ACERA

Alameda County Employees' Retirement Association

A Pension Trust Fund of the County of Alameda
Oakland, California

SECURING THE FUTURE

Comprehensive Annual Financial Report
for the Years Ended December 31, 2001 and 2000

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

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

SECURING THE FUTURE

Comprehensive Annual Financial Report for the Years Ended December 31, 2001 and 2000

ALAMEDA COUNTY EMPLOYEES' RETIREMENT ASSOCIATION

475 14th Street
Oakland, California 94612-1900

Issued By

Charles F. Conrad
General Manager and Chief Investment Officer

Catherine E. Walker
Accounting and Operations Manager

ACERA is a retirement system, organized under the County Employees Retirement Law of 1937, which provides retirement, disability, and death benefits to the employees, retirees and former employees of the County of Alameda, and certain other participating public employers.

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

CONTENTS

"I'm single, so the benefits mean quite a bit to me. It's like a security blanket...knowing that my retirement will be there when I need it."

Barbara Baxter

Collection Development Manager
Alameda County Library

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 and
Chief Investment Officer

Dear Board Members:

I am pleased to submit this Comprehensive Annual Financial Report (CAFR) of the Alameda County Employee's Retirement Association (ACERA) for the year ended December 31, 2001.

The events of September 11 and its aftermath highlighted the dramatic contrast between unimaginable violence and tragedy and the hope and triumph of the human spirit. We will all remember 2001 as the year terrorism came to America. But in the spirit of hope and resolve that followed, the Board and Staff of ACERA remain committed to the mission and goals of the Association and to its members and beneficiaries.

Those September events pushed an already fragile economy into official recession, ending the longest economic expansion in U.S. history. The economy continues to struggle, with unemployment rising, personal income growth slowing, personal consumption and retail sales weakening, and the manufacturing sector in recession. However, the Federal Reserve has reduced interest rates to their lowest level in fifty years, and Congress has cut taxes. Those actions combined with increased government spending for defense, homeland security, and rebuilding should all provide substantial economic stimulus.

The Board of Retirement continues to pursue a conservative investment and administrative strategy that stresses diversification, professional management and prudent oversight. The Retirement Association continues to be financially sound. ACERA's assets continue to exceed its liabilities, and the Board of Retirement remains committed to a steady, risk-averse management of ACERA's assets and to continued improvement in member services and administration. I encourage you to review the narrative introduction, overview, and analysis located in Management's Discussion and Analysis beginning on page 20.

The Comprehensive Annual Financial Report

The CAFR of ACERA for the years ending December 31, 2001 and December 31, 2000 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, which contains ACERA's financial condition and funding status, 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 an 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 Independent Auditor's Report on Compliance and 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

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

In 2001 the Board approved the continuation of contributions towards the health, dental and vision programs. Additionally, the Board voted to continue to provide Medicare Part B reimbursement and the 85% purchasing power cost-of-living benefit (COLA). All of these benefits are provided through the Supplemental Retirees Benefit Reserve (SRBR).

The status and future of health care benefits continues to be a national problem. The Board is concerned about health insurance, which is the number one priority of the SRBR.

Member Services

Staff Reorganization

In 2001 ACERA reorganized to streamline its work processes and provide more timely response to its members. As a result, last year the volume of service requests, such as member service credit and retirement allowance estimates, was reduced.

New Customer Service Call Center

To better serve our members, in 2001 we designed and began building a customer service call center. All the groundwork has been completed and the infrastructure—a dedicated telephone switch and system—is in place. The new center, unlike many other call center systems which are message-driven, is designed to capitalize on a blending of technology and our personnel resources to provide speedy, more personal service. Staff with expertise in specific areas will personally answer members' questions. Staff training is now under way and the call center should be operational by the third quarter of 2002. The next step in the year 2002 is to educate our membership on how the call center will work and on how to use it to maximum advantage.

Ventura Update

In 2001 ACERA completed the majority of retroactive payments to retired members under the Ventura Settlement Agreement, which was approved by Judge Carson of Alameda County Superior Court on September 21, 1999.

ACERA began the Ventura retro-payment process in January 2000 and reviewed 4,030 retired member files, or 75% of the retired member population with an effective date of retirement prior to 1997. Payments were executed on 70% of those files. By December 31, 2001, the total results were as follows:

- 5,307 accounts reviewed
- 4,467 accounts paid
- $37.5 million disbursed to retired members

By year-end 2001, there were 346 accounts pending resolution and payment. For the most part, these were payments for deceased member/beneficiary accounts for whom beneficiary information was difficult to determine.

Technology Update

In 2001, the challenge of customizing and testing ACERA's Retirement Information and Accounting Information Systems (RIS and AIS) continued. Significant progress was made towards an implementation goal of January 2002.

Part of the preparation for migration to a full implementation of the RIS system included the loading, testing and balancing of all historical retirement data. Literally thousands of records were integrated and converted to the new system.

This was an extremely important achievement. In the past, ACERA staff had to manually research payroll records, primarily through microfiche, to review a member's salary, service and contributions. With the integration and balancing of historical data, this time-consuming process has been eliminated. ACERA's retirement specialists are now better able to devote their time to member service rather than manual reviews of files and benefit calculations.

Once the new systems are fully operational and the data shared by the benefits and accounting systems are automated, we expect to see more efficient transmission of transactions, further reductions in backlogs, and improved focus on more timely interpersonal service.

Also on the technology front, the new information technology (IT) group, which is charged with supporting both the RIS and AIS in an independent IT environment, is fully operational. ACERA no longer relies on Alameda County for IT services. We are producing our own checks and warrants and have our own Internet service provider. The results to date show increased predictability and better control of the technology we rely on to efficiently and effectively serve our members.

Headquarters Acquisition

Looking to the future security and stability of the organization, ACERA last year purchased the building where its offices are located. The purchase offers a number of significant benefits and advantages. Ownership will enable us to grow more easily, if that becomes necessary, and to offer a broader range of member services, such as classes and workshops on benefits and retirement planning. Sensitivity to retired members' transportation needs was a key factor in the decision. The building is located close to Oakland's vibrant City Center, with easy access to public transportation, such as Bay Area Rapid Transit and buses.

Owning our own office space is more cost-effective than renting over long periods of time. The building not only passed a full due diligence study as a core urban office property but has the collateral benefit of being an investment in Alameda County and its business infrastructure.

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 retaining a well-funded plan status and obtaining superior investment returns while minimizing employer contributions. Employer contributions remain approximately level as a percent of member payroll. The greater the levels of overall plan funding, the larger the ratio of assets accumulated to the actuarial accrued liability. The advantage of a well-funded plan is that the benefits earned by participants are funded during their working careers and not by future generations of taxpayers. At the present time, ACERA's funding ratio is 105.8%.

ACERA engages an independent actuarial consulting firm, William M. Mercer, Incorporated, to conduct annual actuarial valuations. Recommendations are presented to ACERA's Board for consideration. Triennially, an analysis is made of the appropriateness of all economic and non-economic assumptions.

The actuarial accrued liability of ACERA on December 31, 2001 and December 31, 2000 amounts to $3,140,216,000 and $2,936,631,000, respectively. The actuarial value of assets at December 31, 2001 and December 31, 2000 amounts to $3,321,794,000 and $3,169,178,000 respectively.

The County of Alameda issued $283,485,000 of pension obligation bonds on December 19, 1996. This bond issue, together with $307,923,000 issued by the County on April 20, 1995, satisfied the Unfunded Actuarial Accrued Liability (UAAL) of the County of Alameda as then calculated. A more detailed discussion of funding is provided in the Actuarial Section of this report.

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, 2001 and December 31, 2000, ACERA investments provided a –3.1% and –0.1% rate of return, respectively. ACERA's annualized rate of return over the last three years was 3.9%. Over the last five years, it was 8.9%.

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 page 48 of this report.

Certificate of Recognition

ACERA's CAFR for the years ending December 31, 2000 and 1999 was submitted to the Governmental Accounting Standard Board (GASB). ACERA subsequently received a Certificate of Recognition (see page 15) and a letter addressed to Sandre Swanson, Board of Retirement, Chairman. The letter was dated October 25, 2001 and signed by Tom L. Allen, GASB's chairman. It stated that ACERA was among the first governmental entities to have issued financial statements in accordance with GASB 34, "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments". GASB was extremely pleased and impressed by ACERA's ability to incorporate GASB 34 into its financial statements in such a timely fashion. Mr. Allen further stated that ACERA's early implementation is a tribute to ACERA's staff and its auditors, Williams, Adley & Co., LLP.

