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Independent Auditors' Report

The Board of Control
Public Employees' Individual Retirement
Account Fund:

We have audited the accompanying statement of fiduciary net assets of the Public Employees' Individual Retirement Account Fund (a component unit of the State of Alabama) as of September 30, 2007, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Public Employees' Individual Retirement Account Fund. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year partial comparative information has been derived from the Public Employees' Individual Retirement Account Fund's 2006 financial statements and, in our report dated March 7, 2007, we expressed an unqualified opinion on such financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Public Employees' Individual Retirement Account Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Public Employees' Individual Retirement Account Fund (a component unit of the State of Alabama) as of September 30, 2007, and its changes in fiduciary net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 2 and 3 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 12, 2008

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The Public Employees' Individual Retirement Account Fund (PEIRAF) was established in 1982 to provide public employees of the State of Alabama with an opportunity to invest in an employee contribution plan. The Tax Reform Act of 1986 prohibited contributions to employee contribution plans for years after 1986. Accordingly, on November 26, 1986, the Board elected to discontinue receiving contributions to the PEIRAF after December 31, 1986. Existing PEIRAF member accounts continue to be invested and available for distribution. The following discussion provides an overview of the financial position and results of operation for the PEIRAF as of and for the year ended September 30, 2007, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements.

Financial Statements

The financial statements include the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Notes to the Financial Statements are considered an integral part of the financial statements. The financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of when cash is received or expended. Investments are reported at fair value.

Statement of Fiduciary Net Assets – Includes all assets and liabilities of the PEIRAF and provides a snapshot of the financial position of the PEIRAF as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for members at fiscal year-end.

Statement of Changes in Fiduciary Net Assets – Reports all additions and deductions of the PEIRAF for the fiscal year. Additions are primarily comprised of investment income. Deductions are principally made up of normal distributions and member withdrawals. Additions minus deductions provide the change in fiduciary net assets for the fiscal year. The change in fiduciary net assets plus the beginning fiduciary net assets results in the fiduciary net assets held in trust for members at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, credit risk disclosures for cash and investments, concentration of investments disclosures, and securities lending disclosures.

Comparative Summary Statements

Summary Comparative Statement of Fiduciary Net Assets
As of September 30, 2007 and 2006

	2007	2006	Variance	% Increase (Decrease)
Assets				
Cash	$ -	$ 1	$ (1)	-
Interest Receivable	1,199,576	1,151,678	47,898	4.16
Investments	80,702,538	77,093,000	3,609,538	4.68
Invested Securities Lending Collateral	21,748,392	12,297,135	9,451,257	76.86
Total Assets	103,650,506	90,541,814	13,108,692	14.48
Liabilities				
Securities Lending Collateral	21,748,392	12,297,135	9,451,257	76.86
Total Liabilities	21,748,392	12,297,135	9,451,257	76.86
Net Assets Held in Trust for PEIRAF Benefits	**$ 81,902,114**	**$ 78,244,679**	**$ 3,657,435**	**4.67**

(Continued)

Summary Comparative Statement of Changes in Fiduciary Net Assets
For the Fiscal Years Ended September 30, 2007 and 2006

	2007	2006	Variance	% Increase (Decrease)
Additions				
Interest Income	$ 4,620,360	$ 4,760,982	$ (140,622)	(2.95)
Net Increase/(Decrease) in Fair Value of Investments	1,852,991	(1,448,425)	3,301,416	227.93
Net Income from Securities Lending Activities	35,713	18,624	17,089	91.76
Total Additions	6,509,064	3,331,181	3,177,883	95.40
Deductions				
Normal Distributions	2,851,629	2,902,238	(50,609)	(1.74)
Total Deductions	2,851,629	2,902,238	(50,609)	(1.74)
Increase in Fiduciary Net Assets	3,657,435	428,943	3,228,492	752.66
Net Assets Held in Trust for PEIRAF Benefits - Beginning of Year	78,244,679	77,815,736	428,943	0.55
Net Assets Held in Trust for PEIRAF Benefits - End of Year	**$ 81,902,114**	**$ 78,244,679**	**$ 3,657,435**	**4.67**

Financial Analysis

- Assets and liabilities related to invested securities lending collateral and securities lending income increased as a result of increased securities lending activity.
- Lower interest rates resulted in an increase in fair value of existing fixed income securities.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
Statement of Fiduciary Net Assets
September 30, 2007 with comparative figures for 2006

