**
Less: Investment Expenses	(15,271,379)	(13,198,807)
Net Investment Loss	**(246,640,428)**	**(123,201,253)**
Securities Lending Income		
Securities Lending	4,320,793	4,337,044
Less: Securities Lending Expenses	(3,398,816)	(3,737,981)
Net Securities Lending Income	**921,977**	**599,063**
Miscellaneous Income	118,271	863,742
Total Additions	**(165,328,832)**	**(50,834,528)**
DEDUCTIONS		
Benefit Payments		
Service Retirement	132,563,991	130,913,201
Death Payments	2,055,948	2,005,457
Supplemental Cost of Living	6,842,323	6,719,160
Health Insurance Subsidies	14,082,662	11,724,117
Total Benefit Payments	**155,544,924**	**151,361,935**
Members Refunds	6,448,010	8,312,460
Administration		
Administrative Expenses	6,639,361	7,033,504
Actuarial Expenses	181,063	168,895
Total Administration	**6,820,424**	**7,202,399**
Total Deductions	**168,813,358**	**166,876,794**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	3,517,082,362	3,734,793,684
Excess of Additions over Deductions	(334,142,190)	(217,711,322)
End of Year	**$ 3,182,940,172**	**$ 3,517,082,362**

(See accompanying Notes to Financial Statements on page 25.)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

ACERA adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, for the year ended December 31, 2000. GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* have also been implemented in the basic financial statements and accompanying notes. Implementation of GASB Statements No. 34, No. 37, and No. 38 had no effect on Plan Net Assets.

Reporting Entity

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

Basis of Accounting

ACERA's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenues in the period in which employee services are performed. Investment income is recognized as revenue when earned. Retirement benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Other expenses are recognized when the corresponding liabilities are incurred. The net appreciation (depreciation) in fair value of investments held by ACERA is recorded as an increase (decrease) to investment income based on the valuation of investments.

Cash and Deposits

Cash includes deposits with a financial institution and pooled cash and deposits with the Alameda County Treasurer. Pooled cash approximates fair value. Income on pooled cash is allocated based on ACERA's average daily balance in relation to total pooled assets.

Method Used to Value Investments

Short-term investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are reported based on the remaining principal balances, which approximate the value of future principal and interest payments discounted at prevailing rates for similar instruments. The fair value of real estate investments is based on prices in a competitive market as determined by specialists.

Capital Assets

Capital assets and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Capital assets with an initial cost of more than $3,000 and an estimated useful life in excess of one year are capitalized and depreciated. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the depreciable assets or over the term of the lease, respectively. Computers, equipment, and the accounting information systems are depreciated over five years, whereas furniture is depreciated over seven years and the retirement information system is depreciated over fifteen years. Depreciation expense was $661,024 and $357,989 for the years ended December 31, 2002 and 2001, respectively. The cost and accumulated depreciation of fixed assets are shown in the Schedule of Capital Assets.

Schedule of Capital Assets

For the Years Ended December 31, 2002 and 2001

	2002	2001
Equipment and Furniture	$ 2,272,847	$ 2,228,168
Construction in Progress	826,924	7,457,473
Information Systems	8,485,504	
Total Capital Assets (Cost)	**11,585,275**	**9,685,641**
Less: Accumulated Depreciation	(2,164,570)	(1,508,928)
Total Capital Assets – Net of Depreciation	**$ 9,420,705**	**$ 8,176,713**

Estimates

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

Reclassification

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

2. Plan Description

ACERA began operations on January 1, 1948. It is governed by the California Constitution, the County Employees Retirement Law of 1937 and the bylaws, procedures and policies adopted by the Board of Retirement. ACERA operates as a cost-sharing multi-employer defined benefit plan for Alameda County (the County) and four participating Special Districts located in the County but not under the control of the County Board of Supervisors. ACERA provides retirement, disability and death benefits to its safety and general members, and administers retiree health, dental, and vision benefit programs. All risks and costs, including benefit costs, are shared by the participating entities. One actuarial valuation is performed annually for the system as a whole.

Plan Membership

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

ACERA's Membership

As of December 31, 2002 and 2001

	2002	2001
Retirees and Beneficiaries Currently Receiving Benefits	5,996	5,867
Active Employees:		
Vested	6,609	6,507
Nonvested	4,729	4,467
Inactive Vested Members	1,141	1,025
Total Membership	**18,475**	**17,866**

Benefit Provisions

Members become vested after five years of credited service. Vested general members may retire at age fifty or older with ten or more years of qualifying service, at any age with thirty or more years of qualifying service, or at age seventy or older regardless of service credit. Vested safety members may retire at age fifty or older with ten or more years of qualifying service, or at any age with twenty or more years of qualifying service. Members who qualify are entitled to monthly retirement benefits for life. Service retirement benefits are based on final average salary, age at retirement, and length of service as of the retirement date, according to applicable statutory formulae.

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

ACERA is integrated with Social Security for all employees except most safety members. For members covered by Social Security, the retirement benefit is adjusted by a reduction factor.

Cost-of-Living Adjustment

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

Supplemental Cost-of-Living

In addition to basic cost-of-living increases, the Board of Retirement implemented a non-vested Supplemental Cost-of-Living adjustment (Supplemental COLA) program, effective January 1, 1998. The Supplemental COLA is structured to maintain purchasing power at no less than 85% of the original benefit. The Supplemental COLA is applicable to members who have an accumulated loss of purchasing power of more than 15% due to inflation.

Funding for the Supplemental COLA is provided solely through the Supplemental Retiree Benefit Reserve (SRBR) which derives its funding from interest posting and investment earnings in excess of the actuarial interest assumption rate.

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

3. Contributions

Employer and member contributions are based on statute and rates recommended by an independent actuary and adopted by the Board of Retirement. Covered employees are required by statute to contribute toward their pensions. Member contribution rates are formulated on the basis of age at the date of entry and the actuarially calculated benefits. ACERA members are required to contribute between 5.62% and 15.15% of their annual covered salary. Member contributions are refundable upon termination of employment.

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

4. Reserves

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

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

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

Retired Member Reserves represent the total accumulated transfers from Member Reserves, the Employer Advance Reserve and credited interest, less payments to retired members, beneficiaries and survivors.

Contingency Reserve represents reserves accumulated for future earnings deficiencies. The Contingency Reserve is used to satisfy the statutory requirement to reserve at least 1% of total assets against the above deficiencies. The balance of the Contingency Reserve, which is funded entirely from investment earnings, cannot exceed 1% of the total assets of the retirement system. The balance of the Contingency Reserve was $(108,296,255) and $100,265,797 for the years ended December 31, 2002 and 2001, respectively.

Supplemental Retiree Benefit Reserve (SRBR) represents funds required by statute to be set aside from investment earnings to provide supplemental benefits to retirees. The Health Insurance Subsidies, Supplemental COLA, Medicare Part B Reimbursement, Health Equity Location Program, vision, dental, and increased death benefits to retirees are currently being funded by this reserve. The SRBR was established on January 1, 1985, upon adoption of Article 5.5 of the Government Code by the Board of Supervisors for Alameda County.

Market Stabilization Reserve represents unrealized gains or losses recognized in the financial statements as a result of the adoption of GASB Statement No. 25, which requires reporting investments at fair value instead of cost. The account was established to help offset the impact of market fluctuation. Semiannually, income and losses from investments stated at fair value are placed in this account as realized and available earnings are credited to other reserves over a five year period. The Market Stabilization Reserve was under-funded by $ 636,588,034 for the year ended December 31, 2002. (See Table 2 on page 19.)

Under Article 5.5 of the 1937 Act, earnings (interest) are first allocated to all reserves except for the Contingency and Market Stabilization. Interest is equivalent to the actuarial interest assumption rate, which is approved by the Board of Retirement. The Contingency Reserve is then adjusted up to an amount not to exceed 1% of total assets at fair value as established by the Board and permitted by Section 31616 of the California Government Code. The remaining net earnings are allocated 50% to the SRBR and 50% proportionally to all other reserves with the exception of the Contingency and Market Stabilization as required by the Government Code.

5. Actuarial Valuation

ACERA retains an independent actuarial firm to conduct an actuarial valuation to monitor ACERA's funding status and funding integrity. This valuation is updated annually for economic and non-economic assumptions. The last valuation was performed as of December 31, 2002, and determined the plan's funded status to be 92.5% (calculated per GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*).

6. Postemployment Healthcare Benefits

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

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

Summary of Postemployment Healthcare Benefits

For the Years Ended December 31, 2002 and 2001

	2002	2001
County's Healthcare Premium Account Balance	$ 2,096,611	$ 1,620,977
Health Insurance Subsidies Paid	14,082,662	11,724,117
Number of Subsidized Retirees:		
Medical	3,960	3,912
Dental	5,179	4,878
Vision	5,172	4,878

Plan Net Assets are not held in trust for post-employment healthcare benefits. Each year, the County pays an amount to cover the estimated healthcare premium subsidies.

7. Industry Concentration of Portfolio Assets

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

8. Deposits and Investments

ACERA's investment guidelines reflect the duties imposed by an investment standard known as the Prudent Expert Rule. The Prudent Expert Rule, as set forth in the State Constitution, establishes a standard for all fiduciaries, which includes anyone who has discretionary authority with respect to ACERA's investments.