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 14) to ACERA for its CAFR for the year ended December 31, 2000. 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 five 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

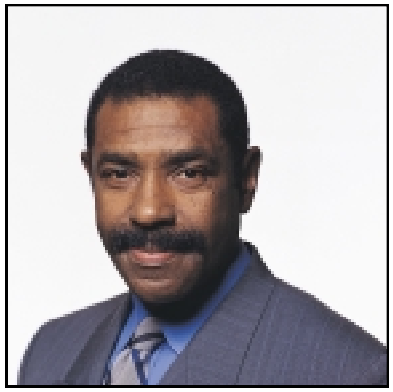
General Manager and
Chief Investment Officer

June 4, 2002

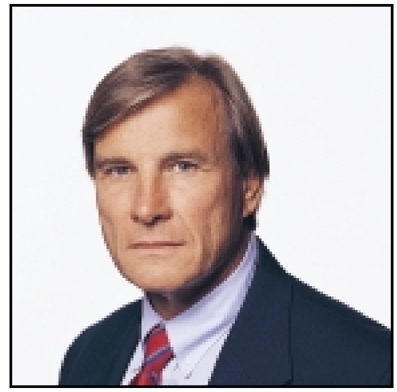
MEMBERS OF THE BOARD OF RETIREMENT

As of December 31, 2001

Annette Cain-Darnes
Appointed by the Board of Supervisors



Keith Carson
Appointed by and Member of the Board of Supervisors



Robert Chambers
Elected by General Members

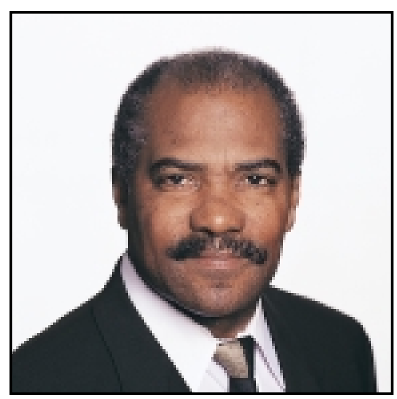
Charles L. Harrington
Elected by Retired Members

Liz Koppenhaver
Elected by Safety Members

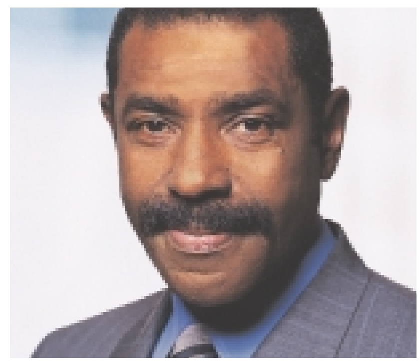
Dave Safer
Elected by General Members

William Schaff
Appointed by the Board of Supervisors

Sandre Swanson, *Chairman*
Appointed by the Board of Supervisors

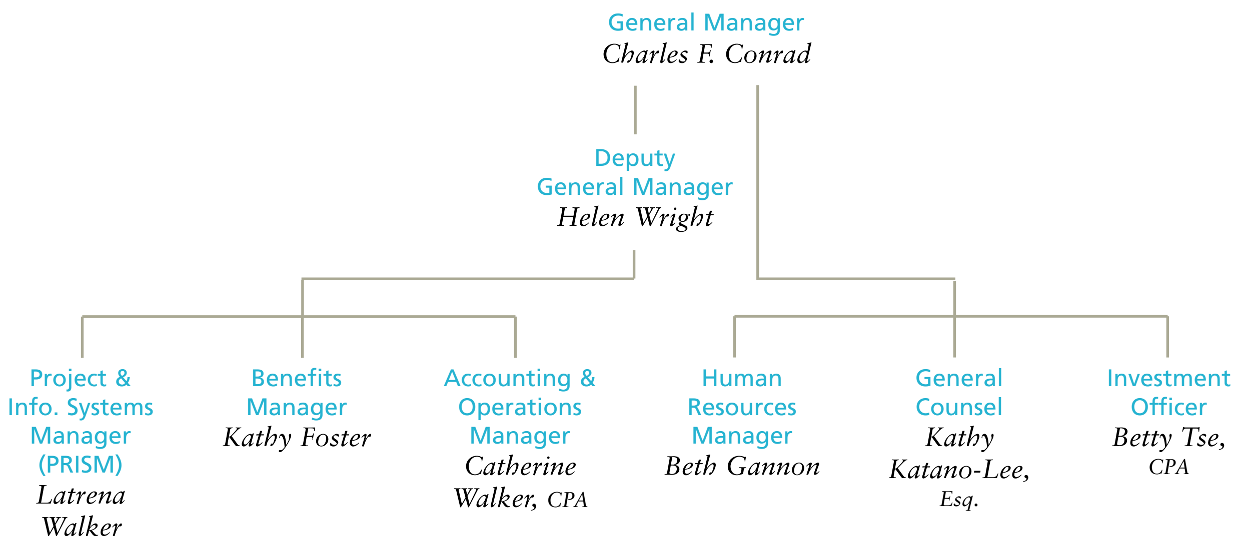


Donald R. White
Ex-Officio Member
Treasurer-Tax Collector County of Alameda



ADMINISTRATIVE ORGANIZATION CHART

As of December 31, 2001



LIST OF PROFESSIONAL CONSULTANTS†

Actuary
William M. Mercer

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
Alfred Munsgard & Associates, Inc.
Buck Consultants, Inc.
Coleen A. Magorian
Information Resources
Intermedia Communications
Levi, Ray & Shoup, Inc.
Linea Solutions
Xapnet

† List of Investment Professionals is located on page 48 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, 2000

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

President

Executive Director

ALSO AWARDED 1996, 1997, 1998, 1999

Certificate of Recognition

Presented to

Alameda County Employees' Retirement Association, California

For

Early Implementation of GASB 34

The implementation of Statement 34 results in better financial information to a government's taxpayers, governing board, and other financial statement users. Early implementation of Statement 34 is a testament to your professional leadership, initiative, and commitment to improving public accountability.

Fiscal Year Ended 12/31/00

GASB Chairman

"I can't depend on social security when I reach retirement age, so the retirement benefits are important to me. When I see elderly people struggling, I feel very fortunate to have money going towards my future."

Teresa Herrera

Division Secretary, Department of Welfare to Work, Program Planning and Support, Alameda County Social Services Agency

INDEPENDENT AUDITOR'S REPORT

Williams, Adley & Company, LLP
Management Consultants
Certified Public Accountants

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

We have audited the accompanying statements of plan net assets of the Alameda County Employees' Retirement Association (ACERA), as of December 31, 2001 and 2000, 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, 2001 and 2000, 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 April 23, 2002 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

The Management's Discussion and Analysis on pages 20–25, and the schedules of funding progress and employer contributions on page 36 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 38 and 39, and 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 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

April 23, 2002

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 year ended December 31, 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 2001 are $3,517,082,362 (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 $217,711,322, or 5.8%, 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, 2001, the date of our last actuarial valuation, the funded ratio for ACERA was approximately 105.8%. In general, this indicates that for every dollar of benefits due we have approximately $1.06 of assets to cover it.
- Revenues (Additions to Plan Net Assets) for the year were $(50,834,528), which includes member and employer contributions of $70,903,920, an investment loss of $(123,201,253), net securities lending income of $599,063, and miscellaneous income of $863,742.
- Expenses (Deductions in Plan Net Assets) increased from $166,741,001 to $166,876,794 over the prior year, or approximately 0.1%.

Overview of the Financial Statement

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.

Both statements are in compliance with Governmental Accounting Standard Board Statements (GASB) Pronouncements 25, 26, 28, 33, and 34. These pronouncements require certain disclosures and require the state and local governments to report using the full accrual method of accounting. ACERA complies with all material requirements of these pronouncements.

The Statement of Plan Net Assets and the Statement of Changes in Plan Net Assets reports 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 (fixed 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 statement on pages 26–27 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 28–35 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 36 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

As previously noted, net assets may serve over time as a useful indication of ACERA's financial position (see Table 1 on page 23). The assets of ACERA exceeded its liabilities at the close of the year 2001.

Currently $3,517,082,362 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, 2001, net assets decreased by 5.8% over the prior year primarily due to reductions in the fair value of investments and an increase in current liabilities. The increase in current liabilities is primarily due to an increase of $129,627,431 in the securities lending liability offset by a decrease in the payable for security purchases of $12,867,913.

Despite variations in the stock market, ACERA's management and actuary concur that ACERA remains in a financial position to meet its obligations to the plan participants and beneficiaries. The current financial position results from a very strong and successful investment program, risk management, and strategic planning.

Capital Assets

ACERA's investment in capital assets increased from $5,952,152 to $8,176,713 (net of accumulated depreciation and amortization). This investment in capital assets includes equipment, furniture, leasehold improvements, and construction-in-progress. The total increase in ACERA's investment in capital assets for the current year was 37% over 2000. The major capital asset investment during 2001 was the enhancement of ACERA's technology infrastructure. This enhancement includes the purchase and customization of ACERA's Retirement Information System (RIS) and Accounting Information System (AIS), which are included in the construction-in-progress account.

Reserves

ACERA's reserves are established from contributions and the accumulation of investment income, after satisfying investment and administrative expenses (see Table 2 on page 23). During the past five years the following have been implemented and have impacted the reserve accounts and the amount of interest credited to reserve accounts:

- The adoption of GASB 25 in 1996
- The implementation of a five-year smoothing methodology of investment gain and losses in 1998

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.

The decline in the fair value of investments in the years 2001 and 2000, interest crediting at the actuarial assumed interest rate, and the five-year smoothing of investment gains and losses resulted in a reduction in the Market Stabilization Reserve of approximately $442 million as of December 31, 2001.

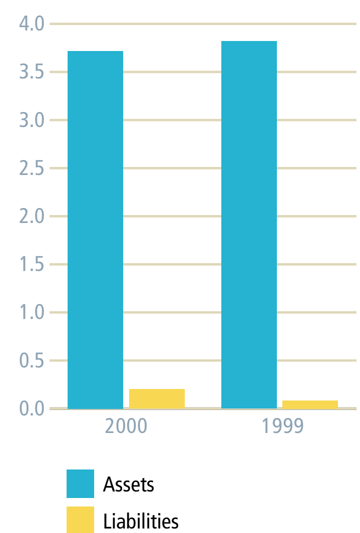
ACERA's Net Assets (Table 1)

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%
Fixed 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%

ACERA's Net Assets

(Dollars in Billions)



ACERA's Reserves (Table 2)

For the Years Ended December 31, 2001 and 2000

	2001	2000
Member Reserves	$ 863,954,729	$ 798,204,083
Employer Advance Reserve	634,211,957	624,874,031
Retired Member Reserves	1,831,989,629	1,701,891,271
Supplemental Retiree Benefit Reserve	520,349,815	486,541,835
Contingency Reserve	100,265,797	114,609,192
Market Stabilization Reserve	(433,689,565)	8,673,272
Total Reserves at Fair Value	**$3,517,082,362**	**$3,734,793,684**

Revenues—Additions to Plan Net Assets (Table 3)