	2007	2006
Assets		
Cash	**$ -**	$ 1
Interest Receivable	**1,199,576**	1,151,678
Investments, at Fair Value (Note 2)		
Commercial Paper	**5,998,537**	7,747,069
Money Market and Mutual Funds	**2,105,947**	1,950,912
U. S. Government Guaranteed Bonds	**12,107,945**	6,147,245
U. S. Agency Securities	**22,373,722**	21,762,644
Mortgage-backed Securities	**263,252**	354,377
Corporate Bonds	**30,085,331**	31,986,171
Private Placements	**7,742,035**	7,123,080
Common Stocks	**25,769**	21,502
Total Investments	**80,702,538**	77,093,000
Invested Securities Lending Collateral	**21,748,392**	12,297,135
Total Assets	**103,650,506**	90,541,814
Liabilities		
Securities Lending Collateral	**21,748,392**	12,297,135
Total Liabilities	**21,748,392**	12,297,135
Net Assets Held in Trust for PEIRAF Benefits	**$ 81,902,114**	$ 78,244,679

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended September 30, 2007 with comparative figures for 2006

	2007	2006
Additions		
Investment Income (Note 2)		
From Investing Activities		
Interest Income	**$ 4,620,360**	$ 4,760,982
Net Increase/(Decrease) in Fair Value of Investments	**1,852,991**	(1,448,425)
Total Investment Income from Investing Activities	**6,473,351**	3,312,557
From Securities Lending Activities		
Securities Lending Income	**850,766**	457,223
Less Securities Lending Expenses:		
Borrower Rebates	**808,751**	435,311
Management Fees	**6,302**	3,288
Total Securities Lending Expenses	**815,053**	438,599
Net Income from Securities Lending Activities	**35,713**	18,624
Total Investment Income	**6,509,064**	3,331,181
Total Additions	**6,509,064**	3,331,181
Deductions		
Normal Distributions	**2,851,629**	2,902,238
Total Deductions	**2,851,629**	2,902,238
Net Increase	**3,657,435**	428,943
Net Assets Held in Trust for PEIRAF Benefits:		
Beginning of Year	**78,244,679**	77,815,736
End of Year	**$ 81,902,114**	$ 78,244,679

See accompanying Notes to the Financial Statements.

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

The Public Employees' Individual Retirement Account Fund (PEIRAF) was established July 8, 1982 under the provision of Act 776 of the 1982 Legislature for the purpose of providing public employees of the State of Alabama an opportunity to receive benefits offered by the Economic Recovery Act of 1981 as it relates to individual retirement accounts for public employees covered by a mandatory public retirement plan. The PEIRAF operates as a deductible employee contribution plan, which began receiving deductible employee contributions November 1, 1982. The responsibility for the general administration and operation of the PEIRAF is vested with its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB), the PEIRAF is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

All members of the Teachers' Retirement System of Alabama, Employees' Retirement System of Alabama, Judicial Retirement Fund, and employees of employers eligible to participate in the Employees' Retirement System pursuant to provisions of Section 36-27-6, *Code of Alabama 1975* are members of the PEIRAF and were eligible to make voluntary contributions. At September 30, 2007 there were 2,140 participants.

The Tax Reform Act of 1986 prohibited contributions to deductible employee contribution plans for years after 1986. Accordingly, on November 26, 1986, the PEIRAF Board of Control elected to discontinue receiving contributions to this plan after December 31, 1986. Existing PEIRAF member accounts will continue to be invested and reinvested and available for distribution.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF's name. Deposits are entirely insured by Federal depository insurance or protected under the Security for Alabama Funds Enhancement (SAFE) Program. The *Code of Alabama 1975* requires all State organizations to participate in the SAFE Program. The SAFE Program is a multiple financial institution collateral pool. The SAFE Program requires all public funds to be deposited in a financial institution designated by the State Treasurer as a qualified public depository. Each qualified public depository is required to pledge collateral in accordance with the rules established by the SAFE Board of Directors. In the event that a qualified public depository defaults or becomes insolvent and the pledged collateral is insufficient to satisfy the claims of public depositors, the *Code of Alabama 1975, Section 41-14A-9(3)* authorizes the State Treasurer to make assessments against the other qualified public depositories in the pool so that there will be no loss of public funds.

C. Basis of Accounting

The PEIRAF is a private purpose trust fund that operates under the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of the cash flows in accordance with standards of the Governmental Accounting Standards Board.

D. Investments

The Board of Control has the authority and responsibility to invest and reinvest available funds, through the secretary-treasurer of the Employees' Retirement System, in bonds, mortgage-backed securities, common and preferred stock, or other investment vehicles with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use.