Deposits

Operational cash accounts held with a financial institution are swept on a daily basis into a money-market fund, which invests in repurchase agreements and U.S. treasury bills and notes. The cash amounted to $2,323,319 and $3,065,958 as of December 31, 2002 and 2001, respectively. ACERA also, participates in the Alameda County Treasurer's investment pool. The pool invests in Local Agency Investment Funds (LAIF), banker's acceptances, collateralized time deposits, negotiable certificates of

ACERA Investments

For the Years Ended December 31, 2002 and 2001

		2002		2001	
	Risk Category	Basis/ Cost	Fair Value	Basis/ Cost	Fair Value
INVESTMENTS—CATEGORIZED					
Government Bonds	1	$ 260,646,281	$ 183,541,874	$ 393,436,235	$ 246,944,608
Corporate Bonds	1	550,957,311	524,306,777	543,462,292	522,729,890
Corporate Stocks	1	438,851,345	330,203,340	414,943,226	402,985,588
International Bonds	1	154,114,233	178,960,971	182,342,229	179,115,512
International Equity	1	723,681,509	647,351,938	652,279,048	706,904,981
Real Estate Investment Trusts (REIT)	1	9,482,512	9,651,016	11,274,027	12,300,896
Short-Term Investment Fund	3	113,015,280	113,015,280	145,779,597	145,779,597
Total		**2,250,748,471**	**1,987,031,196**	**2,343,516,654**	**2,216,761,072**
Investments made with Securities Lending Cash Collateral					
Government Bonds	3		84,805,734		136,601,500
Corporate Bonds	3		38,140,880		16,350,750
Corporate Stocks	3		51,792,122		38,359,530
International Equity	3		37,223,333		
Total			**211,962,069**		**191,311,780**
Total Categorized Investments		**2,250,748,471**	**2,198,993,265**	**2,343,516,654**	**2,408,072,852**
INVESTMENTS – NOT CATEGORIZED					
Domestic Equity Index Fund		590,911,278	624,488,410	466,906,468	673,228,179
Stock Index Futures		3,824,425	3,188,975	5,865,645	5,941,257
AFL-CIO Housing Trust		59,385,864	62,780,559	75,030,115	75,787,242
Real Estate Properties		262,925,839	262,925,839	305,405,497	302,583,680
Real Estate Trusts		7,732,951	7,732,951	17,196,979	15,909,122
Real Estate Mortgage Loans		78,562	78,562	208,196	208,196
Total		**924,858,919**	**961,195,296**	**870,612,900**	**1,073,657,676**
Investments Held by Broker-Dealer under Securities Loans with Cash Collateral					
Government Bonds		77,984,982	83,052,249	137,088,156	134,694,514
Corporate Stocks		52,021,611	49,381,490	35,858,324	36,498,124
Corporate Bonds		39,205,991	37,330,614	19,055,407	16,147,489
International Equity		39,476,010	35,629,142		
Total		**208,688,594**	**205,393,495**	**192,001,887**	**187,340,127**
Securities Lending Collateral Margin			6,568,574		3,971,653
Total Non-Categorized Investments		**1,133,547,513**	**1,173,157,365**	**1,062,614,787**	**1,264,969,456**
Total Investments		**$ 3,384,295,984**	**$ 3,372,150,630**	**$ 3,406,131,441**	**$ 3,673,042,308**

deposits, commercial paper, corporate notes and bonds, money market funds, federal agency notes and bonds, federal agency discount notes, and U.S. treasury notes. The cash held in the investment pool was $833,724 and $2,130,798 at December 31, 2002 and 2001, respectively. The above deposits are both uninsured and uncollateralized.

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

Category 1 includes deposits that are insured or collateralized with securities held by ACERA or by its agent in ACERA's name.

Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in ACERA's name.

Category 3 includes deposits that are uncollateralized (this includes any bank balance that is collateralized with securities held by the pledging financial instituion, or by its trust department or agent but not in ACERA's name).

Investments

ACERA's asset classes include U.S. equity, international equity, U.S. fixed income, international fixed income, real estate, and cash. Any class may be held in direct form, pooled form, or both. As of December 31, 2002, eleven external investment managers managed securities portfolios and three investment managers were used for real estate investments.

Available cash held by investment managers is swept on a daily basis into a short term investment fund with our custodian bank which consists of short-term obligations and deposits, including U.S. treasury and agency obligations, corporate bonds, commercial paper, repurchase agreements, certificates of deposit, banker's acceptances, time deposits, and floating-rate notes.

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

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

Category 2 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent in ACERA's name. ACERA had no Category 2 investments at December 31, 2002 and 2001.

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

Real Estate

ACERA seeks to invest in institutional quality real estate across all property types and regions. The return objective is a 7.1% real rate of return over rolling five year periods. Two-thirds of the total return is expected to be derived from income.

Schedule of Real Estate Investment Income

For the Years Ended December 31, 2002 and 2001

	2002	2001
Real Estate Investment Income	$ 44,246,032	$ 44,609,969
Real Estate, Non-Operating Expense *	(6,537,742)	(5,945,726)
Real Estate, Operating Expenses	(15,222,225)	(13,919,367)
Real Estate, Net Income	**$ 22,486,065**	**$ 24,744,876**

* Non-operating expense includes interest expense which resulted from loans on properties

Securities Lending

The Board of Retirement policies authorize ACERA to participate in a securities lending program. Securities lending transactions, which are short-term collateralized loans of ACERA securities to brokers that allow ACERA to invest and receive earnings on the loan collateral for a loan rebate fee. Either ACERA or the borrower can terminate all securities loans on demand, although the average term of loans is one week. There are no restrictions on the amount of securities that may be lent.

ACERA's custodian bank administers its securities lending program. The custodian is responsible for maintaining an adequate level of collateral in an amount equal to at least 102% of the market value of loaned U.S. government securities. Collateral received may include cash, letters of credit, or securities. If securities collateral is received, ACERA cannot pledge or sell the securities collateral unless the borrower defaults.

At year-end, ACERA had no credit risk exposure to borrowers because the amounts ACERA owed to borrowers exceeded the amounts the borrowers owed to ACERA. ACERA's contract with the custodian requires it to indemnify ACERA if the borrowers fail to return the securities and the collateral is inadequate to replace the securities lent or fail to pay ACERA for income distributions by the securities issuers while the securities are on loan.

As of December 31, 2002 and 2001, ACERA had securities on loan with a carrying value of $205,393,495 and $187,340,127 for cash collateral of $211,962,069 and 191,311,780, respectively. The difference between the carrying value and the cash collateral is referred to as the securities lending collateral margin. As the securities on loan at year-end were collateralized by cash, the investments are presented as unclassified in the preceding schedule of custodial credit risk. Investments made with the cash collateral are classified by risk category.

ACERA's Securities Lending Income

For the Years Ended December 31, 2002 and 2001

	2002	2001
Gross Income	$ 4,320,793	$ 4,337,044
Expenses:		
Borrower Rebates	3,003,618	3,556,687
Bank Fees	395,198	181,294
Total Expenses	**3,398,816**	**3,737,981**
Net Income from Securities Lending	**$ 921,977**	**$ 599,063**

Derivative Financial Investments

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

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

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

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

9. Administrative Expenses

ACERA's Board of Retirement annually adopts an administrative expense budget based on the total asset base at fair value on June 30 of the preceding year. By statute, the administrative expenses are charged against ACERA's investment earnings and are limited to eighteen hundredths of one percent of the total assets of the retirement system as set forth under Government Code Section 31580.2.

10. Related Party Transactions

ACERA entered into a contract with Alameda County, Human Resources Department, The Lakeside Group, for personnel consulting services. As of December 31, 2002 and 2001, ACERA has remitted $77,000 and $78,886, which includes the contract amount, plus other reimbursable expenses incurred by The Lakeside Group.

ACERA received the following services from Alameda County departments:

	2002	2001
Allocated Costs	$ 102,881	$ 47,476
Salary Reimbursement for elected Board members	116,114	104,867
Personnel Services, Other	2,332	919
Total	**$ 221,327**	**$ 153,262**

During the year ended December 31, 2001, ACERA purchased the building where its offices are located and formed a title holding corporation named Oakland 14th St. Office, Inc. to acquire the building at 475-14th St., Oakland, CA 94612.

Schedule of Derivatives

For the Years Ended December 31, 2002 and 2001

	2002		2001	
	Cost	Market	Cost	Market
Collateralized Mortgage Obligations	$ 61,079,372	$ 63,201,129	$ 96,620,498	$ 96,402,997
Futures Contracts	44,476,513	43,823,938	53,074,763	53,150,500
Total Derivatives	**$ 105,555,885**	**$ 107,025,067**	**$ 149,695,261**	**$ 149,553,497**

ACERA Administrative Expenses

For the Years Ended December 31, 2002 and 2001

	2002	2001
Total Asset Base, at Fair Value (June 30, 2001 and 2000)	$ 3,696,256,667	$ 3,934,100,604
Maximum Allowable for Administrative Expense (.18% x $ 3,696,256,667 and $ 3,934,100,604)	6,653,262	7,081,381
Actual Administrative Expenses for the Fiscal Year	6,639,361	7,033,504
Excess of Allowance over Actual Administrative Expenses	**$ 13,901**	**$ 47,877**
Actual Administrative Expenses as a Percentage of Total Assets Base	**0.18%**	**0.18%**

REQUIRED SUPPLEMENTAL SCHEDULES

Schedule of Funding Progress

(In Millions of Dollars)

Actuarial Valuation Date December 31	Actuarial Value ($) of Plan Assets (a)	Accrued Actuarial Liability ("AAL")($) (b)	Funded Ratio (%) (a/b)	Unfunded AAL ("UAAL") ($) (b–a)	Covered Payroll ($) (c)	UAAL as a Percentage (%) of Covered Payroll [(b–a)/c]
1997	2,313	2,218	104.3%	(95)	413	–23.1%
1998	2,830	2,613	108.3%	(217)	462	–47.0%
1999	2,998	2,763	108.5%	(235)	488	–48.2%
2000	3,169	2,936	107.9%	(233)	532	–43.7%
2001	3,322	3,140	105.8%	(182)	590	–30.8%
2002	3,294	3,560	92.5%	266	641	41.4%

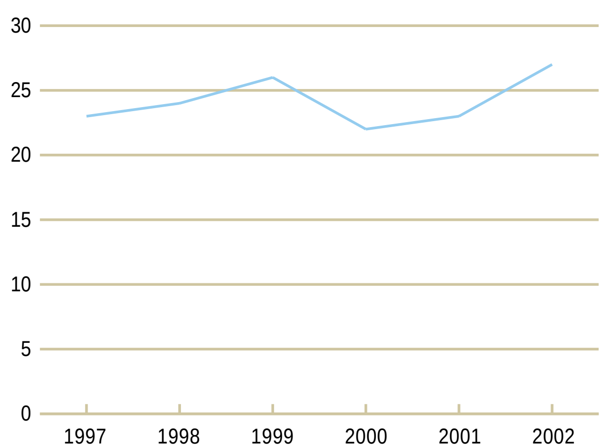
Schedule of Employer Contributions

(In Millions of Dollars)

Year Ended December 31	Annual Required Contribution ($)	Percentage (%) Contributed
1997	23	100
1998	24	100
1999	26	100
2000	22	100
2001	23	100
2002	27	100

Employer Contributions

(Dollars in Millions)



NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

The information presented in the supplementary schedules was determined as part of the actuarial valuations as of the date indicated. Additional information as of the latest actuarial valuation date, December 31, 2002 is as follows:

Actuarial Cost Method:

Entry Age Normal

Asset Valuation Method:

5-year smoothing of Fair Value

Amortization of Unfunded Liability:

The annual contribution rate which, if paid annually over the Unfunded Actuarial Accrued Liability (UAAL) amortization period, would accumulate to the amount necessary to fully fund the UAAL. Accumulation includes annual crediting of interest at the assumed investment earnings rate. The employer contribution is designed to remain as a level percentage of future active member payroll (including payroll of new members as they enter the Association) assuming a constant number of active members. In order to remain as a level percentage of payroll, amortization payments are scheduled to increase at the assumed annual inflation rate of 4.50%.