For the Years Ended December 31, 2001 and 2000

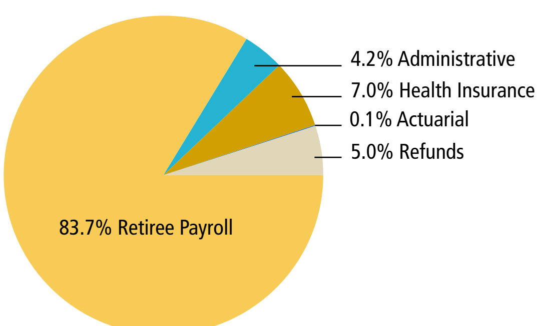
	2001	2000	Increase/ (Decrease) Amount
Employer Contributions	$ 23,315,033	$ 22,042,914	$ 1,272,119
Members Contributions	47,588,887	42,829,708	4,759,179
Net Investment Loss *	(123,201,253)	(4,515,679)	(118,685,574)
Net Securities Lending Income	599,063	323,483	275,580
Miscellaneous Income	863,742	1,394,247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

Expenses—Deductions in Plan Net Assets (Table 4)

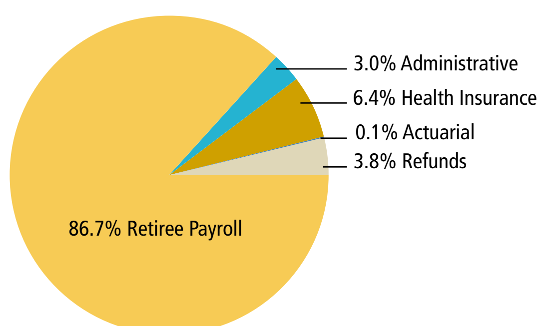
For the Years Ended December 31, 2001 and 2000

	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 Expenses	$ 166,876,794	$166,741,001	$ 135,793

Expenses—Deductions in Plan Net Assets



2001



2000

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

ACERA's Activities

Market returns decreased net assets by $217,711,322, thereby accounting for a 5.8% 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, 2001, totaled $50,834,528. (See Table 3 on page 24).

By year-end, overall revenues had decreased by $112,909,201, or 181.9%, from the prior year due primarily to investment losses. The investment section of this report reviews the result of investment activity for the year ended December 31, 2001.

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, 2001 totaled $166,876,794, an increase of 0.1% over December 31, 2000 (see Table 4 on page 24). Increases in administrative expenses, health insurance expenses, and member refunds were substantially offset by a decrease in retiree payroll costs due to reductions in Ventura payments. Administrative expenses increased primarily as a result of an increase in payroll costs and a loss taken on the disposal of fixed assets resulting from the technology conversion. Health insurance costs increased due to higher premiums, and member refunds increased due to larger refunds. ACERA has consistently met its administrative expense budget. There were no material variances between budgeted and actual expenditures.

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

Respectfully submitted,

Catherine Walker, CPA
Accounting & Operations Manager
June 4, 2002

Statement of Plan Net Assets

As of December 31, 2001 and 2000	2001	2000
ASSETS		
Cash	$ 5,196,756	$ 13,809,574
Receivables		
Contributions	7,458,735	3,253,040
Accrued Interest	18,935,143	7,186,906
Dividends	1,073,507	302,174
Real Estate	594,040	483,959
Securities Lending	101,180	20,580
Sale of Securities	3,087,755	13,939,091
Other	111,261	32,840
Total Receivables	**31,361,621**	**25,218,590**
Prepaid Expenses	382,023	144,335
Real Estate Deposits		150,000
Investments, at Fair Value		
Short-Term Investments	145,779,597	61,122,477
Government Bonds	383,546,108	111,922,039
Corporate Bonds	539,080,640	250,618,090
Bond Market Fund		892,783,218
International Bonds	179,115,512	
Corporate Stocks	441,345,118	244,018,938
Domestic Equity Index Fund	673,228,179	1,296,536,130
Stock Index Futures	5,941,257	
International Equity Funds	706,904,981	483,128,548
Real Estate Investment Trusts	12,300,896	20,618,775
Real Estate Properties	302,583,680	251,380,763
Real Estate Trusts	15,909,122	16,243,563
Real Estate Mortgage Loans	208,196	383,726
AFL-CIO Housing Trust	75,787,242	84,591,141
Total Investments	**3,481,730,528**	**3,713,347,408**
Securities Lending Collateral	191,311,780	61,684,349
Total Investments Including Securities & Lending Collateral	**3,673,042,308**	**3,775,031,757**
Fixed Assets (Net of Accum. Depreciation & Amortization of $1,508,928 & $1,351,856 respectively)		
Equipment and Furniture	719,240	1,768,611
Construction in Progress	7,457,473	3,955,408
Leasehold Improvements		228,133
Total Fixed Assets	**8,176,713**	**5,952,152**
Total Assets	**3,718,159,421**	**3,820,306,408**
LIABILITIES		
Purchase of Securities	4,740,921	17,608,834
Accrued Investment and Actuary Expenses	2,655,337	2,906,620
Accrued Administration Expenses	1,232,210	896,906
Members Benefits & Refunds Payable	1,065,704	582,559
Securities Lending Liability	191,311,780	61,684,349
Stock Dividends Payable	50,423	48,259
Margin Variation Payable		605,150
Retirement Payroll Deductions Payable	20,684	1,180,047
Total Liabilities	**201,077,059**	**85,512,724**
Net Assets Held in Trust for Pension Benefits	**$3,517,082,362**	**$3,734,793,684**

(A schedule of funding progress is presented on page 36. See accompanying Notes to Financial Statement beginning on page 28.)

Statement of Changes in Plan Net Assets

For the Years Ended December 31, 2001 and 2000

	2001	2000
ADDITIONS		
Contributions		
Members	$ 47,588,887	$ 42,829,708
Employers	23,315,033	22,042,914
Total Contributions	**70,903,920**	**64,872,622**
Investment Income		
Net Appreciation (Depreciation) in Fair Value of Investments	(183,129,199)	(57,690,464)
Interest	39,629,643	32,974,813
Dividends	8,752,234	5,003,019
Real Estate, Net	24,744,876	26,063,073
Total Investment Income	**(110,002,446)**	**6,350,441**
Less: Investment Expenses	(13,198,807)	(10,866,120)
Net Investment Income (Loss)	**(123,201,253)**	**(4,515,679)**
Securities Lending Income		
Securities Lending	4,337,044	5,815,419
Less: Securities Lending Expenses	(3,737,981)	(5,491,936)
Net Securities Lending Income (Loss)	**599,063**	**323,483**
Miscellaneous Income	863,742	1,394,247
Total Additions	(50,834,528)	62,074,673
DEDUCTIONS		
Benefit Payments		
Service Retirement	130,913,201	136,408,027
Death Payments	2,005,457	1,745,197
Supplemental Cost of Living	6,719,160	6,437,566
Health Insurance Subsidies	11,724,117	10,692,779
Total Benefit Payments	**151,361,935**	**155,283,569**
Members Refunds	8,312,460	6,266,842
Administration		
Administrative Expenses	7,033,504	5,045,550
Actuarial Expenses	168,895	145,040
Total Administration	**7,202,399**	**5,190,590**
Total Deductions	166,876,794	166,741,001
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Year	3,734,793,684	3,839,460,012
Excess of Additions over Deductions	(217,711,322)	(104,666,328)
End of Year	$3,517,082,362	$3,734,793,684

(See accompanying Notes to Financial Statements on pages 28)

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

ACERA adopted Governmental Accounting Standards Board Statement (GASB) No. 34 "Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments," which requires full accrual accounting. ACERA has also implemented GASB Statement No. 33 "Accounting and Financial Reporting for Nonexchange Transactions."

Reporting Entity

ACERA, with its own governing board, is an independent governmental entity. 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 and expenses are recorded when the corresponding liabilities are incurred.

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 cost, which approximates 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.

Fixed Assets

Fixed assets and leasehold improvements are stated at cost, net of accumulated depreciation and amortization. Fixed assets with an initial cost of more than $3,000 and an estimated useful life in excess of one year are 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 and equipment are depreciated over five years, whereas furniture is depreciated over seven years. Depreciation expense was $357,989 and $328,587 for the years ended December 31, 2001 and 2000, respectively. Amortization expense was $251,321 and $94,766 for the years ended December 31, 2001 and 2000, respectively. The cost and accumulated depreciation of fixed assets and leasehold improvements are shown in the Schedule of Fixed Assets below.

Schedule of Fixed Assets

For the Years Ended December 31, 2001 and 2000

	2001	2000
Equipment and Furniture	$ 2,228,168	$ 2,919,689
Construction in Progress	7,457,473	3,955,408
Leasehold Improvements		428,911
Total Fixed Assets (Cost)	**9,685,641**	**7,304,008**
Less: Accumulated Depreciation	(1,508,928)	(1,351,856)
Total Fixed Assets – Net of Depreciation	**$ 8,176,713**	**$ 5,952,152**

Estimates

The preparation of financial statements is in accordance with generally accepted accounting principles, which require the plan administrator 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

Alameda County Employees Retirement Association (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 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.

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.

ACERA's membership

As of December 31, 2001 and 2000

	2001	2000
Retirees and Beneficiaries Currently Receiving Benefits	5,867	5,699
Active Employees:		
Vested	6,507	6,673
Nonvested	4,467	3,783
Inactive Vested Members	1,025	975
Total Membership	**17,866**	**17,130**

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 their age at the date of entry and the actuarially calculated benefits. ACERA members are required to contribute between 5.96% and 15.21% 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 3% of the total assets of the retirement system. The balance in the Contingency Reserve of $100,265,797 and $114,609,192 represents 2.7% and 3% of total assets for the years ended December 31, 2001 and 2000, 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 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 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.

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 the limit of 3% 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. (See Table 2 on page 23)

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, 2001, and determined the plan's funded status to be 105.8% (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 of Alameda (the County), negotiates the healthcare contracts with the providers covering both active and retired members.

The County subsidizes the health care premiums of certain retirees by paying a percentage of the cost for the retiree 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.

