FINANCIAL SECTION

CRI CARR RIGGS & INGRAM

Carr, Riggs & Ingram, LLC
7550 Halcyon Summit Drive
Montgomery, AL 36117

(334) 271-6678
(334) 271-6697 (fax)
www.cricpa.com

INDEPENDENT AUDITORS' REPORT

Boards of Control
Teachers' Retirement System of Alabama
Employees' Retirement System of Alabama
Judicial Retirement Fund

We have audited the accompanying combining statement of plan net assets of the Retirement Systems of Alabama (consisting of the Teachers' Retirement System of Alabama, the Employees' Retirement System of Alabama, and the Judicial Retirement Fund), component units of the State of Alabama, as of September 30, 2009, and the related combining statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Retirement Systems of Alabama. 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 Retirement Systems of Alabama's 2008 financial statements and, in our report dated January 27, 2009, 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2009 financial statements referred to above present fairly, in all material respects, the financial position of the Retirement Systems of Alabama (component units of the State of Alabama) as of September 30, 2009, and its changes in plan net assets for the year then ended in conformity with U.S. generally accepted accounting principles.

The management's discussion and analysis on pages 14 through 18 and the schedules of funding progress and employer contributions (pages 43 through 45) 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.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on pages 46 through 48 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Carr, Riggs & Ingram, L.L.C.

January 27, 2010
Montgomery, Alabama

The Retirement Systems of Alabama (RSA) is comprised of the Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF). The following discussion provides an overview of the financial position and results of operation for the RSA as of and for the period ended September 30, 2009, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements and the Required Supplementary Information.

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

Combining Statement of Plan Net Assets – Includes all accounting assets and liabilities of the RSA and provides a snapshot of the financial position of the RSA as of the end of the fiscal year. Assets less liabilities results in the net assets held in trust for pension benefits at fiscal year-end.

Combining Statement of Changes in Plan Net Assets – Reports all additions and deductions of the RSA for the fiscal year. Additions primarily consist of employer contributions, employee contributions, and investment income. Deductions are principally made up of retirement allowance payments. Additions minus deductions provide the change in plan net assets for the fiscal year. The change in plan net assets plus the beginning plan net assets results in the plan net assets at fiscal year-end.

The Notes to the Financial Statements include plan descriptions, a summary of significant accounting policies, a description of legally required reserves and corresponding reserve balances at year-end, credit risk disclosures for cash and investments, concentration of investments disclosures, securities lending disclosures, funded status, and additional actuarial information relevant to the latest actuarial valuations.

The Required Supplementary Information following the Notes to the Financial Statements includes a Schedule of Funding Progress and a Schedule of Employer Contributions. The Schedule of Funding Progress provides trend data on the level of funding for the TRS, ERS, and JRF plans. The Schedule of Employer Contributions provides trend data on the annual required employer contributions and the percentage actually contributed.

Comparative Summary Statements

Summary Comparative Statement of Plan Net Assets
As of September 30, 2009 and 2008
(Amounts in Thousands)

	2009	2008	Variance	% Increase/ (Decrease)
Assets				
Cash	$ 14,717	$ 14,289	$ 428	3.00
Receivables	243,817	359,673	(115,856)	(32.21)
Investments	23,624,363	26,447,602	(2,823,239)	(10.67)
Invested Securities Lending Collateral	3,445,682	2,350,847	1,094,835	46.57
Property and Equipment	164,405	156,730	7,675	4.90
Total Assets	27,492,984	29,329,141	(1,836,157)	(6.26)
Liabilities				
Accounts Payable and Other Liabilities	8,346	6,299	2,047	32.50
Investment Purchases Payable	25,381	-	25,381	-
Other Post-employment Benefit Obligations	2,567	2,087	480	23.00
Securities Lending Collateral	3,445,682	2,350,847	1,094,835	46.57
Total Liabilities	3,481,976	2,359,233	1,122,743	47.59
Net Assets	**$ 24,011,008**	**$ 26,969,908**	**$ (2,958,900)**	**(10.97)**

Summary Comparative Statement of Changes in Plan Net Assets
For the Fiscal Years Ended September 30, 2009 and 2008
(Amounts in Thousands)