The UAAL is being funded over the 30-year period following December 31, 2002. Also, the 1993 Golden Handshake liabilities are being amortized over the 30-year period following December 31, 2002.

Amortization Approach:

Open

Amortization of Actuarial Gains and Losses:

Excess interest return on the pension obligation bonds as of December 31, 2002 attributable to County of Alameda members are being amortized over the 30-year period following that date. Any new actuarial gains and losses will be combined with all prior unamortized gains and losses and amortized over the amortization period of 30 years following December 31, 2002.

Cost of Living Adjustments:

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

Assumed Investment Rate of Return:

8.00% per annum

Assumed Salary Increases:

5.90% per annum

Assumed Inflation Rate:

4.50% per annum

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses

For the Years Ended December 31, 2002 and 2001

	2002	2001
Personnel Services		
Staff Wages	$ 2,580,225	$ 1,909,759
Fringe Benefits	861,835	659,574
Temporary Services	865,655	1,331,419
Total Personnel Services	**4,307,715**	**3,900,752**
Professional Services		
Computer Services	14,073	19,209
Audit	84,426	76,901
Legal Counsel	160,058	172,140
Specialized Services	174,660	412,856
Total Professional Services	**433,217**	**681,106**
Communications		
Printing	167,439	117,680
Communication	56,706	77,462
Postage	56,318	35,448
Total Communications	**280,463**	**230,590**
Rental / Utilities		
Office Space	79,054	228,188
Equipment Leasing	8,840	6,546
Total Rentals / Utilities	**87,894**	**234,734**
Other		
Training	74,873	52,810
Supplies	68,544	52,072
Maintenance-Equipment	81,788	80,704
Insurance	137,037	79,035
Software Maintenance and Support	223,256	
Depreciation and Amortization	531,503	429,370
Loss on Disposal of Pension Information System		943,020
Office	371,592	317,386
Miscellaneous	41,479	31,925
Total Other	**1,530,072**	**1,986,322**
Total Administrative Expenses	**$ 6,639,361**	**$ 7,033,504**

Investment Manager Fees and Other Investment Expenses Summary

For the Years Ended December 31, 2002 and 2001

	2002	2001
INVESTMENT MANAGER FEES		
Equity		
Domestic	$ 2,819,961	$ 2,627,668
International	2,705,288	1,986,896
Fixed Income		
Domestic	1,912,142	1,671,786
International	584,610	103,807
Real Estate		
Investment Trusts	126,919	150,631
Individual Properties	2,686,927	2,374,242
Mortgage Loan Services	414	721
Securities (REITS)	33,145	126,937
Total Investment Managers Fees	**10,869,406**	**9,042,688**
OTHER INVESTMENT EXPENSE		
Investment Allocated Costs	1,569,661	1,126,846
Investment Custodians	323,818	207,255
Investment Consultants	523,775	658,822
Security Lending Fees	3,398,816	3,737,981
Commissions	1,984,719	2,163,196
Total Other Investment Expense	**7,800,789**	**7,894,100**
Total Fees & Other Investment Expenses	**$ 18,670,195**	**$ 16,936,788**

Schedule of Payments to Consultants

For the Years Ended December 31, 2002 and 2001

	2002	2001
Actuarial and Audit Services	$ 290,090	$ 269,937
Legal Services	258,059	183,188
Personnel Coordination	78,750	78,886
Technical Services	31,128	31,677
Other Specialized Services	1,441,844	3,399,516
Total Payments to Consultants	**$ 2,099,871**	**$ 3,963,204**

Ish Piña

Retirement Specialist II,
ACERA, 13 and a half years
with Alameda County

SECTION 3

> INVESTMENT

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14TH STREET, SUITE 1000, OAKLAND, CA 94612
800 838-1932 510 628-3000 FAX 510 287-5412

CHIEF INVESTMENT OFFICER'S REPORT

Introduction and Overview

The year 2002 was another very difficult year for investors. The anemic and volatile economy reflected the general uncertainty and the lack of confidence of investors.

Despite federal monetary stimulation in the form of several reductions in the Federal Reserve rate, down to 1.25%—the lowest level in more than 40 years, and the fiscal stimulation of anticipated tax reductions, the growth in real Gross Domestic Product (GDP) of 2.8% in 2002 was below many economists' expectations. Boosted by home refinancing, consumer spending was one of the few strengths in the economy. Consumer spending and housing rose 2.5% and 6% respectively. Imports and investment in office and industrial buildings hindered the growth of real GDP. The U.S. unemployment rate stood at 6% by the end of the year.

The potential of a war with Iraq and uncertainty surrounding the availability and price of energy contributed to the postponement of investment decisions. Investors' uncertainty regarding the effectiveness of the government's fiscal stimulations discouraged consumers from spending their anticipated tax savings in the last holiday season. Ongoing developments in the various accounting fraud, corporate malfeasance, and "Wall Street" scandals of 2002 continued to shake the confidence of investors in the integrity of corporate America. The ability of federal regulators to protect the interests of investors was also questioned, to the extent that late last year the Chairman of the Securities and Exchange Commission had to resign.

Last year we predicted a year of modest economic growth. While that did happen, 2002 might be considered one of the worst years for investors in history. The U.S. equity market in 2002 recorded an unprecedented third year of consecutive decline. For the first time since World War II, the Dow Jones Industrial Average experienced three years of consecutive losses. At the end of 2002, the Dow had lost 25% of its value from the peak it achieved in the previous bull market.

The year 2002 also marked the first time in the Nasdaq's 30-year history that this heavily technology-weighted index sustained three consecutive years of losses. None of the sectors tracked by the S&P 500 could manage a gain in the year, and only 131 of that index's 500 equities rose for the year—the lowest number for any year since 1980 when S&P began tracking that statistic.

Internationally, most of the world's major equity markets also continued their losing streak for the third year—the first time that has happened on the international front in more than 60 years. While the equity markets struggled, the bond market scored its third straight year of gains. Both 10-year and 30-year Treasury Bonds had returns near 16%.

The U.S. economy expanded at a moderate pace in 2002. Many economists believe that 2003 will be another year of moderate economic expansion, to be followed by an election-year spurt in 2004. Consumption is likely to remain positive but should slow somewhat. The housing sector has been so strong that it is unlikely to contribute significantly to economic growth in 2003. Capital spending has begun to show some signs of life, although not consistently across the various sectors of the economy. The recent fall in the dollar is a welcome sign. It should help companies protect, if not increase, market share and in time boost profits and exports as well.

Uncertainties with respect to the Iraqi war and to the investment environment do persist, but many analysts believe the stock market has already factored these uncertainties into its present valuations. The events of 2002 demonstrated that Americans are an extraordinarily resilient people. When confronted with scandals, they demanded changes on Wall Street. Last July Congress passed the Sarbanes-Oxley Act, which laid accountability for certifying the bottom line of corporate financial statements directly on the top officers of Fortune 500 companies. That Act is now fully implemented across America's small- and mid-size companies as well.

While the U.S. economy is still fundamentally strong and while prospects for reasonable long-term economic growth are good, much more progress must be made before we are out of the woods. Companies still need to produce quality products more economically and must provide needed services at affordable prices. Technology innovations must continue at a rapid pace. Corporate America must remain competitive in the world economy to restore the confidence of investors.

The ACERA Board of Retirement remains committed to a long-term investment strategy emphasizing prudent diversification, active rebalancing to maintain appropriate asset allocation, and vigorously supervised professional asset management.

For the year 2002, market results were as follows:

- The U.S. stock market, as represented by the S&P 500, was down again 22.1%; this is the first time equities have had three consecutive down years since World War II.

- The Nasdaq posted a loss of 31.5%, the first three-year straight loss in its 30-year history.
- The U.S. Bond market, as represented by the Lehman Aggregate, posted a gain of 10.3% for the year.
- International equities, as represented by the MSCI ACWI ex US Index, posted a loss of 14.7% for the year.
- International bonds, represented by the Salomon World Government Bond Index, returned a gain of 19.5%.

The total ACERA fund returned –6.8% for the year. This was 30 basis points better than the theoretical policy return of the portfolio (using market indices) of –7.1%. Over longer terms, the ACERA portfolio beat its policy index and ranked in the second quartile among all public plans.

General Information

External investment management firms manage ACERA's assets. Professional investment consultants, along with 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 operate at a level of performance in the upper one quarter of comparable pension funds, and to be as fully funded as possible so that ACERA's benefit costs do not become a burden upon future generations of members and taxpayers.

Summary of Investment Objectives

The Board of Retirement, having sole and exclusive authority and fiduciary responsibility for the investment and administration of the Trust, has adopted ACERA Investment Guidelines, Policies and Procedures (Policy) for the management of ACERA's investments.

The Board reserves the right to amend, supplement or rescind this Policy at any time. The Policy establishes investment program goals and policies, asset allocation policies, performance objectives, investment management policies, and risk controls. It also defines the principal duties of the Board, staff, investment managers, master custodian, and consultants.

ACERA's primary investment objective is to take prudent risk, as necessary, to maximize the return on the portfolio and to minimize the cost of meeting the obligations of the Trust. An integral part of the overall investment policy is the strategic asset allocation policy.

This allocation mix is designed to provide an optimal mix of asset categories with return expectations that reflect expected risk. The end result is a well-diversified portfolio that helps protect the Fund from declines that a particular asset class may experience in a given period. Both traditional assets (cash, domestic equities, domestic fixed income, and mortgages) and nontraditional assets (real estate and international equities and fixed income) are included in the mix.

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

Summary of Proxy Voting Guidelines and Procedures

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

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

Summary of Investments Results

ACERA's fund is slightly underweighted in the total equities, with 55.0% of assets in equities versus the target of 57.0% as of December 31, 2002. Domestic equities are slightly underweighted at 33.2 % of assets versus the target of 35.0%, while international equities are at 21.6% versus the target of 22.0%. Cash at 2.4% is above its target of 0.0% of assets. Fixed income is at 33.9% of assets, slightly below the target of 34.0%. Real estate is under its 9.0% target at 8.9 % of assets.

Domestic equities posted negative returns for 2002, with the S&P 500 down 22.1% and the broad U.S. equity market, measured by the Russell 3000, down 21.6%. ACERA's U.S. equity composite returned –20.6%, while the median equity manager returned –21.6%. International equities, as measured by the MSCI ACWI ex US, posted a loss of 14.7% for the year. The median international equity manager fell 15.0%, 0.2% lower than the returns of our International equity composite. U.S. Bond returns were positive. The Lehman Aggregate returned 10.3%, the median fixed income manager returned 9.1%, and ACERA's all fixed income composite returned 10.2%. Real estate returns were also positive. ACERA's real estate composite returned 5.5%, which was higher than the median real estate manager's return of 5.0% for the year.