Plan net assets are not held in trust for postemployment healthcare benefits. Each year, the County pays an amount to cover the estimated healthcare premium subsidies. As of December 31, 2001 and 2000, the County's healthcare premium account balance was $1,620,977 and $1,158,052, respectively. For the periods ended December 31, 2001 and 2000, a total of $11,724,117 and $10,692,779, respectively, was spent on healthcare premium subsidies for 3,912 and 3,708 retirees, respectively. As of December 31, 2001, the County's healthcare premium subsidies included dental and vision insurance reimbursements for 4,878 retirees; for December 31, 2000 subsidies included dental and vision insurance reimbursements for 4,724 and 4,725 retirees, respectively.

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. 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.

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, 2001, eleven external investment managers managed securities portfolios and three investment managers were used for real estate investments.

Investments are categorized by type to give an indication of the level of credit risk assumed at year end. 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. 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. ACERA had no Category 2 investments at December 31, 2001 and 2000. Cash held with a financial institution falls into Category 1 and cash held with the Alameda County Treasurer falls into Category 3. Total cash was $5,196,756 and $13,809,574 at December 31, 2001 and 2000 respectively. Short term investments consist of certificates of deposit, time deposits, banker's acceptances, and commercial papers with an AA rating.

Real Estate

ACERA seeks to invest in institutional quality real estate across all property types and regions. The return objective is a 6% 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, 2001 and 2000

	2001	2000
Real Estate Investment Income	44,609,969	35,369,713
Real Estate, Non-Operating Expense*	(5,945,726)	
Real Estate, Operating Expenses	(13,919,367)	(9,306,640)
Real Estate, Net Income	$ 24,744,876	$ 26,063,073

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 allows 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.

* Non-operating expense includes interest expense resulting from loans on properties.

ACERA Investments

For the Years Ended December 31, 2001 and 2000

	Risk Category	2001 Basis/ Cost	2001 Fair Value	2000 Basis/ Cost	2000 Fair Value
INVESTMENTS—CATEGORIZED					
Short-Term Investments	1	$ 145,779,597	$ 145,779,597	$ 61,122,477	$ 61,122,477
Government Bonds	1	393,436,235	246,944,608	108,308,251	75,858,344
Corporate Bonds	1	543,462,292	522,729,890	263,421,878	242,415,780
Corporate Stocks	1	414,943,226	402,985,588	221,696,521	226,600,594
International Bonds	1	182,342,229	179,115,512		
Real Estate Investment Trusts (REIT)	1	11,274,027	12,300,896	18,879,407	20,618,775
Total		**1,691,237,606**	**1,509,856,091**	**673,428,534**	**626,615,970**
Investments made with Securities Lending Cash Collateral					
Government Bonds	3		136,601,500		36,063,695
Corporate Bonds	3		16,350,750		8,202,310
Corporate Stocks	3		38,359,530		17,418,344
Total			**191,311,780**		**61,684,349**
Total Categorized Investments		1,691,237,606	1,701,167,871	673,428,534	688,300,319
INVESTMENTS—NOT CATEGORIZED					
Bond Market Fund		25,651,268		732,584,902	892,783,218
Domestic Equity Index Fund		466,906,468	673,228,179	751,394,754	1,296,536,130
Stock Index Futures		5,865,645	5,941,257		
International Equity Funds		652,279,048	706,904,981	394,558,166	483,128,548
AFL-CIO Housing Trust		75,030,115	75,787,242	84,659,401	84,591,141
Real Estate Properties		305,405,497	302,583,680	251,380,763	251,380,763
Real Estate Trusts		17,196,979	15,909,122	16,243,563	16,243,563
Real Estate Mortgage Loans		208,196	208,196	383,726	383,726
Total		**1,548,543,216**	**1,780,562,657**	**2,231,205,275**	**3,025,047,089**
Investments Held by Broker: Dealers under Securities Loans with Cash Collateral					
Corporate Bonds		19,055,407	16,489,819	8,390,777	8,369,982
Corporate Stocks		35,858,324	37,271,893	16,985,279	17,164,931
Government Bonds		137,088,156	137,550,068	33,041,032	36,149,436
Total		**192,001,887**	**191,311,780**	**58,417,088**	**61,684,349**
Total Non-Categorized Investments		1,740,545,103	1,971,874,437	2,289,622,363	3,086,731,438
Total Investments		$3,431,782,709	$3,673,042,308	$2,963,050,897	$3,775,031,757

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, 2001 and 2000, ACERA had securities on loan with a carrying value of $187,340,127 and $58,946,634 for cash collateral of $191,311,780 and $61,684,349, respectively. 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, 2001 and 2000

	2001	2000
Gross Income	$ 4,337,044	$ 5,815,419
Expenses:		
Borrower Rebates	3,556,687	5,353,250
Bank Fees	181,294	138,686
Total Expenses	**3,737,981**	**5,491,936**
Net Income from Securities Lending	**$ 599,063**	**$ 323,483**

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.

Indexed securities are short-term debt instruments for which the interest rates or principal amounts are indexed to an unrelated indicator and consist of collateralized mortgage obligations and asset-backed securities. Forward contracts enable a specific quantity of a particular commodity, foreign currency or other financial instrument, to be bought or sold at its current price, with delivery and settlement at a specified future date. Collateralized mortgage obligations with a cost of $83,692,131 and $746,792, and a market value of $83,676,646 and $725,811, were outstanding at December 31, 2001 and December 31, 2000, respectively. Indexed securities with a cost of $53,074,763 and $46,714,913 and a market value of $53,150,500 and $44,388,750 were outstanding at December 31, 2001 and December 31, 2000, respectively. The investment portfolio included additional holdings in derivatives, which had a cost of $12,928,367 and a market value of $12,726,351 at December 31, 2001.

The investments in indexed securities bear no credit or legal risks, as they are government agency debt issues. However, they bear market risk in that the mortgages can be prepaid. The investments in forwards and futures also bear market risk as the current market may be particularly sensitive to interest rate fluctuations.

ACERA Administrative Expenses

For the Years Ended December 31, 2001 and 2000

	2001	2000
Total Asset Base, at Fair Value (June 30, 2000 and 1999)	$ 3,934,100,604	$ 3,574,246,919
Maximum Allowable for Administrative Expense (.18% x $ 3,934,100,604 and $ 3,574,246,919)	7,081,381	6,433,644
Actual Administrative Expenses for the Fiscal Year	7,033,504	5,045,550
Excess of Allowance over Actual Administrative Expenses	**$ 47,877**	**$ 1,388,094**
Actual Administrative Expenses as a Percentage of Total Assets Base	**0.18%**	**0.14%**

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. Contingencies

ACERA is a defendant in several lawsuits during the last reporting period. Although the outcome of these lawsuits is not presently determinable, in the opinion of ACERA's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of ACERA.

11. Related Party Transaction

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

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.

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 ("UALL") ($) (b-a)	Covered Payroll ($) (c)	UALL as a Percentage (%) of Covered Payroll [(b-a)/c]
1996	2,113	2,068	102.2%	(45)	390	-11.5%
1997	2,314	2,218	104.3%	(96)	413	-23.2%
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	2,937	107.9%	(232)	532	-43.6%
2001	3,322	3,140	105.8%	(182)	590	-30.8%

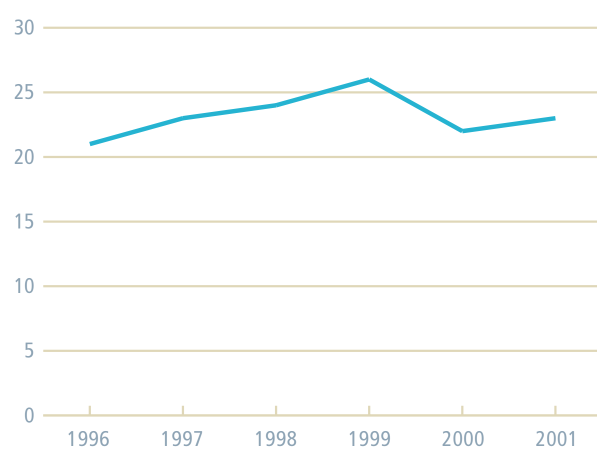
Schedule of Employer Contributions

(In Millions of Dollars)

Year Ended December 31	Annual Required Contribution ($)	Percentage (%) Contributed
1996	21	1440*
1997	23	100
1998	24	100
1999	26	100
2000	22	100
2001	23	100

Employer Contributions

(Dollars in Millions)



* Percentage contributed includes pension obligation bond proceeds from Alameda County.

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, 2001 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 17-year period following December 31, 2001. However, the 1993 Golden Handshake liabilities are being amortized over the 2½ year period following December 31, 2001.

Amortization Approach:

Open

Amortization of Actuarial Gains and Losses:

Excess interest return on the pension obligation bonds as of December 31, 2001 attributable to County of Alameda members are being amortized over the 8-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 current amortization period (17 years).