	2009	2008	Variance	% Increase/ (Decrease)
Additions				
Employee Contributions	$ 532,149	$ 516,141	$ 16,008	3.10
Employer Contributions	1,214,983	1,069,214	145,769	13.63
Investment Income	(2,372,249)	(4,949,113)	2,576,864	52.07
Transfers Between Systems	4,539	5,224	(685)	(13.11)
Total Additions	(620,578)	(3,358,534)	2,737,956	81.52
Deductions				
Retirement Allowance Payments	2,231,511	2,164,925	66,586	3.08
Return of Contributions, Unit Withdrawals, and Death Benefits	75,136	68,787	6,349	9.23
Transfers Between Systems	4,539	5,224	(685)	(13.11)
Administrative Expense	20,970	22,634	(1,664)	(7.35)
Depreciation	6,166	889	5,277	593.59
Total Deductions	2,338,322	2,262,459	75,863	3.35
Decrease in Plan Net Assets	(2,958,900)	(5,620,993)	2,662,093	47.36
Net Assets - Beginning of Year	26,969,908	32,590,901	(5,620,993)	(17.25)
Net Assets - End of Year	**$ 24,011,008**	**$ 26,969,908**	**$ (2,958,900)**	**(10.97)**

Comparison of Individual Plan Net Assets
As of September 30, 2009 and 2008
(Amounts in Thousands)

	2009	2008	Variance	% Increase/ (Decrease)
TRS	$ 16,120,988	$ 18,100,387	$ (1,979,399)	(10.94)
ERS	7,679,005	8,647,705	(968,700)	(11.20)
JRF	211,015	221,816	(10,801)	(4.87)
Totals	**$ 24,011,008**	**$ 26,969,908**	**$ (2,958,900)**	**(10.97)**

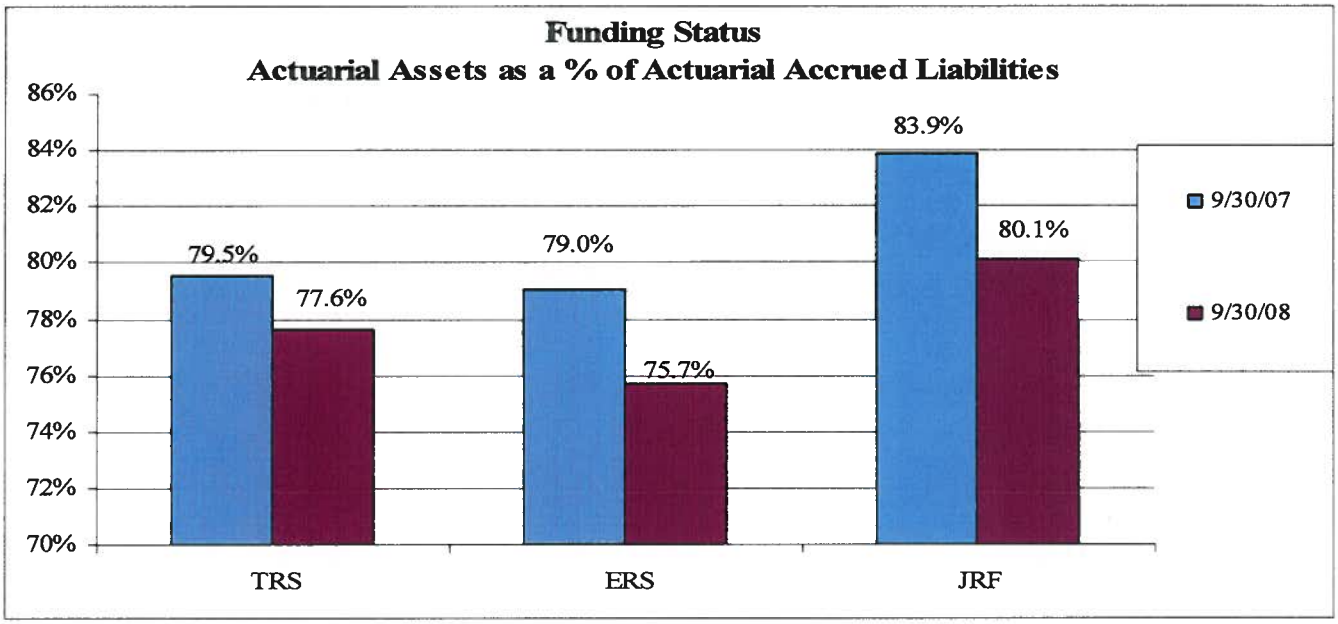
Financial Analysis

- Employer contributions increased primarily as a result of increases in employer cost rates.
- Receivables decreased principally because of the decrease in interest receivable. Interest receivable mainly decreased as a result of restructuring some debt securities. The restructuring included new interest rates and accrual schedules.
- Assets and liabilities related to securities lending increased as a result of increased securities lending activities.
- Investments and investment income decreased mainly as a result of the decrease in the fair value of investments. The downturn in the equity markets contributed to the decreases in investments and investment income. The decrease in the fair value of investments was less severe than the decrease experienced in fiscal year 2008.
- Investment purchases payable resulted from a change in policy to recognize investments on a trade date basis instead of the settlement date basis. The change in policy did not result in a material difference in the fair value of investments reported in the financial statements. Also, use of the settlement date basis did not result in material differences relative to the trade date basis in previous years.
- Depreciation expense increased significantly due to depreciation related to the new office building.