This investment information is presented in conformance with the presentation standards of the Association of Investment Management and Research (AIMR).

Respectfully submitted,

Betty Tse
Chief Investment Officer
June 11, 2003

INVESTMENT CONSULTANT'S REPORT

STRATEGIC INVESTMENT SOLUTIONS, INC.

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

Tel 415/362-3484 • Fax 415/362-2752

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

Summary

Year 2002 witnessed the third consecutive year of negative returns for equity market investors, an unprecedented duration of pain since the 1930s. Once again in 2002 US and foreign stock markets declined while fixed income securities and real property values rose. As a diversified investor, ACERA participated in each of these markets, experiencing a –6.8% return for the year. The –6.8% result exceeded ACERA's policy benchmark of –7.1% by 30 basis points for the year.

Slow economic growth, terrorism and war anxieties, and corporate reporting scandals defined the market environment during the year. The result was another extremely difficult year for long-term investors in financial assets, especially equity and equity-related assets. After peaking in early 2000 and falling significantly during 2001, world equity markets continued their relentless fall in 2002. For the year, the Russell 3000 US Stock Index fell by 21.6% and the MSCI EAFE Index of foreign stocks fell by 14.7%. Bonds, benefiting from lowered inflation expectations and their status as a safe haven from the equity market, returned 10.3% for the year, as measured by the Lehman Aggregate Bond Index.

Recent changes to ACERA's investment structure continued to enhance results during the year. ACERA's increased emphasis on active managers in US equity helped Plan returns as these managers generally outperformed their index benchmarks. These gains were augmented by the relative outperformance of the non-US equity managers. ACERA on average held a slight overweight position in fixed income securities versus its 34% target during the year, which helped results significantly.

Investment Guidelines, Policies and Procedures

Following on the thorough revisions made to its policy statement in 2001, ACERA did not make major changes to its investment policies in 2002. Towards the end of the year, ACERA began the important process of reviewing its Total Plan asset allocation. Any allocation changes that result form this exercise will be implemented in 2003

During 2002, ACERA changed its small capitalization US Equity manager. ACERA also further refined its methodology for monitoring the performance of its active managers. The Association also studied the implications of adding a Private Equity allocation to the portfolio, and opted not to do so.

Investment Objectives

In 2002, ACERA met its three management goals of ensuring sufficient funds available to pay vested benefits and maintain supplemental benefits, complying with applicable fiduciary standards, and adding marginal value.

Investment Results*

		Annualized	
	Year 2002	3 Years	5 Years
DOMESTIC EQUITY			
Total Domestic Equities	–20.6%	–10.8%	0.9%
Median Equity	–21.6%	–10.8%	0.9%
Benchmark: Russell 3000	–21.6%	–13.7%	–0.7%
INTERNATIONAL EQUITY			
Total International Equities	–14.8%	–16.2%	–0.3%
Median International Equity	–15.0%	–13.9%	0.9%
Benchmark: MSCI ACWI ex US	–14.7%	–16.4%	–2.7%
FIXED INCOME			
Total Fixed Income	10.2%	9.6%	7.1%
Median Fixed Income	9.1%	9.7%	7.5%
Benchmark: Lehman Aggregate	10.3%	10.1%	7.5%
REAL ESTATE			
Total Real Estate	5.5%	7.5%	8.4%
Median Real Estate	5.0%	7.9%	9.0%
Benchmark: NCREIF	4.9%	8.2%	10.7%
TOTAL FUND			
ACERA Total Fund	–6.8%	–3.4%	3.9%
Median Total Fund	–8.3%	–2.9%	3.4%
Benchmark: Policy Index	–7.1%	–3.7%	2.7%

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

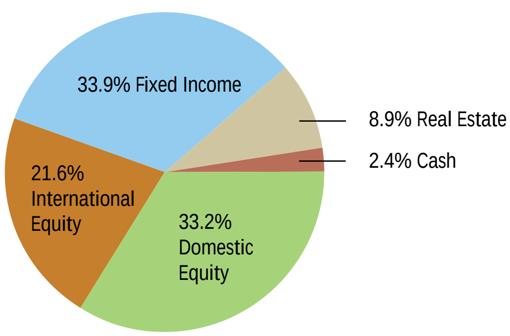
* Calculated using the time-weighted rate of return based on the market rate of return.

Barry W. Dennis
Managing Director
Strategic Investment Solutions, Inc.
June 11, 2003

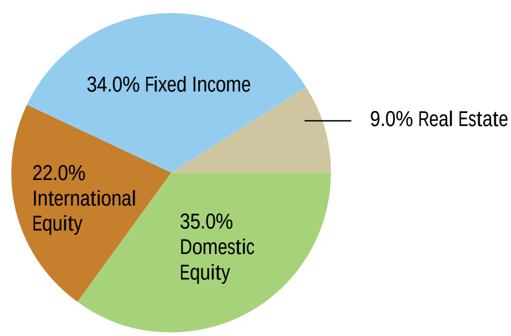
2002 ACERA Asset Allocation

	2002 ACERA Asset Allocation	Target Asset Allocation
Cash	2.4%	0.0%
Domestic Equity	33.2%	35.0%
International Equity	21.6%	22.0%
Fixed Income	33.9%	34.0%
Real Estate	8.9%	9.0%

2002 ACERA Asset Allocation



Target Asset Allocation



List of Investment Professionals

As of December 31, 2002

INVESTMENT MANAGERS

Equity – Domestic

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

Equity – International

Capital Guardian Trust Company
Putnam International

Fixed Income – Domestic

AFL-CIO Housing Investment Trust
Baird Investors
Loomis Sayles & Company, LP

Fixed Income – International

Brandywine Fixed Income

Real Estate

Lend Lease
PM Realty Advisors
RREEF America

INVESTMENT CONSULTANTS

The Townsend Group
Doug McCalla
Strategic Investments Solutions, (SIS)

Investment Summary

		Fair Value, Dec. 31, 2002	Percentage of Total Fair Value
EQUITIES			
Domestic	Brandywine Asset Management	$ 55,018,325	1.7%
	Loomis Sayles (Equity)	2,889,755	0.2%
	Next Century Growth Investors	44,581,679	1.4%
	Pacific Financial Research	143,070,192	4.5%
	Salus Capital (Equity)	665,072	0.0%
	Trust Company of the West	135,770,439	4.3%
	Total Corporate Stocks	**381,995,462**	**12.1%**
	Bank of New York – S & P 500 Index	624,488,410	19.7%
	Total Domestic Equity Index Funds	**624,488,410**	**19.7%**
	Salus Capital (Stock Index Futures)	3,188,975	0.1%
	Total Stock Index Futures	**3,188,975**	**0.1%**
International	Capital Guardian	440,952,344	13.9%
	Putnam International	243,622,927	7.7%
	Total International Equity Funds	**684,575,271**	**21.6%**
Total Equities		1,694,248,118	53.5%
FIXED INCOME			
Domestic	AFL-CIO Housing Investment Trust	62,780,559	2.0%
	Baird Investors	510,021,134	16.1%
	Loomis Sayles (Government and Corporate Bonds)	320,774,131	10.1%
	Total Domestic Fixed Income	**893,575,824**	**28.2%**
International	Brandywine Fixed Income	178,960,971	5.7%
	Total International Fixed Income	**178,960,971**	**5.7%**
Total Fixed Income		1,072,536,795	33.9%
REAL ESTATE			
Real Estate Investment	PM Realty (Separate Properties)	191,723,841	6.1%
	RREEF (Separate Properties)	71,201,998	2.3%
	Total Separate Properties	**262,925,839**	**8.4%**
	Lend Lease (Real Estate Trusts)	7,732,951	0.2%
	RREEF (Real Estate Securities)	9,651,016	0.3%
	Home Mortgage Loans (Real Estate Mortgage Loans)	78,562	0.0%
Total Real Estate Investments		280,388,368	8.9%
SHORT-TERM INVESTMENTS			
	Salus Capital †	40,112,366	1.3%
	State Street Bank ††	72,902,914	2.3%
Total Short-Term Investments		113,015,280	3.6%
Total Investments		3,160,188,561	99.9%
CASH			
Cash and Cash Equivalents		3,157,043	0.1%
	Total Cash	**3,157,043**	**0.1%**
TOTAL		$ 3,163,345,604	100.0%

† The short term investment in Salus Capital is included in the Asset Allocation for Domestic Equities

†† The short-term investment with State Street Bank is considered cash equivalent and is included in the Asset allocation for cash. See Asset allocation on 46.

Largest Stock Holdings (By Market Value)†

As of December 31, 2002

	Shares	Stock	Market Value
1	307,880	Progressive Corporation Ohio	$ 15,280,084
2	852,100	Tyco International Limited	14,553,868
3	225,400	Federal Home Loan Mortgage Corporation	13,309,870
4	169,600	Federal National Mortgage Association	10,910,368
5	260,000	Philip Morris Companies, Inc.	10,537,800
6	67,820	Total Fina Elf	9,685,745
7	508,900	Electronic Data Systems Corporation	9,379,027
8	36,184	Nestle SA	7,667,571
9	28,570	Samsung Electronics Co. Ltd.	7,563,745
10	4,117,991	Vodafone Group PLC	7,507,965
Total Largest Stock Holdings			**$ 106,396,043**

Largest Bond Holdings (By Market Value)†

As of December 31, 2002

	Par	Bond	Percentage	Due Date	Market Value
1	33,625,000	United States Treasury Bonds	9.25%	02/15/16	$ 49,929,675
2	41,250,000	Federal Home Loan Mortgage Corp.	6.63%	09/15/09	48,363,860
3	15,500,000	United States Treasury Bonds	9.88%	11/15/15	23,940,863
4	17,900,000	Italy Republic of BTP	4.00%	07/15/05	19,326,060
5	140,600,000	Sweden, Kingdom of	5.00%	01/28/09	16,672,084
6	28,810,000	New Zealand Government	6.00%	11/15/11	14,993,765
7	12,070,000	France, Government of	6.00%	10/25/25	14,495,733
8	85,550,000	Sweden, Kingdom of	6.75%	05/05/14	11,441,098
9	10,742,097	GNMA Pool, 780615	6.50%	08/15/27	11,350,536
10	10,610,000	Safeco Capital Trust I	8.07%	07/15/37	10,651,485
Total Largest Bond Holdings		**$ 221,165,159**			

† The above schedules do not reflect holdings in passive index Funds. A complete list of portfolio holdings is available upon request.