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:

8.25% per annum

Assumed Salary Increases:

5.60% per annum

Assumed Inflation Rate:

4.50% per annum

SUPPLEMENTAL SCHEDULES

Schedule of Administrative Expenses

For the Years Ended December 31, 2001 and 2000

	2001	2000
Personnel Services		
Staff Wages	$ 1,909,759	$ 1,170,931
Fringe Benefits	659,574	363,456
Temporary Services	1,331,419	1,204,315
Total Personnel Services	**3,900,752**	**2,738,702**
Professional Services		
Computer	19,209	18,460
Audit	76,901	52,100
Legal	172,140	251,713
Specialized	412,856	681,918
Total Professional Services	**681,106**	**1,004,191**
Communications		
Printing	117,680	83,726
Communication	77,462	60,223
Postage	35,448	49,367
Total Communications	**230,590**	**193,316**
Rentals		
Office Space	228,188	310,157
Equipment Leasing	6,546	5,533
Total Rentals	**234,734**	**315,690**
Other		
Training	52,810	53,935
Supplies	52,072	43,375
Maintenance-Equipment	80,704	47,948
Insurance	79,035	38,907
Depreciation and Amortization	429,370	262,130
Loss on Disposal of Pension Information System	943,020	
Office	317,386	280,210
Miscellaneous	31,925	67,146
Total Other	**1,986,322**	**793,651**
Total Administrative Expenses	**$ 7,033,504**	**$ 5,045,550**

SUPPLEMENTAL SCHEDULES

Investment Manager Fees & Other Investment Expenses Summary

For the Years Ended December 31, 2001 and 2000

	2001	2000
INVESTMENT MANAGER FEES		
Equity		
Domestic	$ 2,627,668	$ 2,249,260
International	1,986,896	1,684,558
Fixed Income		
Domestic	1,671,786	1,029,394
International	103,807	
Real Estate		
Investment Trusts	150,631	159,888
Individual Properties	2,374,242	2,048,184
Mortgage Loan Services	721	1,266
Real Estate Investment Trusts (REIT)	126,937	155,796
Total Investment Managers Fees	**9,042,688**	**7,328,346**
OTHER INVESTMENT EXPENSE		
Investment Allocated Costs	1,126,846	1,191,243
Investment Custodians	207,255	174,809
Investment Consultants	658,822	720,078
Security Lending Fees	3,737,981	5,491,936
Commissions	2,163,196	1,190,637
Discounted Interest on Prepaid County Contributions		261,007
Total Other Investment Expense	**7,894,100**	**9,029,710**
Total Fees & Other Investment Expenses	**$16,936,788**	**$16,358,056**

Schedule of Payments to Consultants

For the Years Ended December 31, 2001 and 2000

	2001	2000
Actuarial & Audit Services	$ 269,937	$ 218,540
Legal Services	183,188	242,224
Personnel Coordination	78,886	264,226
Technical Services	31,677	35,829
Other Specialized Services	3,399,516	2,229,828
Total Payments to Consultants	**$ 3,963,204**	**$ 2,990,647**

"I am very pleased with the retirement benefits we have with ACERA. It makes me feel good to know that when I do retire there will be something there for me and my family."

Anthony Waters

Laborer, Road Maintenance, Public Works Department, Alameda County


COUNTY OF ALAMEDA
PUBLIC WORKS AGENCY
Anthony

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

In 2001 we witnessed the beginning of the first recession in a decade. In November the National Bureau of Economic Research announced that the U.S. economy entered this recession in March. By year-end, the Federal Reserve had reduced interest rates 11 times to a 40-year low of 1.75%. This undoubtedly prevented the economy from sinking lower. But the combined impact of a decline in the stock market, high levels of technology investment, rising oil prices and the events of September 11 sent the financial markets into their second down year in a row.

Recessions since World War II have lasted an average of 11 months. This one may be hard to predict. For the stock market to sustain a long-term advance, the economy must begin a rebound soon. Most economists are optimistic that an economic upturn is imminent. But as President Kennedy's favorite economist, John Kenneth Galbraith, noted, "Economists make predictions because they're asked, not because they know…."

Optimistic economists point to lower taxes, the steep decline in interest rates, lower energy prices, increased government spending, inventory reductions by business, and improving consumer confidence. Business leaders, however, worry about excess capacity, limited pricing power (the ability to raise prices), fierce global competition, and reluctant lenders. Yet the growth in final sales, or economic consumption, has consistently outpaced growth in Gross Domestic Product. Consumers do not seem to recognize the recession. Spending on big-ticket items is at near-record levels despite a sharp rise in the unemployment rate from 4.0% at the start of 2001 to 5.8% at year-end.

So where is the recession? It is in the business sector where institutional investors like ACERA have most of their money invested. Corporate profits plunged by a staggering 25% in 2001. Most of the collapse was due to oversupply. Industries ranging from old economy producers like automobiles to new economy stars like telecommunications found themselves facing global over-capacity and deflation in prices. In an attempt to protect profit margins, companies have reduced inventories, cut capital spending and eliminated employees. Each of these actions, however, hurts other suppliers and businesses and reduces the pool of working employees able to buy the products produced. Consumers have been barraged by information suggesting that this economic downturn will be mild and that it would be sensible and patriotic to continue spending. It is not surprising that zero percent auto financing has been embraced so enthusiastically or that homeowners have stripped much of their equity from real estate to continue the consumption.

Over long periods, nominal profit growth for U.S. companies has tended to average around 7%, or 2.5 to 3.0% after inflation. In the five years ending December 2001, after-tax corporate profits averaged only 0.8% per annum. Global over-capacity and an overly indebted consumer market may continue to constrain overall corporate revenue growth.

Will consumers continue spending long enough for companies to restructure, take accounting charge-offs in light of the Enron controversy, and then begin to expand production and employment? Economists think so, given continuing wage gains of approximately 4% and continuing appreciation in home prices of 8% nationally last year. For investors, 2002 should be a year of modest economic growth, subdued inflation, and a 10 to 15% recovery in corporate profits, with higher quality issues likely to outperform lower quality issues. Bond market returns should be in line with current coupon rates. The 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 2001, market results were as follows:

- The U.S. stock market, as represented by the S&P 500, was down again 11.9%, the first back-to-back decline since the 1973-74 bear market.
- The NASDAQ posted a loss of 20.2%.
- The U.S. Bond market, as represented by the Lehman Aggregate, posted a gain of 8.4% for the year.
- International stocks, as represented by the MSCI ACWI ex US Index, posted a loss of 19.4% for the year.
- International bonds, represented by the Solomon World Government Bond Index, returned a loss of 3.2%.

The total ACERA fund returned –3.1% for the year. This was 100 basis points better than the theoretical policy return of the portfolio (using market indices) of –4.1%. 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, bonds, domestic stocks, fixed income, and mortgages) and nontraditional assets (real estate and international stock) 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 52.4% of assets in equities versus the target of 57% as of December 31, 2001. Domestic equities are slightly underweighted at 33.5 % of assets versus the target of 35%, while international equities are at 20.3% versus the target of 22%. Cash at 2.9% is above its target of 0% of assets. Fixed income is at 33.8% of assets, slightly below the target of 34%. Real estate is over its 9% target at 9.5% of assets.

Domestic equities posted negative returns for 2001, with the S&P 500 down 11.9% and the broad U.S. equity market, measured by the Russell 3000, down 11.5%. The median equity manager returned a negative 8.8% for the year. International equities as measured by the MSCI ACWI ex US had a loss of 19.4% for the year, while the median international equity manager fell 18%. U.S. Bond returns were positive, with the Lehman Aggregate returning 8.4% and the median fixed income manager also returning 8.4%. Real estate returns were positive, with the median real estate manager returning 6.6% 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,

Charles F. Conrad

General Manager and
Chief Investment Officer

June 4, 2002

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 2001 saw a continuation of the trends that began in early 2000: declines in US and foreign stock markets and gains in fixed income securities and real property. As a diversified investor, ACERA participated in each of these markets while experiencing a –3.1% return for the year. The –3.1% result exceeded ACERA's policy benchmark of –4.1% by 100 basis points for the year.

2001 was not kind to US and foreign equity markets. Worldwide, Technology and Telecommunication stocks continued to plummet due to a glut of equipment reduced capital spending following the pre-Y2K surge, and extreme declines in unsustainable price/earnings ratios. For the year, the Russell 3000 US Stock Index fell by 11.5% and the MSCI EAFE Index of foreign stocks fell by 20.4%. Attempts by the Federal Reserve Bank to stimulate the economy by lowering interest rates helped the US fixed income market return 8.4% for the year, as measured by the Lehman Aggregate Bond Index.

Recent changes to ACERA's investment structure helped results marginally during the year. ACERA increased its exposure to active large cap managers who generally outperformed benchmarks. These gains were somewhat offset by the relative under-performance of the non-US equity managers who were given additional assets mid-year. Throughout the year, ACERA held a slight overweight in fixed income securities versus its 34% target, which helped results significantly.

Investment Guidelines, Policies and Procedures

In 2001, ACERA completed a thorough revision of its policy statement. The new document updated ACERA's new allocation policy and reaffirmed its policies on manager evaluation and retention, and its restriction on tobacco holdings. Additionally, the new document refined the asset class performance objectives, effectively raising its return rank expectations and added Emerging Markets to its Non-US Equity benchmark.

The Board established proxy voting guidelines and procedures to assist the Board in carrying out its duty to vote proxies on behalf of plan participants. The guidelines consisted of preferences with respect to specific recurring proxy voting issues followed by a general statement of voting policies, which affirmed that ACERA will at times strive to cast proxy votes in order to advance the overall good of plan participants.

Investment Objectives

In 2001, 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 2001	3 Year	5 Year
DOMESTIC EQUITY			
Total Domestic Equities	-7.1%	2.6%	10.6%
Median Equity	-8.8%	4.4%	11.3%
Benchmark: Russell 3000	-11.5%	-0.3%	10.1%
INTERNATIONAL EQUITY			
Total International Equities	-17.6%	0.1%	6.2%
Median International Equity	-18.0%	1.8%	4.9%
Benchmark: MSCI ACWI ex US	-19.4%	-3.6%	0.9%
FIXED INCOME			
Total Fixed Income	7.3%	5.9%	7.2%
Median Fixed Income	8.4%	6.4%	7.4%
Benchmark: Lehman Aggregate	8.4%	6.3%	7.4%
REAL ESTATE			
Total Real Estate	4.6%	8.2%	9.7%
Median Real Estate	6.6%	8.2%	9.8%
Benchmark: NCREIF	7.4%	10.3%	12.2%
TOTAL FUND			
ACERA Total Fund	-3.1%	3.9%	8.9%
Median Total Fund	-2.3%	3.8%	8.6%
Benchmark: Policy Index	-4.1%	2.9%	8.2%

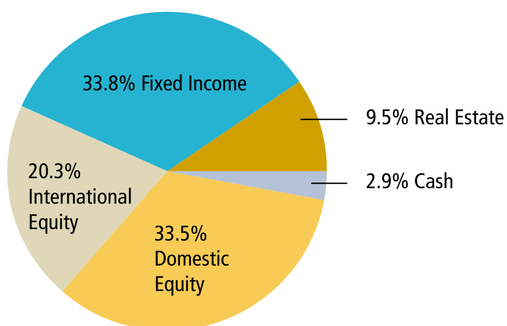
* Returns for periods greater than one year are annualized. Results of all publicly traded investments are presented in conformance with AIMR performance presentation standards.