Funding Status

The primary objective of a retirement system is to accumulate sufficient assets to pay benefits to participants when due. The principal sources of assets to fund benefits include investment income and member and employer contributions. A five-year smoothing method is used in actuarially valuing assets to limit fluctuations in the contributions from year to year.

The ratio of actuarial assets to actuarial liabilities provides an excellent indication as to whether sufficient assets are being accumulated to pay benefits when due. The following bar graph provides comparisons of the funded ratio (actuarial assets to actuarial liabilities) as of the last two valuations for each System (September 30, 2008 and September 30, 2007). The funded ratios decreased slightly in the most recent valuations. As a result of the decline in fair values of investments during fiscal year 2009, the funded ratios in the fiscal year 2009 actuarial valuations will decline resulting in increases to the annual required contributions (ARC) of employers. However, as reflected by the following graph, the TRS, ERS, and JRF continue to operate on an actuarially sound basis and accumulated funds are sufficient to continue to provide benefits as they become due.



Financial Highlights

- Net assets held in trust of $24 billion at 9/30/09 were available to meet future benefit payments.
- The funding level (actuarial value of assets as a percent of actuarial accrued liabilities) as of the latest actuarial valuations was 77.6% for the TRS, 75.7% for the ERS, and 80.1% for the JRF.
- The investment section contains a detailed schedule of investment returns and related benchmarks.

ALABAMA
TENNESSEE
MISSISSIPPI
GEORGIA
FLORIDA
GREAT SEAL

Financial Section

Combining Statement of Plan Net Assets

September 30, 2009 with comparative figures for 2008

(Amounts in Thousands)

	2009			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash (Note 4)	$ 6,400	$ 7,162	$ 1,155	$ 14,717
Receivables				
Employee Contributions	25,381	14,640	117	40,138
Employer Contributions	61,263	29,616	351	91,230
Investment Sales Receivable	16,498	8,690	-	25,188
Dividends and Interest	59,047	27,166	1,048	87,261
Total Receivables	162,189	80,112	1,516	243,817
Investments, at Fair Value (Note 5)				
Domestic Equities	7,002,023	3,378,526	109,305	10,489,854
Domestic Fixed Income	4,604,039	2,173,828	64,026	6,841,893
International Equities	2,383,873	1,050,599	15,112	3,449,584
Real Estate	1,404,652	683,221	2,530	2,090,403
Short-term	471,177	263,860	17,592	752,629
Total Investments	15,865,764	7,550,034	208,565	23,624,363
Invested Securities Lending Collateral (Note 5)	2,394,634	1,027,835	23,213	3,445,682
Property and Equipment less Accumulated Depreciation (Note 8)	109,637	54,768	-	164,405
Total Assets	18,538,624	8,719,911	234,449	27,492,984
Liabilities				
Accounts Payable and Other Liabilities	5,151	2,993	202	8,346
Investment Purchases Payable	16,613	8,768	-	25,381
Other Post-employment Benefit Obligations (Note 9)	1,238	1,310	19	2,567
Securities Lending Collateral (Note 5)	2,394,634	1,027,835	23,213	3,445,682
Total Liabilities	2,417,636	1,040,906	23,434	3,481,976
Net Assets Held in Trust for Pension Benefits (Notes 3 & 6)	**$ 16,120,988**	**$ 7,679,005**	**$ 211,015**	**$ 24,011,008**

See accompanying *Notes to the Financial Statements*.