All investments are carried at fair value. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Money market securities with a remaining maturity of one year or less at the time of purchase are reported at cost, which approximates fair value. Mortgage-backed securities are reported based on future principal and interest payments discounted at the prevailing interest rate for similar instruments. Generally, private placements are valued based on the selling price of similar investments sold in the open market. In those instances where there are no similar investments sold in the open market, an appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Income posted to member accounts was at an annual rate of 8.48 percent for the fiscal year.

F. Administrative Costs

Under the provisions of Legislative Act 2001-1061, the administrative costs incurred directly for the operation of the PEIRAF are provided from the expense funds of the Teachers' Retirement System and the Employees' Retirement System.

G. Distribution Policy

An employee may receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement upon attaining age 59 ½ without penalty. There is no required age at which distributions must begin under this plan.

H. Comparative Statements

The basic financial statements include the prior year Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets (Statements) for comparative purposes only. Prior year Note Disclosures are not included. Therefore, the prior year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, the prior year Statements should be read in conjunction with the PEIRAF's prior year financial report from which the prior year Statements were derived.

2) Investments

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, and credit quality risk. The following describes those risks:

Interest Rate Risk – The fair value of fixed-maturity investments fluctuate in response to changes in market interest rates. Increases in prevailing interest rates generally translate into decreases in fair value of those instruments. The fair value of interest sensitive instruments may also be affected by the creditworthiness of the issuer, prepayment options, relative values of alternative investments, and other general market conditions. Certain fixed maturity investments have call provisions that could result in shorter maturity periods. However, the Fund's intent is to hold all fixed maturity investments until maturity, and as such, fixed maturity investments are classified in the following tables as if they were held to maturity.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. The PEIRAF's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the PEIRAF all securities and other non-cash property other than securities in the Federal Reserve book-entry system, in a clearing agency which acts as a securities depository, or in another book-entry system. The PEIRAF's safekeeping agent holds all investments of the PEIRAF in the PEIRAF's name.

Credit Quality – Nationally recognized statistical rating organizations provide ratings of debt securities quality based on a variety of factors, such as the financial condition of the issuers, which provide investors with some idea of the issuer's ability to meet its obligations. Domestic fixed-maturity investments may consist of rated or non-rated securities. Short-term investments may consist of commercial paper rated at least A-2 and/or P-2, repurchase agreements, short-term U.S. securities, and other money market investments. The PEIRAF only invests in domestic fixed securities. The PEIRAF has a small amount of equity securities resulting from the conversion of debt securities to equity securities.

A. Investment Risks, Continued

The following table provides information as of September 30, 2007, concerning the fair value of investments and interest rate risk:

INVESTMENTS

	Maturity in Years at Fair Value					
Type of Investment	Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Commercial Paper	$ 5,998,537	$ -	$ -	$ -	$ 5,998,537	$ 5,998,537
U.S. Agency	-	7,386,908	14,386,662	600,152	22,373,722	22,430,485
U.S. Government Guaranteed	-	4,689,863	7,418,082	-	12,107,945	11,969,185
Corporate Bonds	894,627	9,287,920	15,276,658	4,626,126	30,085,331	30,155,972
Private Placements	-	794,552	6,947,483	-	7,742,035	8,979,529
GNMAs	-	-	10,316	92,324	102,640	96,210
CMOs	-	-	75,113	85,499	160,612	161,628
Money Market Funds	2,105,947	-	-	-	2,105,947	2,105,947
Total Domestic Fixed Maturity	$ 8,999,111	$ 22,159,243	$ 44,114,314	$ 5,404,101	80,676,769	81,897,493
Equities						
Domestic					25,769	49,716
Total Investments					**$ 80,702,538**	**$ 81,947,209**

(Continued)

A. Investment Risks, Continued

The following table provides information as of September 30, 2007, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's Ratings	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
AAA	$ 24,135,547	$ 24,193,068	29.917
AA1	491,147	484,242	0.609
AA2	1,104,695	1,114,176	1.369
AA3	2,150,396	2,200,964	2.665
A1	3,796,437	3,793,492	4.706
A2	2,193,435	2,233,767	2.719
A3	2,703,140	2,768,392	3.351
BAA1	2,675,103	2,722,060	3.316
BAA2	7,130,739	7,005,638	8.839
BAA3	4,084,974	4,093,237	5.063
BA1	1,730,935	1,620,058	2.146
CAA	956,365	943,393	1.185
P-1	2,105,947	2,105,947	2.610
P-2	5,998,537	5,998,537	7.435
U.S. Government Guaranteed Securities	12,210,584	12,065,394	15.135
‡ Not Rated	7,208,788	8,555,128	8.935
Totals	$ 80,676,769	$ 81,897,493	100.000

‡ Primarily consists of private placements.