SCHEDULE OF MANAGEMENT FEES AND COMMISSIONS

Investment Managers' Fees

	Assets Under Management		Managers' Fees	
	2002	2001	2002	2001
Fixed Income Managers	$ 1,145,439,709	$ 1,177,529,502	$ 2,496,752	$ 1,775,593
Equity Managers	1,734, 360,484	1,973,199,132	5,525,249	4,614,564
Real Estate Managers	280,388,368	331,001,894	2,847,405	2,652,531
Total	**$ 3,160,188,561**	**$ 3,481,730,528**	**10,869,406**	**9,042,688**

OTHER INVESTMENT SERVICE FEES

	2002	2001
Custodian Fees	323,818	207,255
Security Lending Fees	3,398,816	3,737,981
Investment Consultant Fees	523,775	658,822
Total	**$ 4,246,409**	**$ 4,604,058**

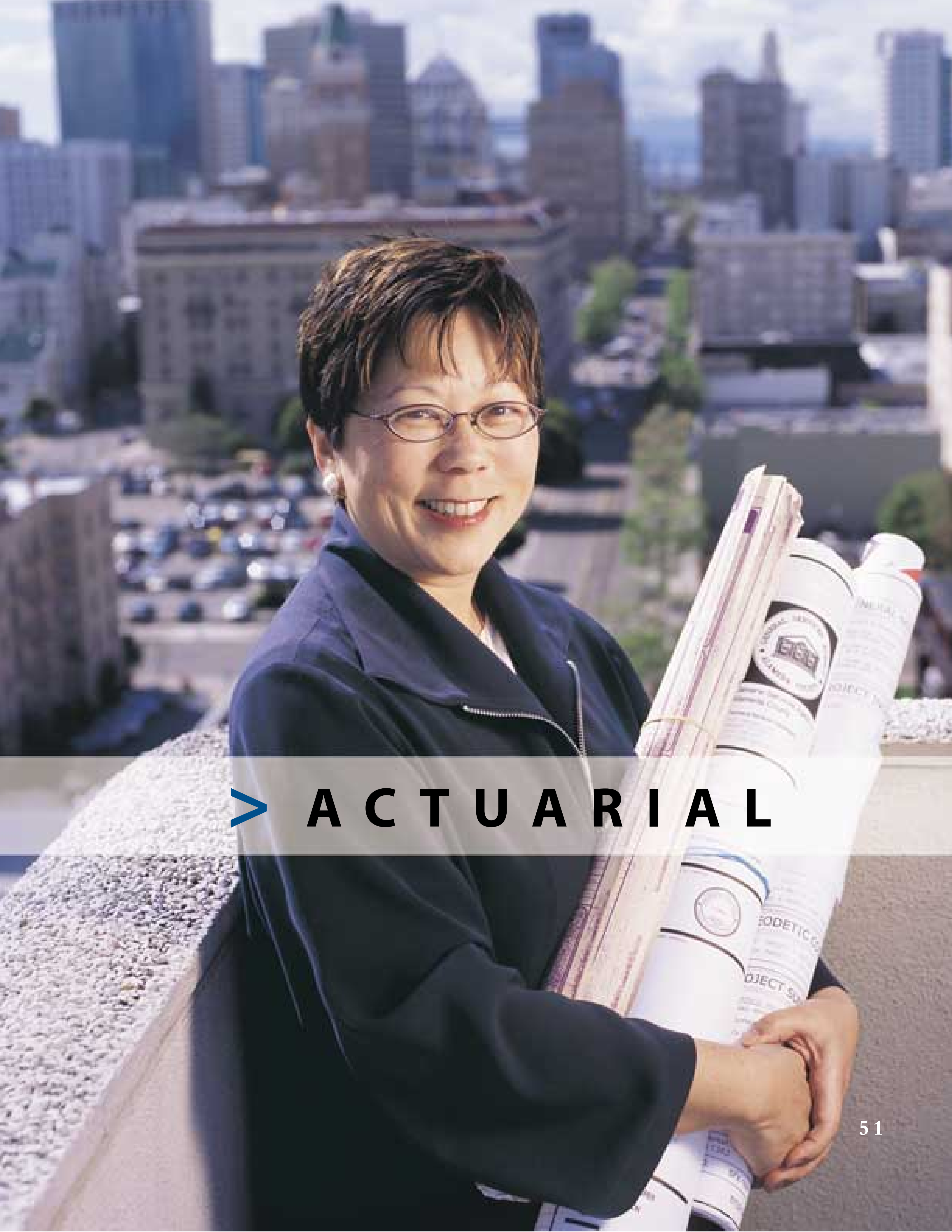
Commissions

Brokerage Firm	Total Commissions	Total Number of Shares Traded	Commissions per Share
ABN AMRO Bank	$ 202,190	5,477,237	$ 0.037
UBS Warburg LLC	193,577	6,290,368	0.031
Credit Suisse First Boston Corporation	127,521	4,802,468	0.027
Merrill Lynch Pierce Fenner & Smith	117,268	30,547,403	0.004
Goldman Sachs & Company	111,605	6,322,616	0.018
Morgan Stanley Co Incorporated	99,904	3,946,782	0.025
Ragen Mackenzie Incorporated	82,739	2,397,062	0.035
State Street Brokerage Services	73,107	2,946,764	0.025
Bear Stearns Securities Corp.	63,013	1,806,142	0.035
Salomon Smith Barney Incorporated	60,276	2,040,866	0.030
Lehman Brothers Incorporated	53,870	1,213,677	0.044
Prudential Securities Incorporated	52,447	30,586,070	0.002
Jefferies Company Incorporated	51,838	1,187,079	0.044
Investment Technology Group Incorporated	44,890	2,129,826	0.021
Deutsche Banc Alex. Brown Incorporated	44,432	1,431,265	0.031
Instinet Clearing Services Incorporated	43,652	1,865,180	0.023
J P Morgan Securities Incorporated	34,958	713,650	0.049
Banc America Security LLC Montgomery Division	31,324	857,540	0.037
B-Trade Services LLC	28,907	1,147,009	0.025
CIBC World Markets Corp.	28,848	624,255	0.046
Top 20 Total	**1,546,366**	**108,333,259**	**0.014**
All Other Brokerage Firms	438,353	17,380,279	0.025
Total	**$ 1,984,719**	**125,713,538**	**$ 0.016**

Barbara Hedani-Morishita

Management Analyst to the Director, General Services Agency,17 years with Alameda County

SECTION 4



> ACTUARIAL

ACTUARY'S CERTIFICATION LETTER

3 Embarcadero Center, Suite 1000
San Francisco, CA 94111-4015
415 743 8863 Fax 415 743 8950

MERCER
Human Resource Consulting

Actuarial Certification

The annual actuarial valuation required for the Alameda County Employees' Retirement Association has been prepared as of December 31, 2002 by Mercer Human Resource Consulting. In preparing this valuation, we have employed generally accepted actuarial methods and assumptions to determine a sound value for the Association's assets, liability and future contribution requirements. Our calculations are based upon member data, as of November 30, 2002 provided to us by the Association's staff and financial information as of December 31,2002 provided by the unaudited report.

Data Adjustment

The service data for active members was projected from November 30, 2002 to December 31, 2002. The salaries used in this valuation, for continuing actives, were based on salaries from last year's valuation but increased by a uniform 5.6% and 12.8% for General and Safety members, respectively.

We have estimated the salaries for continuing active members instead of using the actual 2002 salaries reported by the Association because there were very significant salary increases reported in 2002 by the Association for those members. Upon further investigation, the Association concluded that those salary increases were due in large part to one-time retroactive pay adjustments that were given to those members during 2002. When we requested additional data to adjust individual member salaries for the one-time retroactive pay adjustments, the employer informed us that they were only able to identify the retroactive pay adjustment paid in the aggregate to the General and Safety membership groups instead of to each individual member.

We subtracted the aggregate retroactive pay adjustment for Safety members from the total safety salary increases to estimate the permanent on-going salary increase percentage for Safety members. The resultant aggregate salary increase percentage of 12.8% was reasonable when compared with the across-the-board salary increases that were granted to members of the Safety bargaining groups. However, when we repeated that process for General members, we were not able to substantiate the resultant increase (about 12.6%) with across-the-board salary increases that were granted to members of the different General bargaining units.

The employer assured us that they will work with the Association and Mercer to collect more accurate data and to eliminate the problem posed by retroactive pay adjustments before the next valuation. We believe in determining salary for General members, it is not unreasonable to apply an average 5.6% increase in 2001-2002 salary anticipated by the

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Human Resource Consulting

Retirement Board's salary increase assumption for the last plan year in estimating the valuation salary for 2002.

For members who joined the Association after the last valuation, as of December 31, 2001, we have used their salaries reported for 2002 with the above 12.6% and 12.8% adjustments for retroactive pay for General and Safety members, respectively. We do not believe the pay adjustments for the new members would have a material impact on the liabilities of the Association.

Determining Employer's Contribution and Funding Status

The contribution requirements are determined as a percentage of payroll. The funding objective of the plan is to determine employer rates that provide for both normal cost and either a contribution to amortize the unfunded actuarial accrued liability or a credit when actuarial assets exceed the actuarial accrued liability. The amortization period is 30 years as of December 31, 2002; as set by the Board of Retirement. The unfunded actuarial accrued liability contribution is calculated to remain level as a percentage of future payroll (including projected payroll for future members). Payments will increase at the assumed rate of inflation, which is 4.50% per year.

Contribution levels are recommended by the Actuary and adopted by the Board each year. The ratio of Actuarial Value of Assets to Actuarial Accrued Liabilities decreased from 105.8% to 92.5% during the year as a result of asset returns less than expected and the reduction in the interest rate assumption.

There were no plan changes since our last valuation, as of December 31, 2001.

In the December 2002 Board meeting, the Board adopted the following Mercer recommended assumption changes:

1. Asset Valuation Method

An 80%-120% market value corridor was established to avoid the actuarial (or smoothed) valuation asset to deviate too significantly from the actual market value.

The losses over 120% of market value were not credited to the Employer, Member and Supplemental Retiree Benefit Reserves but they were accumulated in the Contingency Reserve Account. As a result, there was a negative balance of $108.3 million in that account as of December 31, 2002.

2. Recognition of Negative Balance in the Contingency Reserve

In determining employer contribution rates, the deficit in the Contingency Reserve has been taken into account in determining how much assets are available in the valuation to defray the actuarial accrued liability of the Association as of December 31, 2002.

At the April and May 2003 Board meetings, the Board adopted the following Mercer recommended assumption changes:

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1. Investment Return Assumption

A decrease in the investment return assumption from 8.25% to 8.00%. This is primarily due to a decrease in the expected long-term net rate of return from the asset classes that ACERA invests in.