Barry W. Dennis
Managing Director
Strategic Investment Solutions, Inc.
June 4, 2002

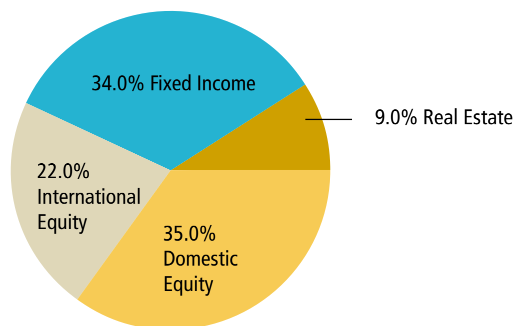
2001 ACERA Asset Allocation

	2001 ACERA Asset Allocation	Target Asset Allocation
Cash	2.9%	0.0%
Domestic Equity	33.5%	35.0%
International Equity	20.3%	22.0%
Fixed Income	33.8%	34.0%
Real Estate	9.5%	9.0%

2001 ACERA Asset Allocation



Target Asset Allocation



List of Investment Professionals

As of December 31, 2001

INVESTMENT MANAGERS

Equity - Domestic

Bank of New York - Index Fund
Salus Capital Mgmt Co.
Trust Company of the West
Pacific Financial Research
Brandywine Asset Management, Inc.
Nicholas Applegate

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

RREEF America
Lend Lease
PM Realty Advisors

INVESTMENT CONSULTANTS

Callan Associates
Doug McCalla
Strategic Investments Solutions, (SIS)

Investment Summary

			Fair Value, Dec. 31, 2001	Percentage of Total Fair Value
EQUITIES				
	Domestic	Brandywine Asset Management	$ 68,502,837	2.0%
		Loomis Sayles	4,255,638	0.1%
		Nicholas Applegate	71,706,852	2.1%
		Pacific Financial Research	160,731,683	4.6%
		Salus Capital	792,326	0.0%
		Trust Company of the West	135,355,782	3.9%
		Total Corporate Stocks	**441,345,118**	**12.7%**
		Bank of New York - S & P 500 Index	673,228,179	19.3%
		Total Domestic Equity Index Funds	**673,228,179**	**19.3%**
		Salus Capital (Stock Index Futures)	5,941,257	0.1%
		Total Stock Index Futures	**5,941,257**	**0.1%**
	International	Capital Guardian	460,611,762	13.2%
		Putnam International	246,293,219	7.1%
		Total International Equity Funds	**706,904,981**	**20.3%**
	Total Equities		1,827,419,535	52.4%
FIXED INCOME				
	Domestic	AFL-CIO Housing Investment Trust	75,787,242	2.2%
		Baird Investors	564,826,926	16.2%
		Loomis Sayles	357,799,822	10.3%
		Total Domestic Fixed Income	**998,413,990**	**28.7%**
	International	Brandywine	179,115,512	5.1%
		Total International Fixed Income	**179,115,512**	**5.1%**
	Total Fixed Income		1,177,529,502	33.8%
REAL ESTATE				
Real Estate Investment		PM Realty	219,123,382	6.3%
		RREEF	83,460,298	2.4%
		Total Separate Properties	**302,583,680**	**8.7%**
		Lend Lease (Real Estate Trusts)	15,909,122	0.5%
		RREEF (Real Estate Investment Trusts)	12,300,896	0.3%
		Home Mortgage Loans (Real Estate Mortgage Loans)	208,196	0.0%
	Total Real Estate Investments		331,001,894	9.5%
SHORT-TERM INVESTMENTS				
		Salus Capital †	47,052,662	1.4%
		State Street Bank ††	98,726,935	2.8%
	Total Short-Term Investments		145,779,597	4.2%
Total Investments			3,481,730,528	99.9%
CASH				
		Cash and Cash Equivalents	5,196,756	0.1%
	Total Cash		5,196,756	0.1%
TOTAL			$3,486,927,284	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 page 48.

Largest Stock Holdings (By Market Value)†

As of December 31, 2001

	Shares	Stock	Market Value
1	112,600	Progressive Corp Ohio	$ 16,811,180
2	274,000	Philip Morris Cos Inc	12,562,900
3	188,300	Federal Home Ln Mtg Corp	12,314,820
4	67,201	Total Fina Elf Sa	9,597,339
5	78,700	Samsung Electrs Ltd	9,129,200
6	327,800	McDonalds Corp	8,676,866
7	3,235,398	Vodafone Group	8,464,069
8	286,100	Interpublic Group Cos Inc	8,451,394
9	182,200	Astrazeneca	8,215,091
10	226,300	American Express Co	8,076,647
Total Largest Stock Holdings			$102,299,506

Largest Bond Holdings (By Market Value)†

As of December 31, 2001

	Par	Bond	Percentage	Due Date	Market Value
1	67,000,000	United States Treasury Bonds	9.25%	02/15/16	$ 90,617,500
2	58,750,000	Federal Home Loan Mortgage Corp	6.63%	09/15/09	62,596,363
3	37,600,000	United States Treasury Notes	6.88%	05/15/06	41,360,000
4	21,460,000	Italy, Republic of	6.00%	05/01/31	20,463,972
5	20,120,000	Germany, Federal Republic of	5.25%	07/04/10	18,310,159
6	187,900,000	Sweden, Kingdom Of	5.00%	01/28/09	17,670,460
7	16,562,648	GNMA Pool # 781113	7.00%	11/15/29	16,914,605
8	16,270,000	France, Government of	6.00%	10/25/25	15,553,970
9	15,053,494	GNMA Pool # 780615	6.50%	08/15/27	15,128,761
10	37,740,000	New Zealand Government	6.00%	11/15/11	14,779,885
Total Largest Bond Holdings					$313,395,675

† 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	
	2001	2000	2001	2000
Fixed Income Managers	$ 1,177,529,502	$ 1,346,724,545	$ 1,775,593	$ 1,029,394
Equity Managers	1,973,199,132	2,077,996,036	4,614,564	3,933,818
Real Estate Managers	331,001,894	288,626,827	2,652,531	2,365,134
Total	$3,481,730,528	$3,713,347,408	9,042,688	7,328,346
OTHER INVESTMENT SERVICE FEES				
Custodian Fees			207,255	174,809
Security Lending Fees			3,737,981	5,491,936
Investment Consultant Fees			658,822	720,078
Total			$4,604,058	$6,386,823

Commissions

Brokerage Firm	Total Commissions	Total Number of Shares Traded	Commissions per Share
State Street Brokerage Services	$ 466,581	25,700,661	0.018
Credit Lyonnais Securities (USA) Inc	252,385	20,262,077	0.012
ABN AMRO Bank	223,943	5,456,182	0.041
UBS Painewebber Inc	142,875	4,382,750	0.033
Ragen Mackenzie Incorporated	78,927	2,325,375	0.034
Merrill Lynch Pierce Fenner & Smith	75,644	2,930,267	0.026
Bank of New York	74,786	6,273,196	0.012
Investment Technology Group Inc.	63,812	2,877,983	0.022
Morgan Stanley DW Inc	63,572	1,519,885	0.042
Goldman Sachs & Co	63,489	2,173,255	0.029
Credit Suisse First Boston Corporation	53,966	1,585,894	0.034
Instinet Investment Services Limited	44,341	1,456,488	0.030
Salomon Smith Barney Inc	39,805	1,434,928	0.028
Bear Stearns Securities Corp	34,623	701,402	0.049
B-Trade Services LLLC	23,593	949,953	0.025
Jefferies & Company Inc	23,111	467,605	0.049
Lehman Brothers Inc	22,796	652,693	0.035
Deutsche Banc Alex. Brown Inc.	21,049	1,893,954	0.011
Broadcourt Capital Corp	19,745	403,788	0.049
Pershing DLJ S L	17,990	449,217	0.040
Top 20 Total	**1,807,033**	**83,897,553**	**0.022**
All Other Brokerage Firms	356,163	7,896,832	0.045
Total	$2,163,196	91,794,385	0.024

"Having watched the devastation of people affected by organizations like Enron or by September 11—that level of tragedy—I am so thankful that I participate in a secure, well-managed retirement system. I don't have to worry that when it comes time for me to retire, there won't be anything there."

Nancy E. O'Malley

CHIEF ASSISTANT DISTRICT ATTORNEY,
OFFICE OF THE DISTRICT ATTORNEY, ALAMEDA COUNTY

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, 2001 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, 2001 provided to us by the Association's staff and financial information, as of December 31, 2001, provided by the unaudited report. The salary and service data for active members were then projected to December 31, 2001. This data has not been audited, but it has been reviewed and compared with data provided by the Association for the last valuation. There were significant changes to both the active and retiree liabilities as a result of more accurate data being provided by the Association's new Pension Gold data system.

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 17 years as of December 31, 2001; however, the amortization of the 1993 Golden Handshake liability over the 2½ years following December 31, 2001, and the excess interest return on the Pension Obligation Bonds is amortized over 8 years. The amortization periods are set by the Board of Retirement. The unfunded actuarial accrued liability contribution credit 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 107.9% to 105.8% during the year, primarily as a result of change in actuarial assumptions and asset returns less than expected.

The Actuarial Value of Assets reflects the Board's action to accelerate the recognition of about $259 million in deferred actuarial gains in the December 31, 1998 valuation to offset the increase in actuarial accrued liability resulting from the settlement of the Ventura litigation.

There were no plan changes since our last valuation, as of December 31, 2000.