B. Concentration of Investments

As of September 30, 2007, the PEIRAF owned debt securities of Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Community News Corporation, and Federal Home Loan Bank, which represented approximately 10.48%, 8.03%, 7.24%, and 7.02%, respectively, of the total fair value of investments.

C. Securities Lending Program

The PEIRAF is authorized by the Board of Control to participate in a securities lending program. The Plan's custodian, State Street Bank and Trust Company, administers the program. Certain securities from the PEIRAF are loaned to borrowers approved by the Plan. Approved borrowers of securities provide acceptable collateral in the form of cash, securities issued or guaranteed by the United States government or its agencies or instrumentalities, sovereign debt, Canadian Provincial debt, convertible bonds, irrevocable bank letters of credit by a person other than the borrower or an affiliate of the borrower if State Street determines to be appropriate, and such other collateral as the parties may agree to in writing from time to time. All security loans are open loans and can be terminated on demand by the PEIRAF or borrower. The initial collateral received shall have (i) in the case of loaned securities denominated in United States Dollars or whose primary trading market is located in the United States, sovereign debt issued by foreign governments (other than Canada) or corporate bonds that are not denominated in United States Dollars (other than those issued in Canada), a value of 102% of the fair value of the loaned securities, or (ii) in the case of loan securities which are not denominated in United States Dollars or whose primary trading market is not located in the United States (and are not referenced in (i)), a value of 105% of the fair value of the loaned securities, or (iii) in the case of loaned securities comprised of UK gilts, a value of 102.5% of the fair value of the loaned securities, or (iv) in all other cases, such value, not less than 102% of the fair value of the loaned securities, as may be applicable in the jurisdiction in which such loaned securities are customarily traded. Pursuant to the terms of the applicable securities loan agreement, State Street shall, in accordance with State Street's reasonable and customary practices, mark loaned securities and collateral to their fair value each business day based upon the fair value of the collateral and the loaned securities at the close of the business employing the most recently available pricing information and receive and deliver collateral in order to maintain the value of the collateral at no less than 100% of the fair value of the loaned securities.

The PEIRAF cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral is invested in the State Street Quality D Short-term Investments Fund (QDF).

The following describes the QDF's fund guidelines. The QDF's average effective duration is restricted to 120 days or less. The maximum option-adjusted duration of any variable rate security investment of the QDF shall be five years or less. All fixed rate instruments must have an option-adjusted duration not to exceed 30 months. At the time of purchase, all securities with maturities of 13 months or less must qualify as first tier securities and all securities with maturities in excess of 13 months will be rated A or better by at least two nationally recognized statistical rating organizations (NRSROs), or, if not rated, be of comparable quality. The QDF may invest in other State Street managed investment vehicles provided they conform to QDF guidelines.

As of September 30, 2007, the average term of the loans was 4 days. Cash collateral investments in the QDF are matured as needed to fulfill loan obligations. There is no direct matching of the maturities of the loans with the investments made with cash collateral.

C. Securities Lending Program, Continued

At September 30, 2007, the fair value of the securities on loan was $21,331,163. The fair value of the collateral pledged by the borrowers was $21,748,392. Since the amounts owed by the PEIRAF exceeded the amounts the borrowers owed to the PEIRAF, there was no credit risk exposure as of September 30, 2007. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior period losses during the year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the Fund. Securities pledged as collateral are held by the custodial agent, but not in the name of the Fund. Letters of credit pledged as collateral are issued by the borrower's bank and are irrevocable. The following table provides information as of September 30, 2007, concerning securities lent:

SECURITIES LENDING
INVESTMENTS LENT AND COLLATERAL RECEIVED
(at Fair Value)

Type of Investment Lent	Totals
For Cash Collateral	
Domestic Fixed Income	$ 21,305,394
Domestic Equity	25,769
Total Securities Lent	**$ 21,331,163**
Type of Collateral Received	
Cash Collateral - Invested in State Street Quality D Fund	**$ 21,748,392**

D. Mortgage-backed Securities

As of September 30, 2007, the PEIRAF had investments in mortgaged-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments by the obligors of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligors tend to prepay the mortgages thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the mortgage-backed securities.