2. Salary Increase

An increase in the current average annual salary increase assumption of 5.6% to 5.9%. The analysis to support the higher salary increase assumption was carried out as part of our November 30, 2001 triennial experience analysis. The implementation of the recommendation was delayed until this valuation to allow the employer sufficient time to validate the data used in the process.

3. Terminal Pay

Based on a study of terminal pay data from 192 retirees who received a service retirement benefit between July 2001 and September 2002, we observed that there was a change in behavior among retired members to bank a larger proportion of their unused vacation, as part of their retirement planning, and converted those unused vacation at retirement to boost their final average earnings and hence received a higher retirement benefit.

We have reflected the higher terminal data in this calculation. Because of this fundamental change in behavior, the Retirement Board's legal counsel also concluded that it is appropriate to anticipate the conversion of terminal pay in setting member basic contribution rates. We have adjusted the member basic contribution rates in this valuation.

4. Amortization Period for Excess Investment Returns on the County's Pension Obligation Bonds

The entire excess investment returns carried from 2001 have been fully offset because of continued negative market returns during 2002. While the proceeds from the original POBs are still available to offset the County's actuarial accrued liabilities, the County will no longer be able to use the excess investment returns to offset its ongoing Normal Cost contribution rate. The excess investment returns carried from 2001 and this year's investment losses have to be combined and amortized as one amount, as GASB 25 and 27 do not allow those two amounts to be amortized separately when the funding ratio of the Association drops below 100 percent. The resultant net investment loss plus the Association's other Unfunded Actuarial Accrued Liability is now being amortized over a period of 30 years.

In our opinion, the combined operation of the assumptions and methods applied in this valuation, fairly represent past and anticipated future experience of the Association and meet the parameters required by GASB Statement 25.

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

1. Schedule of Active Member Valuation Data
2. Retirees and Beneficiaries Added to and Removed From Retiree Payroll
3. Solvency Test
4. Actuarial Analysis of Financial Experience
5. Schedule of Average Benefit Payments for Retirees and Beneficiaries
6. Schedule of Funding Progress
7. Schedule of Retiree Members by Type of Benefit

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

- Differences between actual experience and anticipated experience;
- Changes in actuarial assumptions or methods;
- Changes in statutory provisions; and
- Differences between the contribution rates determined by the valuation and those adopted by the Board.

This report reflects the current estimated impact on funding status and contribution rates of the Retirement Board's expansion of the pay items includable in Earnable Compensation in response to the 1997 California Supreme Court decision in *the Ventura County Deputy Sheriff's, Association vs. Board of Retirement*, Ventura County Employees' Retirement Association, including retroactive benefit payments.

Retirement benefits for members who are expected to retire after December 31, 2002 include an estimate for the terminal pay elements expected to be paid during members' final average compensation period.

The undersigned meet the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion rendered herein.

Mercer Human Resource Consulting, Inc.

Andy Yeung

Andy Yeung, ASA, EA, MAAA
June 11, 2003

Marcia L. Chapman

Marcia L. Chapman, FSA, EA,MAAA
June 11, 2003

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The following assumptions have been adopted by the Board as of December 31, 2002.

Assumptions

Valuation Interest Rate	8.00%
Inflation Assumption	4.50%
Cost of Living Adjustment	
for Tier 1 members:	3.00%
for Tier 2 members:	2.00%
Interest Rate Credited to Active Member Accounts	8.00%

Post-Retirement Mortality

The following post-retirement and pre-retirement demographic experiences and salary increase assumptions are based on the plan's actuarial experience through December 31, 2002. They were adopted by the Retirement Board and effective as of January 1, 2003.

(A) SERVICE

General Member	
Males	1994 Group Annuity Mortality Table with two year setback (Male)
Females	1994 Group Annuity Mortality Table with one year setback (Female)
Safety Members	1994 Group Annuity Mortality Table with two year setback (Male)
Beneficiaries	1994 Group Annuity Mortality Table with one year setback (Female)

(B) DISABILITY

General	1981 General Disability Mortality Table with three year setback
Safety	1981 Safety Disability Mortality Table with no setback

(C) FOR EMPLOYEE CONTRIBUTION RATE PURPOSES

General	1994 Group Annuity Mortality Table with a four year setback (Male)
Safety	1994 Group Annuity Mortality Table with a two year setback (Male)

Pre-Retirement Mortality	Based upon the Experience Analysis from 12/1/1998–11/30/2001
Withdrawal Rates	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
Disability Rates	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
Service Retirement Rates	Based upon the Experience Analysis as of 12/1/1998–11/30/2001
Salary Scales	Total increases of 5.90% per year reflecting approximately 4.50% for inflation and approximately 1.4% for merit and longevity

Percent of Active and Inactive Members Married

Males	80%
Females	55%

Beneficiary Age Difference

Males	3 years older
Females	3 years younger

Value of Assets for Contribution Rate Purposes

Actuarial Value is determined using a five-year smooth market value method.

Additional "Ventura" Earnable Compensation—Terminal Pay

To estimate the impact of including terminal pay as part of Earnable Compensation, we collected terminal pay data from 192 retirees who received a service retirement benefit between July 2001 (the date that terminal pay information was first separately identified in the Association's new Pension Gold system) and September 2002.

Based on that data, the following percentages were derived to estimate the percentage increase in final average earnings that result from inclusion of terminal pay.

Membership Category	Service Retirement	Disability Retirement*
General Tier 1	8.4%	7.0%
Safety Tier 1	11.1%	8.5%
General Tier 2	2.8%	2.8%
Safety Tier 2	2.8%	2.8%

* For General and Safety Tier 1 retirees, the terminal pay assumptions are calculated by taking the average of the current terminal pay assumptions and the observed terminal pay percentages. We are recommending a lower assumption for disabled retirees because they generally cannot plan ahead for their retirement and they tend to retire with fewer years of service.

Conversion of Unused Sick Leave Service

We assume each active member will be able to accumulate an additional 0.008 years of retirement service credit from unused sick leave for each year of employment.

Funding Method and Amortization of Actuarial Gains and Losses

The County's liability is being funded on the Entry Age Normal Funding Method with an Unfunded Actuarial Accrued Liability (UAAL). The current amortization period for the UAAL is 30 years from the valuation date.

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll ($)	Annual Average Pay ($)	% Increase in Average Pay*
12/31/1997	General	7,969	344,339,885	43,210	3.94%
	Safety	1,278	68,705,274	53,760	1.99%
	Total	**9,247**	**413,045,159**	**44,668**	**3.78%**
12/31/1998	General	8,173	387,930,299	47,465	9.85%
	Safety	1,326	74,534,770	56,210	4.56%
	Total	**9,499**	**462,465,069**	**48,686**	**8.99%**
12/31/1999	General	8,445	407,628,000	48,269	1.69%
	Safety	1,414	80,358,000	56,830	1.10%
	Total	**9,859**	**487,986,000**	**49,497**	**1.67%**
12/31/2000	General	9,027	446,911,072	49,508	2.57%
	Safety	1,429	85,394,052	59,758	5.15%
	Total	**10,456**	**532,305,124**	**50,909**	**2.85%**
11/30/2001**	General	9,502	498,299,521	52,442	5.93%
	Safety	1,472	92,092,614	62,563	4.69%
	Total	**10,974**	**590,392,135**	**53,799**	**5.68%**
11/30/2002**	General	9,839	537,245,555	54,604	4.12%
	Safety	1,499	103,531,751	69,067	10.40%
	Total	**11,388**	**640,777,306**	**56,516**	**5.05%**

Schedule of Retirees and Beneficiaries Added to and Removed from Retiree Payroll

	Added to Rolls		Removed from Rolls		Rolls at End of Year			
Plan Year	Number	Annual Allowance ($ 000)†	Number	Annual Allowance ($ 000)†	Number	Annual Allowance ($ 000)	% Increase in Retiree Allowance	Average Annual Allowance
1997	220		(129)		5,202	$ 81,868	7.77%	$ 15,738
1998	324		(146)		5,380	$ 89,724	9.60%	$ 16,677
1999	364		(139)		5,605	$ 101,158	12.74%	$ 18,048
2000	381		(287)		5,699	$ 115,261	13.94%	$ 20,225
2001	303	$ 10,548	(135)	$ (1,723)	5,867	$ 124,086	7.66%	$ 21,150
2002	335	$ 12,671††	(206)	$ (3,060)	5,996	$ 133,697	7.75%	$ 22,298

* Reflects the increase in average salary for members at the beginning of the year versus those at the end of the year. It does not reflect the average salary increases received by members who worked the full year.

** Salary projected to December 31.

† Annual allowance data not available prior to 2001.

†† Includes data adjustment

Solvency Test*

(Amounts in Thousands)

	Aggregate Accrued Liabilities for					Portion of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active Member Contributions $	Retired/ Vested Members $	Active Members (Employer Financed Portion) $	Total $	Actuarial Value of Assets $	Active Member Contributions %	Retired/ Vested Members %	Active Members (Employer Financed Portion) %
12/31/1997	510,381	1,041,268	666,670	2,218,319	2,313,787	100	100	100
12/31/1998	537,895	1,316,570	758,546	2,613,011	2,830,437	100	100	100
12/31/1999	640,623	1,326,463	795,438	2,762,524	2,997,932	100	100	100
12/31/2000	735,101	1,435,302	766,228	2,936,631	3,169,178	100	100	100
12/31/2001	802,356	1,503,393	834,467	3,140,216	3,321,794	100	100	100
12/31/2002	821,702	1,664,465	1,073,446	3,559,613	3,294,053	100	100	75

Actuarial Analysis of Financial Experience

(Amounts in Millions)

	2002	2001	2000	1999	1998	1997
Prior Valuation Unfunded Actuarial Accrued Liability	$ (182)	$ (233)	$ (235)	$ (217)	$ (95)	$ (45)
Expected Increase from Prior Valuation						(1)
Salary Increase Greater (Less) than Expected	17	10	(5)	5	36	(8)
Asset Return Less (Greater) than Expected	207	34	(5)	26	(110)	(61)
Other Experience	20	13	12	12	6	10
Ventura Litigation				(69)	259	
Actuarial Value of Assets Method Change					(259)	
Economic Assumption Changes	190†	35			(54)††	
Non-Economic Assumption Changes	14	(41)†				
Data Corrections						10
Conversion of Sick leave service				8		
Ending Unfunded Actuarial Accrued Liability	$ 266	$ (182)	$ (233)	$ (235)	$ (217)	$ (95)

* This exhibit includes actuarially funded liabilities and assets. The Supplemental Retirees Benefit Reserve, Reserve for Interest Fluctuation and Market Stabilization Reserve are not included.

† Events affecting year to year comparability:
12/31/01 – Change in non-economic assumptions
12/31/02 – 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.