Mercer recommended the following assumption changes in the November 30, 2001 triennial experience analysis:

Pre-Retirement Assumptions

- **Withdrawal** Separate rates were determined for members with less than five years of service, since they generally exhibit higher withdrawal rates. Slightly higher withdrawals were observed among General Tier 1 members and Safety Tier 2 members with less than five years of service, and Female General members with more than five years of service. The withdrawal assumptions were modified to reflect this trend. Other changes were only modest adjustments.

- **Duty Disability** There were more duty disabilities among General Tier 1 female and Safety members than expected. Adjustments were made to anticipate more duty disabilities.

- **Service Retirement Rates** Service retirement took place earlier than expected for General Tier 1 members, and slight adjustments were made to the rates.

- **Termination with Vested Benefit** We observed that several members terminated employment with fewer than five years of service and became entitled to a deferred retirement benefit (through reciprocal service with a prior or a new employer). We have extended the vested termination assumption to apply to members with less than five years of service.

Salary Increase

- **Salary Increase** Changes were recommended to the merit and longevity salary increase assumptions to reflect the higher than expected salary increases over the last three years. We recommended an increase in the current average annual salary increase assumption of 5.6% to 5.9%.

Post-Retirement Mortality

- **Post-Retirement Mortality** The actual mortality experience for retired male General and Safety members who retired from service and General Members who retired from disability reflect lower than expected deaths over the experience study period. Adjustments were made to reflect about a one-year improvement in life expectancy.

Investment Return Assumption

We recommended a decrease in the investment return assumption from 8.25% to 8.00%. This is primarily due to a decrease in the long-term expected return from the asset classes that ACERA invests in and an increase in the expected investment expenses paid by ACERA.

Asset Valuation Method

We recommended that the Board apply an 80% to 120% "market corridor" to ensure that the actuarial and interest crediting processes do not deviate too significantly from the actual market.

Amortization Period for Excess Investment Return on the County's Pension Obligation Bonds

We provide our analysis and recommendation on the period that the Board may use to amortize the excess investment return on the County's Pension Obligation Bonds (POB). We recommended that the Board maintain a fixed nine-year amortization schedule in amortizing the excess investment return on the County's POB.

The Board decided to adopt all the demographic assumptions (pre-retirement and post-retirement), but continued to apply the current 8.25% investment return and salary scale assumptions, and to amortize the excess investment return on the Pension Obligation Bonds over eight years for one more year.

The Board also decided to explore fully the impact of the 80% to 120% market value corridor before adopting any changes in its current smoothing methodology.

The following are points to note regarding the Board's action on the assumption recommendations:

(a) **Salary Increase** After Mercer presented our findings from the triennial experience analysis, the County presented Mercer with additional information that would allow Mercer to more accurately validate the salary assumption changes we recommended to the Board.

Mercer will complete a full review of the new salary data within the next few months and the Board has already accepted Mercer's recommendation to implement new salary assumptions in the December 31, 2002 valuation.

We do not believe delaying the implementation of the new assumptions will create an unsound financial risk for the Association.

(b) **Investment Return** The Board wants to maintain the current investment return assumption for one more year in order to have more time to study the long-term expected return and the long-term investment expenses for its portfolio.

Mercer has provided the Board with a comparison of the long-term employer and member contribution rates and funding ratio resulting from a delayed implementation of the lower 8.00% recommended investment return assumption.

Even though the continuation of the current 8.25% investment return assumption will increase the probability of investment losses in the future, we do not believe maintaining the current assumption of 8.25% will create an unsound financial risk for the Association.

(c) **Asset Valuation Method—80% to 120% market corridor** We will work with the Association to provide the Board with what they will need in order to implement this procedural change. Please note that this is a preventive measure and has no impact on the actuarial and interest crediting process as of December 31, 2001.

(d) **Amortization of Excess Investment Return from Pension Obligation Bonds Over Eight Years** Mercer's original recommendation to amortize the excess investment return from the Pension Obligation Bonds over nine years was to level out the County's contribution rate in future years.

We understand that the County is already working on a plan to smooth out contribution rates before the excess investment returns are exhausted. Therefore, we do not believe it is imprudent to amortize the excess investment returns over eight years, if the Board is satisfied that the County is moving forward to address this issue.

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.

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, 2001 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

Andy Yeung

Andy Yeung, ASA, EA, MAAA

June 4, 2002

Marcia L. Chapman

Marcia L. Chapman, FSA, EA, MAAA

June 4, 2002

SUMMARY OF ASSUMPTIONS AND FUNDING METHOD

The following assumptions have been adopted by the Board as of December 31, 2001.

Assumptions

Valuation Interest Rate	8.25%
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	8.25%

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, 2001. They were adopted by the Retirement Board and effective as of January 1, 2002.

(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 as of 11/30/2001
Withdrawal Rates	Based upon the Experience Analysis as of 11/30/2001
Disability Rates	Based upon the Experience Analysis as of 11/30/2001
Service Retirement Rates	Based upon the Experience Analysis as of 11/30/2001
Salary Scales	Total increases of 5.60% per year reflecting approximately 4.50% for inflation and approximately 1.10% 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 have relied on the compensation data collected in 2000 for 140 retirees who retired between October 1, 1998 and December 31, 1999.

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.

	Terminal Pay/Final Average Earnings
General Tier 1	5.62%
General Tier 2	1.49%
Safety Tier 1	5.93%
Safety Tier 2	1.49%

Ventura Terminal and Non-Terminal Pay Adjustments for Retirees and Deferred Vested Members

In this report, we have reflected actual Ventura pay and benefits for members who retired after December 31, 1976.

For members who retired before January 1, 1977 and those with a deferred vested benefit, we have estimated the Ventura liabilities based on Ventura terminal and non-terminal pay percentages for members who retired between 1977 and 1982.

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 Gain or Losses

The County's liability is being funded on the Entry Age Normal Method with an Unfunded Actuarial Accrued Liability (UAAL). The current amortization period for the UAAL is 17 years from the valuation date. The amortization period for the 1993 Golden Handshake liabilities is 2½ years following December 31, 2001 and the excess interest return on the Pension Obligation Bonds is amortized over an 8-year period following December 31, 2001.

Schedule of Active Member Valuation Data

Valuation Date	Plan Type	Number	Annual Payroll ($)	Annual Average Pay ($)	% Increase in Average Pay*
12/31/1996	General	7,859	326,703,539	41,571	3.95%
	Safety	1,195	62,992,218	52,713	6.44%
	Total	9,054	389,695,757	43,041	4.34%
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	5.92%
	Safety	1,472	92,092,614	62,563	4.69%
	Total	10,974	590,392,135	53,799	5.68%

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
1996	248		(157)		5,111	$ 75,966	6.36%	$ 14,863
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

* 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 12/31/2001

† Annual allowance data not available prior to 2001.

†† Includes data adjustments

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) %
12/31/1996	452,253	945,276	670,387	2,067,916	2,113,009	100	100	100
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

Actuarial Analysis of Financial Experience

(Amounts in Millions)

	2001	2000	1999	1998	1997	1996
Prior Valuation Unfunded Actuarial Accrued Liability	$ (233)	$ (235)	$ (217)	$ (95)	$ (45)	$ 267
Expected Increase from Prior Valuation					(1)	(261)††
Salary Increase Greater (Less) than Expected	10	(5)	5	36	(8)	(3)
Asset Return Less (Greater) than Expected	34	(5)	26	(110)	(61)	(28)
Other Experience	13	12	12	6	10	(14)
Ventura Litigation			(69)	259		
Actuarial Value of Assets Method Change				(259)		
Economic Assumption Changes				(54)†††		
Non-Economic Assumption Changes	35†					
Data Corrections	(41)				10	(6)
Conversion of Sick leave service			8			
Ending Unfunded Actuarial Accrued Liability	$ (182)	$ (233)	$ (235)	$ (217)	$ (95)	$ (45)

* 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.

†† Included a Pension Obligation Bond Credit of $(283) million.

††† $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, 2001, 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 1/3 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 1/3 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 1/3 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, a lump sum death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the Retirement System, based on the final year's average salary, but not to exceed six months' salary.

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

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 payment date. The maximum increase in retirement allowance is 3% per year for Tier 1 and 2% for Tier 2 members.

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. 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

"Nothing is sure except death and taxes but ACERA's benefits are as secure as you're going to get. Now I don't think much about retirement, but knowing the benefits are there if I need them gives me peace of mind."

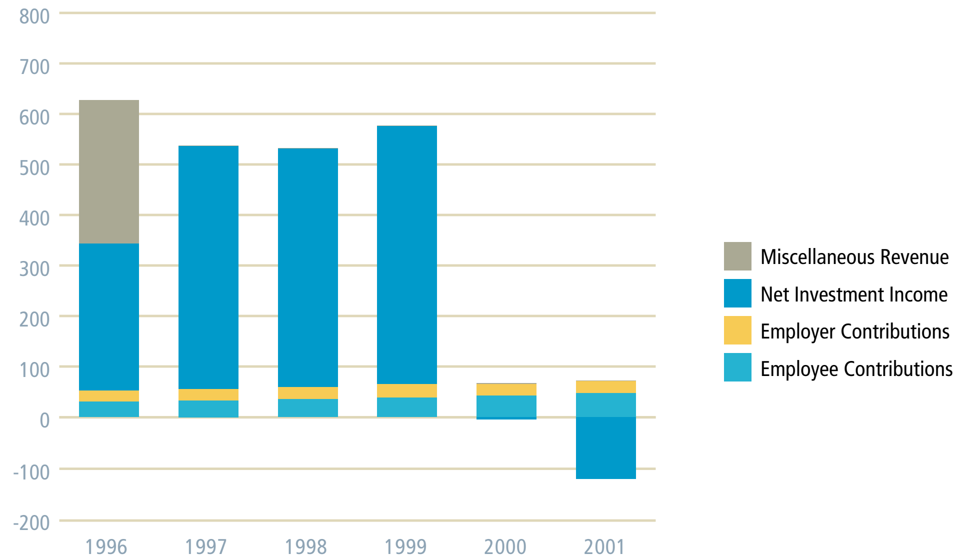
Charles C. Plummer

Sheriff/Coroner of Alameda County


SHERIFF

Revenue by Source

(Dollars in Millions)