	2008			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Assets				
Cash	$ 6,454	$ 6,667	$ 1,168	$ 14,289
Receivables				
Employee Contributions	25,796	15,406	119	41,321
Employer Contributions	60,621	30,299	334	91,254
Dividends and Interest	152,654	73,095	1,349	227,098
Total Receivables	239,071	118,800	1,802	359,673
Investments, at Fair Value				
Domestic Equity	8,096,041	4,042,346	118,731	12,257,118
Domestic Fixed Income	5,173,748	2,450,954	58,304	7,683,006
International Equities	2,496,175	1,104,797	16,761	3,617,733
Real Estate	1,494,190	726,105	2,647	2,222,942
Short-term	495,316	148,872	22,615	666,803
Total Investments	17,755,470	8,473,074	219,058	26,447,602
Invested Securities Lending Collateral	1,581,944	731,431	37,472	2,350,847
Property and Equipment less Accumulated Depreciation	104,168	52,562	-	156,730
Total Assets	19,687,107	9,382,534	259,500	29,329,141
Liabilities				
Accounts Payable and Other Liabilities	3,735	2,367	197	6,299
Other Post-employment Benefits	1,041	1,031	15	2,087
Securities Lending Collateral	1,581,944	731,431	37,472	2,350,847
Total Liabilities	1,586,720	734,829	37,684	2,359,233
Net Assets Held in Trust for Pension Benefits	**$ 18,100,387**	**$ 8,647,705**	**$ 221,816**	**$ 26,969,908**

Financial Section

Combining Statement of Changes in Plan Net Assets
For the Fiscal Year Ended September 30, 2009 with comparative figures for 2008

(Amounts in Thousands)

	2009			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Additions				
Contributions				
Employee	$ 321,100	$ 208,446	$ 2,603	$ 532,149
Employer	753,518	451,139	10,326	1,214,983
Transfers from Teachers' Retirement System	-	1,767	-	1,767
Transfers from Employees' Retirement System	2,606	-	98	2,704
Transfers from Judicial Retirement Fund	-	68	-	68
Total Contributions	1,077,224	661,420	13,027	1,751,671
Investment Income (Note 5)				
From Investing Activities				
Net Decrease in Fair Value of Investments	(2,083,048)	(1,180,523)	(6,612)	(3,270,183)
Interest and Dividends	580,656	285,022	7,026	872,704
Total Investment Income from Investing Activities	(1,502,392)	(895,501)	414	(2,397,479)
Less: Investment Expenses	5,419	2,651	11	8,081
Net Investment Income from Investing Activities	(1,507,811)	(898,152)	403	(2,405,560)
From Securities Lending Activities				
Securities Lending Income	33,782	15,335	543	49,660
Less Securities Lending Expenses:				
Borrower Rebates	6,685	3,070	119	9,874
Management Fees	4,412	1,994	69	6,475
Total Securities Lending Expenses	11,097	5,064	188	16,349
Net Income from Securities Lending Activities	22,685	10,271	355	33,311
Total Net Investment Income	(1,485,126)	(887,881)	758	(2,372,249)
Total Additions	(407,902)	(226,461)	13,785	(620,578)
Deductions				
Retirement Allowance Payments	1,512,260	695,430	23,821	2,231,511
Return of Contributions and Death Benefits	42,337	32,640	145	75,122
Unit Withdrawals	-	14	-	14
Transfers to Employees' Retirement System	1,767	-	68	1,835
Transfers to Teachers' Retirement System	-	2,606	-	2,606
Transfers to Judicial Retirement Fund	-	98	-	98
Administrative Expenses	11,005	9,413	552	20,970
Depreciation (Note 8)	4,128	2,038	-	6,166
Total Deductions	1,571,497	742,239	24,586	2,338,322
Net Decrease	(1,979,399)	(968,700)	(10,801)	(2,958,900)
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	18,100,387	8,647,705	221,816	26,969,908
End of Year	**$ 16,120,988**	**$ 7,679,005**	**$ 211,015**	**$ 24,011,008**

See accompanying *Notes to the Financial Statements* .