†† $30 million is the combined impact of changes in economic and non-economic assumptions in 1998.

SUMMARY OF PLAN PROVISIONS

Benefit Sections 31676.1, 31676.12 and 31664 of the 1937 County Act

Briefly summarized below are major provisions of the California Government Code as amended through December 31, 2002, and as adopted by Alameda County.

Membership

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

Final Average Salary

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

Return of Contributions

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

Service Retirement Benefit

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

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

Percentage Of Final Average Salary

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

Disability Benefit

Members with 5 years of service, regardless of age, are eligible for nonservice connected disability. The benefit is 1.8% (1.5% for Tier 2 General members) of FAS for each year of service. If this benefit does not equal ⅓ of FAS, the benefit is increased by the above percentage of FAS for the years which would have been credited to age 62 for Tier 1 General members, age 65 for Tier 2 General members and age 55 for Safety members. The total benefit in this case cannot exceed ⅓ of FAS unless the benefit calculated from the member's age, years of service, and salary is greater.

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

Death Benefit (Before Retirement)

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

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

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

Death Benefit (After Retirement)

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

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

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

Active Death Equity Benefit (ADEB)

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

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

Maximum Benefit

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

Cost of Living

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. The maximum increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members. COLA Banks are set up for retirees and accumulated when the Bay Area CPI is greater than the maximum allowance. If banks are sufficient, they are depleted when the CPI is smaller than the maximum allowance.

Contribution Rates

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

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

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

PROBABILITIES OF SEPARATION PRIOR TO RETIREMENT

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

Withdrawal: member terminates and elects refund of member contributions.

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

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

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

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

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

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

The probabilities shown for each cause of termination represent the likelihood that a given member will terminate at a particular age for the indicated reason. For example, if the probability of withdrawal for a General Tier 1 male member at age 20 and with less than 3 years of service is 0.12746, then we are assuming that 12.746% of all General Tier 1 male members with less than 3 years of service will terminate without vested rights during the year.

Probabilities of Separation Prior to Retirement

GENERAL TIER 1 MEMBERS—MALE

Age	Withdrawal				Terminated	Ordinary	Duty	Ordinary	Duty	Service
Nearest	0<X<3	3<=X<4	4<=X<5	5<=X	Vested	Disability	Disability	Death	Death	Retirement
20	.12746	.11725	.05250	.05250	.00000	.00000	.00010	.00055	.00010	.00000
30	.12746	.11725	.05250	.05250	.00464	.00020	.00010	.00081	.00010	.00000
40	.12746	.11725	.05250	.02851	.00870	.00070	.00040	.00101	.00009	.00000
50	.07283	.06700	.03000	.00250	.00660	.00140	.00140	.00226	.00009	.03000
60	.07283	.06700	.03000	.00000	.00080	.00260	.00340	.00677	.00010	.18094
70	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000

GENERAL TIER 1 MEMBERS—FEMALE

Age	Withdrawal				Terminated	Ordinary	Duty	Ordinary	Duty	Service
Nearest	0<X<3	3<=X<4	4<=X<5	5<=X	Vested	Disability	Disability	Death	Death	Retirement
20	.16309	.10500	.05250	.05250	.00000	.00000	.00010	.00031	.00000	.00000
30	.16309	.10500	.05250	.05149	.00638	.00040	.00019	.00038	.00000	.00000
40	.16309	.10500	.05250	.01222	.02000	.00100	.00078	.00076	.00009	.00000
50	.10873	.07000	.03000	.00243	.00666	.00200	.00291	.00154	.00009	.03454
60	.10873	.07000	.03000	.00000	.00210	.00200	.00888	.00477	.00009	.19641
70	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000

(continues)

Probabilities of Separation Prior to Retirement (continued)

GENERAL TIER 2 MEMBERS—MALE

Age	Withdrawal						Terminated	Ordinary	Duty	Ordinary	Duty	Service
Nearest	0<X<1	1<=X<2	2<=X<3	3<=X<4	4<=X<5	5<=X	Vested	Disability	Disability	Death	Death	Retirement
20	.14518	.09528	.07365	.06695	.03000	.03000	.03140	.00000	.00010	.00055	.00010	.00000
30	.14518	.09528	.07365	.06695	.03000	.03000	.02110	.00019	.00010	.00081	.00009	.00000
40	.14518	.08662	.07365	.06695	.03000	.02228	.01750	.00122	.00132	.00101	.00008	.00000
50	.14518	.08662	.06695	.06695	.03000	.01318	.01750	.00140	.00300	.00226	.00009	.01655
60	.14518	.08662	.06695	.06695	.03000	.01000	.00632	.00700	.01050	.00677	.00010	.08000
70	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000

GENERAL TIER 2 MEMBERS—FEMALE

Age	Withdrawal					Terminated	Ordinary	Duty	Ordinary	Duty	Service
Nearest	0<X<1	1<=X<3	3<=X<4	4<=X<5	5<=X	Vested	Disability	Disability	Death	Death	Retirement
20	.10000	.10000	.07000	.06000	.06000	.02550	.00000	.00010	.00031	.00000	.00000
30	.10000	.10000	.07000	.06000	.04000	.02549	.00021	.00069	.00038	.00000	.00000
40	.10000	.10000	.06000	.03000	.02000	.02000	.00022	.00297	.00076	.00007	.00000
50	.10000	.08000	.06000	.03000	.01000	.01623	.00049	.00420	.00154	.00008	.01985
60	.10000	.08000	.06000	.03000	.00400	.01050	.00260	.00500	.00477	.00009	.08495
70	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000

SAFETY TIER 1 MEMBERS—ALL

Age	Withdrawal		Terminated	Ordinary	Duty	Ordinary	Duty	Service
Nearest	0<X<5	5<=X	Vested	Disability	Disability	Death	Death	Retirement
20	.15000	.15000	.10000	.00000	.00000	.00055	.00040	.00000
30	.06900	.06901	.04423	.00020	.00020	.00086	.00040	.00000
40	.04000	.00913	.00500	.00060	.00400	.00115	.00050	.00000
50	.00000	.00000	.00046	.00100	.00570	.00277	.00070	.06703
60	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000
70	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000

SAFETY TIER 2 MEMBERS—ALL

Age	Withdrawal			Terminated	Ordinary	Duty	Ordinary	Duty	Service
Nearest	0<X<3	3<=X<5	5<=X	Vested	Disability	Disability	Death	Death	Retirement
20	.04000	.03000	.01000	.00850	.00000	.00000	.00055	.00040	.00000
30	.04000	.03000	.01000	.00850	.00020	.00268	.00086	.00040	.00000
40	.04000	.03000	.01000	.00850	.00060	.00650	.00115	.00050	.00000
50	.00000	.00000	.00000	.00850	.00100	.01100	.00277	.00070	.04248
60	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000
70	.00000	.00000	.00000	.00000	.00000	.00000	.00000	.00000	1.00000

Beverly A. Daniels-Greenburg

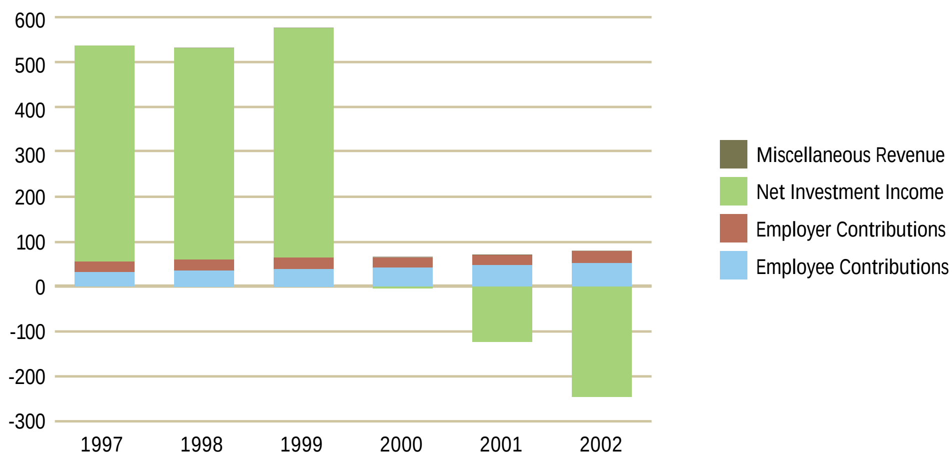
Commissioner, Superior Court of California, 22 years with Alameda County

SECTION 5

> STATISTICAL

Revenue by Source

(Dollars in Millions)

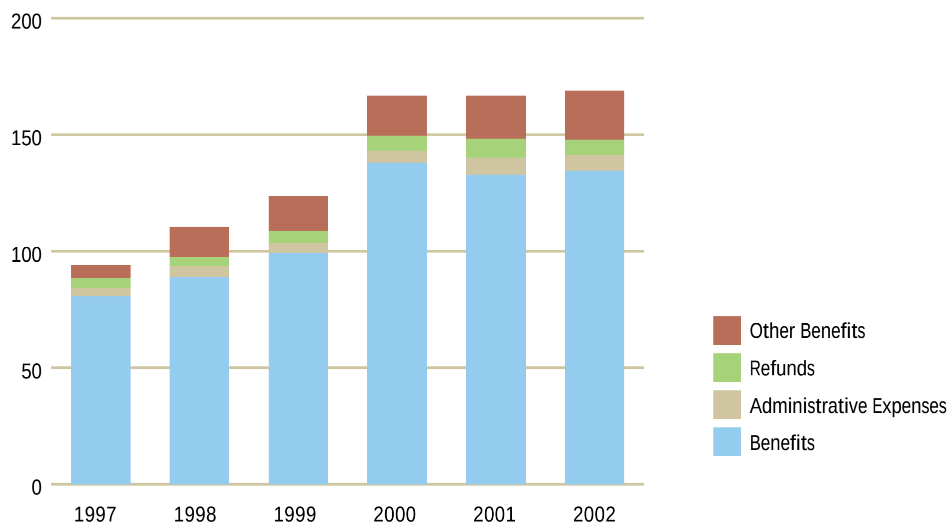


Revenue by Source

Year ended December 31	Employee Contributions ($)	Employer Contributions ($)	Net Investment Income/Loss ($)	Miscellaneous Revenue ($)	TOTAL
1997	32,684,638	23,471,769	480,486,364	5,256	536,648,027
1998	35,748,407	24,389,376	471,624,158	64,755	531,826,696
1999	39,265,219	26,134,479	510,797,541	52,642	576,249,881
2000	42,829,708	22,042,914	(4,192,196)	1,394,247	62,074,673
2001	47,588,887	23,315,033	(122,602,190)	863,742	(50,834,528)
2002	53,285,988	26,985,360	(245,718,451)	118,271	(165,328,832)

Expenses by Type

(Dollars in Millions)



Expenses by Type

Year ended December 31	Benefits ($)	Administrative Expenses ($)	Refunds ($)	Other Benefits ($)*	TOTAL ($)
1997	80,833,472	3,300,664	4,391,437	5,557,671	94,083,244
1998	88,794,029	4,890,004	4,095,621	12,693,075	110,472,729
1999	99,225,190	4,614,199	4,963,159	14,789,296	123,591,844
2000†	138,153,224	5,190,590	6,266,842	17,130,345	166,741,001
2001†	132,918,657	7,202,399	8,312,460	18,443,278	166,876,794
2002†	134,619,939	6,820,424	6,448,010	20,924,985	168,813,358

* Other benefits consists of supplemental cost of living and health insurance subsidies.