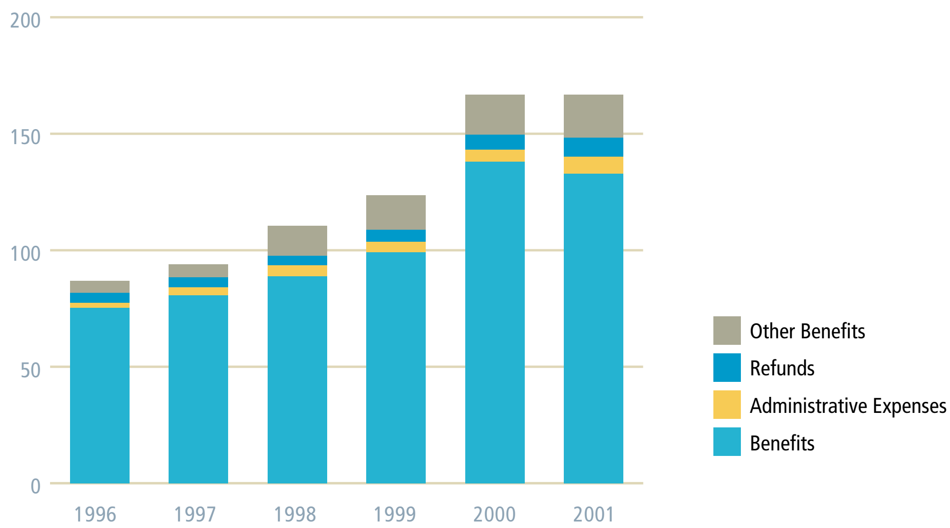
Revenue by Source

Year ended December 31	Employee Contributions ($)	Employer Contributions ($)	Net Investment Income/Loss ($)	Miscellaneous Revenue ($)	TOTAL
1996	31,196,550	21,153,565	291,333,263	283,707,469†	627,390,847
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)

† Miscellaneous revenue for 1996 includes Pension Obligation bond proceeds.

Expenses by Type

(Dollars in Millions)



Expenses by Type

Year ended December 31	Benefits ($)	Administrative Expenses ($)	Refunds ($)	Other Benefits ($)	TOTAL ($)
1996	75,276,328	2,225,036	4,276,394	5,123,852	86,901,610
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

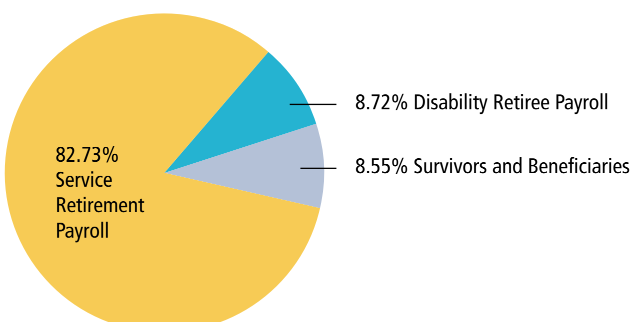
† The reduction in benefits from 2000 to 2001 is due to the higher number of Ventura retroactive payments made in 2000.

Schedule of Benefit Expenses by Type*

	2001	2000	1999	1998	1997	1996
Service Retirement Payroll						
Basic	$ 77,819,944	$ 74,128,258	$ 65,248,080	$ 57,750,840	$ 52,688,796	$ 49,230,000
COLA	24,838,053	22,486,337	19,781,227	17,761,164	16,232,076	14,941,000
Total	**102,657,997**	**96,614,595**	**85,029,307**	**75,512,004**	**68,920,872**	**64,171,000**
Disability Retiree Payroll						
Basic	8,800,266	7,733,362	6,095,553	5,106,996	4,632,744	4,197,000
COLA	2,013,020	1,750,675	1,461,187	1,263,576	1,195,800	1,082,000
Total	**10,813,286**	**9,484,037**	**7,556,740**	**6,370,572**	**5,828,544**	**5,279,000**
Beneficiaries and Survivors						
Basic	6,576,312	5,651,133	5,273,837	4,904,460	4,449,600	4,101,000
COLA	4,038,493	3,510,459	3,298,252	2,937,072	2,669,184	2,415,000
Total	**10,614,805**	**9,161,592**	**8,572,089**	**7,841,532**	**7,118,784**	**6,516,000**
Total	$124,086,088	$115,260,224	$101,158,136	$89,724,108	$81,868,200	$75,966,000

Benefit Expenses by Percent

(Year 2001)



* 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 1/1/96–12/31/96							
Average Monthly Benefit	$1,670	$1,564	$1,181	$954	$758	$616	$428
Number of Active Retirees	1,110	1,126	912	959	612	245	110
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 1/1/01–12/1/01							
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

Schedule of Retiree Members by Type of Benefit

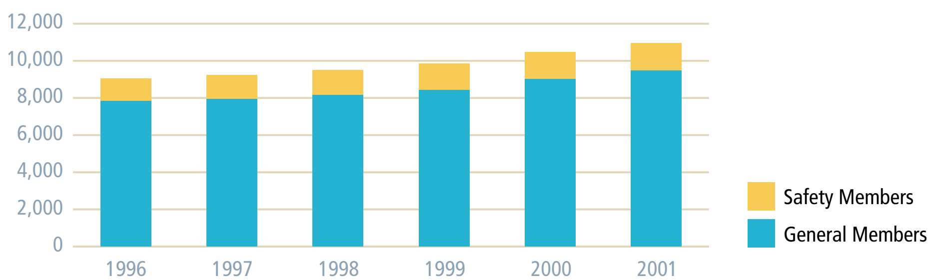
Summary of Monthly Allowances Being Paid for the Month of November 30, 2001

		Monthly Allowances		
	Number	Basic	Cost of Living	Total
GENERAL MEMBERS				
Service Retirement				
Unmodified	3,691	$ 4,856,295	$ 1,641,850	$ 6,498,145
Option 1	108	126,035	42,061	168,096
Option 2, 3 & 4	173	218,654	58,370	277,024
Total	**3,972**	**5,200,984**	**1,742,281**	**6,943,265**
Ordinary Disability				
Unmodified	130	88,473	33,799	122,272
Option 1	9	4,778	2,718	7,496
Option 2, 3 & 4	0	0	0	0
Total	**139**	**93,251**	**36,517**	**129,768**
Duty Disability				
Unmodified	230	350,952	65,049	416,001
Option 1	8	8,579	1,707	10,286
Option 2, 3 & 4	1	966	100	1,066
Total	**239**	**360,497**	**66,856**	**427,353**
Beneficiaries				
Ex-Spouse	53	31,926	9,841	41,767
Death	760	415,602	272,679	688,281
Total	**813**	**447,528**	**282,520**	**730,048**
Total General	5,163	$6,102,260	$2,128,174	$8,230,434
SAFETY MEMBERS				
Service Retirement				
Unmodified	445	$ 1,228,476	$ 316,128	$ 1,544,604
Option 1	2	4,267	1,555	5,822
Option 2, 3 & 4	24	51,268	9,874	61,142
Total	**471**	**1,284,011**	**327,557**	**1,611,568**
Ordinary Disability				
Unmodified	4	3,995	433	4,428
Option 1	0	0	0	0
Option 2, 3 & 4	0	0	0	0
Total	**4**	**3,995**	**433**	**4,428**
Duty Disability				
Unmodified	122	262,523	60,832	323,355
Option 1	4	8,329	826	9,155
Option 2, 3 & 4	3	4,761	2,288	7,049
Total	**129**	**275,613**	**63,946**	**339,559**
Beneficiaries				
Ex-Spouse	19	22,920	3,732	26,652
Death	81	77,578	50,289	127,867
Total	**100**	**100,498**	**54,021**	**154,519**
Total Safety	704	1,664,117	445,957	2,110,074
Total Retiree Members	5,867	$7,766,377	$2,574,131	$10,340,508

Participating Employers and Active Members†

	2001	2000	1999	1998	1997	1996
County of Alameda						
General Members	7,266	7,077	6,787	8,043	7,840	7,728
Safety Members	1,472	1,429	1,414	1,326	1,278	1,195
Total	8,738	8,506	8,201	9,369	9,118	8,923
Participating Agencies (General Membership)						
Livermore Area Recreation & Park District	76	65	61	61	56	56
Housing Authority of Alameda County	69	66	65	64	65	67
Alameda County Schools	5	5	5	5	8	8
Alameda County Medical Center (ACMC) ††	2,086	1,814	1,527	-	-	-
Total	2,236	1,950	1,658	130	129	131
Total Active Membership						
General Members	9,502	9,027	8,445	8,173	7,969	7,859
Safety Members	1,472	1,429	1,414	1,326	1,278	1,195
Total	10,974	10,456	9,859	9,499	9,247	9,054

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**
1996	5.51	5.13	10.24	9.93	6.06	15.93	15.55	N/A	N/A	15.93
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

† This schedule includes inactive vested members.

†† The ACMC became a participating agency of ACERA in 1999; prior to this year they were included in the 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.

"The fact that we have one of the most solidly funded retirement systems in the state of California and that I can look forward to a secure retirement future is very comforting to me. When I hire staff into my unit, it's really nice to know that we can offer them a wonderful retirement package."

Jan Wolkenhauer, RN, PHN,

PROGRAM MANAGER, SPECIAL START AT PUBLIC HEALTH

Independent Auditor's report on Compliance and Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Williams, Adley & Company, LLP
Management Consultants
Certified Public Accountants

The 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, 2001 and 2000, and have issued our report thereon dated April 23, 2002. 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 reported to the management of ACERA in a separate letter dated April 23, 2002.

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

April 23, 2002

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

Design: Tobi Designs www.tobidesigns.com Copywriting: Virginia Kean, Kean Communications Photography: Richard Morgenstein Photography