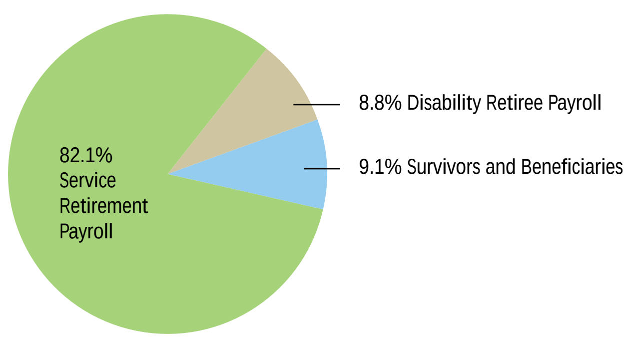
† The increase in benefit payments from 2000 through 2002 reflects increased benefits due to the Ventura Settlement.

Schedule of Benefit Expenses by Type*

	2002	2001	2000	1999	1998	1997
Service Retirement Payroll						
Basic	$ 82,721,678	$ 77,819,944	$ 74,128,258	$ 65,248,080	$ 57,750,840	$ 52,688,796
COLA	$ 27,025,690	24,838,053	22,486,337	19,781,227	17,761,164	16,232,076
Total	**109,747,368**	**102,657,997**	**96,614,595**	**85,029,307**	**75,512,004**	**68,920,872**
Disability Retiree Payroll						
Basic	9,540,646	8,800,266	7,733,362	6,095,553	5,106,996	4,632,744
COLA	2,241,082	2,013,020	1,750,675	1,461,187	1,263,576	1,195,800
Total	**11,781,728**	**10,813,286**	**9,484,037**	**7,556,740**	**6,370,572**	**5,828,544**
Beneficiaries and Survivors						
Basic	7,550,165	6,576,312	5,651,133	5,273,837	4,904,460	4,449,600
COLA	4,617,487	4,038,493	3,510,459	3,298,252	2,937,072	2,669,184
Total	**12,167,652**	**10,614,805**	**9,161,592**	**8,572,089**	**7,841,532**	**7,118,784**
Total	**$ 133,696,748**	**$ 124,086,088**	**$ 115,260,224**	**$ 101,158,136**	**$ 89,724,108**	**$ 81,868,200**

Benefit Expenses by Percent

(Year 2002)



* The benefit amounts were provided by the actuary and do not reflect retroactive adjustments to year end amounts.

Schedule of Average Benefit Payment Amounts

Number of Years Since Retirement	0–4	5–9	10–14	15–19	20–24	25–29	30+
PERIOD 1/1/97–12/31/97							
Average Monthly Benefit	$ 1,956	$ 1,739	$ 1,303	$ 972	$ 778	$ 600	$ 431
Number of Active Retirees	1,100	999	845	1,021	728	331	178
PERIOD 1/1/98–12/31/98							
Average Monthly Benefit	$ 1,918	$ 1,978	$ 1,373	$ 1,052	$ 815	$ 684	$ 451
Number of Active Retirees	1,047	1,173	817	995	790	363	195
PERIOD 1/1/99–12/31/99							
Average Monthly Benefit	$ 2,226	$ 1,971	$ 1,635	$ 1,136	$ 897	$ 692	$ 475
Number of Active Retirees	1,195	950	1,028	933	823	446	230
PERIOD 1/1/00–12/31/00							
Average Monthly Benefit	$ 2,394	$ 2,439	$ 1,810	$ 1,342	$ 1,000	$ 770	$ 512
Number of Active Retirees	1,304	1,023	964	872	862	441	233
PERIOD 1/1/01–11/30/01							
Average Monthly Benefit	$ 2,261	$ 2,047	$ 1,951	$ 1,455	$ 1,092	$ 861	$ 597
Number of Active Retirees	1,569	1,203	991	774	751	403	176
PERIOD 1/1/02–11/30/02							
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

Schedule of Retiree Members by Type of Benefit

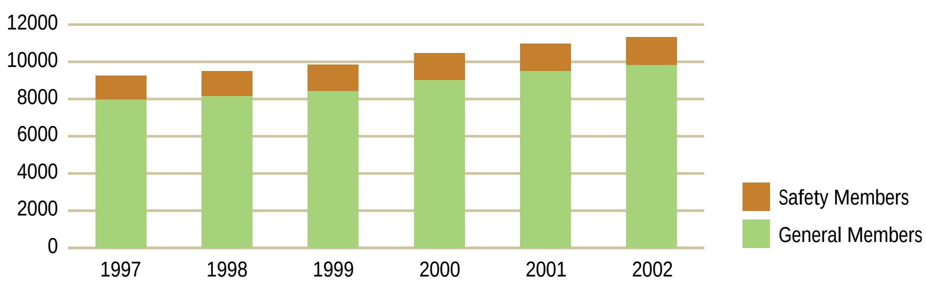
Summary of Monthly Allowances Being Paid for the Month of November 30, 2002

		Monthly Allowance		
	Number	Basic	Cost of Living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	3,694	$ 5,135,019	$ 1,767,939	$ 6,902,958
Option 1	104	121,278	44,683	165,961
Option 2, 3 & 4	192	236,123	66,118	302,241
Total	**3,990**	**5,492,420**	**1,878,740**	**7,371,160**
Ordinary Disability				
Unmodified	133	99,165	36,021	135,186
Option 1	9	4,778	2,924	7,702
Option 2, 3 & 4	0	0	0	0
Total	**142**	**103,943**	**38,945**	**142,888**
Duty Disability				
Unmodified	250	397,193	75,450	472,643
Option 1	8	8,579	1,952	10,531
Option 2, 3 & 4	1	2,220	44	2,264
Total	**259**	**407,992**	**77,446**	**485,438**
Beneficiaries				
Ex-Spouse	62	38,661	12,189	50,850
Death	805	474,311	309,447	783,758
Total	**867**	**512,972**	**321,636**	**834,608**
Total General	**5,258**	**$6,517,327**	**$2,316,767**	**$8,834,094**
SAFETY MEMBERS				
Service Retirement				
Unmodified	462	$ 1,338,361	$ 360,733	$ 1,699,094
Option 1	2	4,267	1,730	5,997
Option 2, 3 & 4	27	58,424	10,939	69,363
Total	**491**	**1,401,052**	**373,402**	**1,774,454**
Ordinary Disability				
Unmodified	4	3,995	537	4,532
Option 1	0	0	0	0
Option 2, 3 & 4	0	0	0	0
Total	**4**	**3,995**	**537**	**4,532**
Duty Disability				
Unmodified	123	266,033	66,295	332,328
Option 1	4	8,329	1,035	9,364
Option 2, 3 & 4	3	4,761	2,499	7,260
Total	**130**	**279,123**	**69,829**	**348,952**
Beneficiaries				
Ex-Spouse	23	29,288	5,197	34,485
Death	90	86,921	57,958	144,879
Total	**113**	**116,209**	**63,155**	**179,364**
Total Safety	**738**	**1,800,379**	**506,923**	**2,307,302**
Total Retiree Members	**5,996**	**$8,317,706**	**$2,823,690**	**$11,141,396**

Participating Employers and Active Members†

	2002	2001	2000	1999	1998	1997
County of Alameda						
General Members	7,550	7,266	7,077	6,787	8,043	7,840
Safety Members	1,499	1,472	1,429	1,414	1,326	1,278
Total	**9,049**	**8,738**	**8,506**	**8,201**	**9,369**	**9,118**
Participating Agencies (General Membership)						
Livermore Area Recreation & Park District	76	76	65	61	61	56
Housing Authority of Alameda County	75	69	66	65	64	65
Alameda County Schools	5	5	5	5	5	8
Alameda County Medical Center††	2,133	2,086	1,814	1,527	-	-
Total	**2,289**	**2,236**	**1,950**	**1,658**	**130**	**129**
Total Active Membership						
General Members	9,839	9,502	9,027	8,445	8,173	7,969
Safety Members	1,499	1,472	1,429	1,414	1,326	1,278
Total	**11,338**	**10,974**	**10,456**	**9,859**	**9,499**	**9,247**

Total Active Membership



Employer Contribution Rates

As of December 31

	County of Alameda & ACMC*					Other participating agencies				
	General		Safety			General		Safety		
	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate**	Tier 1	Tier 2	Tier 1	Tier 2	Aggregate**
1997	5.12	4.76	9.28	9.02	5.59	15.15	14.79	N/A	N/A	15.14
1998	5.75	4.46	8.72	8.35	5.44	16.20	N/A	N/A	N/A	16.20
1999	5.75	4.46	8.72	8.35	5.43	16.21	N/A	N/A	N/A	16.21
2000	6.28	2.83	4.78	5.48	4.03	17.30	N/A	N/A	N/A	17.30
2001	6.31	2.86	5.10	5.80	4.00	17.09	N/A	N/A	N/A	17.09
2002	5.90	3.37	5.96	7.16	4.37	16.21	N/A	N/A	N/A	16.21

† This schedule includes inactive vested members.

†† The ACMC became a participating agency of ACERA in 1999; prior to this year they were included in County of Alameda's General Membership.

* ACMC was part of the County of Alameda in 1996 when the pension obligation bond proceeds were received by ACERA, hence the contribution rate is the same.

** Based on payroll as of same date.

Olga Kempton

**Public Health Nurse,
Health Care Services Agency,
23 years with Alameda County,
retired for 20 years**

SECTION 6

> COMPLIANCE

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

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

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

We have audited the financial statements of the Alameda County Employees' Retirement Association (ACERA) as of and for the years ended December 31, 2002 and 2001, and have issued our report thereon dated May 21, 2003. 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.

Compliance

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

Internal Control over Financial Reporting

In planning and performing our audits, we considered ACERA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have included in a management letter report dated May 21, 2003.

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

Williams, Adley & Company, LLP

May 21, 2003

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