	2008			
	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Additions				
Contributions				
Employee	$ 323,822	$ 189,785	$ 2,534	$ 516,141
Employer	729,995	329,339	9,880	1,069,214
Transfers from Teachers' Retirement System	-	1,683	-	1,683
Transfers from Employees' Retirement System	3,182	-	173	3,355
Transfers from Judicial Retirement Fund	-	186	-	186
Total Contributions	1,056,999	520,993	12,587	1,590,579
Investment Income				
From Investing Activities				
Net Decrease in Fair Value of Investments	(4,057,823)	(1,919,746)	(46,910)	(6,024,479)
Interest and Dividends	705,555	339,578	8,206	1,053,339
Total Investment Income from Investing Activities	(3,352,268)	(1,580,168)	(38,704)	(4,971,140)
Less: Investment Expenses	5,990	3,747	8	9,745
Net Investment Income from Investing Activities	(3,358,258)	(1,583,915)	(38,712)	(4,980,885)
From Securities Lending Activities				
Securities Lending Income	83,588	38,458	1,765	123,811
Less Securities Lending Expenses:				
Borrower Rebates	57,695	26,649	1,298	85,642
Management Fees	4,332	1,988	77	6,397
Total Securities Lending Expenses	62,027	28,637	1,375	92,039
Net Income from Securities Lending Activities	21,561	9,821	390	31,772
Total Net Investment Income	(3,336,697)	(1,574,094)	(38,322)	(4,949,113)
Total Additions	(2,279,698)	(1,053,101)	(25,735)	(3,358,534)
Deductions				
Retirement Allowance Payments	1,486,871	655,467	22,587	2,164,925
Return of Contributions and Death Benefits	37,317	31,387	83	68,787
Transfers to Employees' Retirement System	1,683	-	186	1,869
Transfers to Teachers' Retirement System	-	3,182	-	3,182
Transfers to Judicial Retirement Fund	-	173	-	173
Administrative Expenses	12,216	9,892	526	22,634
Depreciation	578	311	-	889
Total Deductions	1,538,665	700,412	23,382	2,262,459
Net Decrease	(3,818,363)	(1,753,513)	(49,117)	(5,620,993)
Net Assets Held in Trust for Pension Benefits:				
Beginning of Year	21,918,750	10,401,218	270,933	32,590,901
End of Year	**$ 18,100,387**	**$ 8,647,705**	**$ 221,816**	**$ 26,969,908**

(Dollar Amounts in Thousands)

1) PLAN DESCRIPTION

The Teachers' Retirement System (TRS), Employees' Retirement System (ERS), and Judicial Retirement Fund (JRF) operate under common management and are collectively referred to as the Retirement Systems of Alabama (RSA or Systems). In addition to executive management, the TRS, ERS, and JRF share investment management, accounting, and information system services, the costs of which are allocated to the funds on an equitable basis.

The TRS, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control.

The ERS, an agent multiple-employer public employee retirement plan, was established as of October 1, 1945, under the provisions of Act 515 of the Legislature of 1945. The purpose of the ERS is to provide retirement allowances and other specified benefits for State employees, State police, and on an elective basis, to all cities, counties, towns, and quasi-public organizations. The responsibility for the general administration and operation of the ERS is vested in its Board of Control.

The JRF, a cost-sharing multiple-employer public employee retirement plan, was established as of September 18, 1973, under the provisions of Act Number 1163 of the Legislature of 1973 for the purpose of providing retirement allowances and other specified benefits for any Justice of the Supreme Court of Alabama, Judge of the Court of Civil Appeals, Judge of the Court of Criminal Appeals, Judge of the Circuit Court, or office holder of any newly created judicial office receiving compensation from the State Treasury. Act Number 1205 of the Legislature of 1975 supplemented the provisions of Act Number 1163 and enlarged the scope and coverage of the JRF to include District and Probate Judges. The responsibility for the general administration and operation of the JRF is vested in the Board of Control of the ERS.

At September 30, 2009, the number of participating units in each system was as follows:

	TRS	ERS	JRF
Cities	-	282	-
Counties	-	65	67
Other Public Entities	-	502	-
Universities	13	-	-
Post-Secondary Institutions	29	-	-
City and County Bds of Education	131	-	-
State Agencies & Other	31	1	1
Totals	**204**	**850**	**68**

At the date of the latest actuarial valuation as presented in the Notes to the Required Supplementary Information, membership consisted of:

	TRS	ERS	JRF
Retirees and beneficiaries currently receiving benefits:			
General	66,928	17,973	311
State Police	-	770	-
Employees of Local Employers	-	16,202	-
Deferred Retirement Option Plan (DROP)	5,169	2,184	-
Terminated employees entitled to benefits but not yet receiving benefits:			
General	16,791	3,752	52
State Police	-	16	-
Employees of Local Employers	-	7,680	-
Active employees:			
General	141,528	33,341	336
State Police	-	755	-
Employees of Local Employers	-	53,906	-
Totals	**230,416**	**136,579**	**699**

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS, ERS, and JRF. Benefits for TRS and ERS members vest after 10 years of credited service. Teachers and state employees who retire after age 60 (52 for state police) with 10 years or more of credited service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Local employees who retire after age 60 with 10 years or more of credited service or with 25 or 30 years of service (regardless of age), depending on the particular entity's election, are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS and ERS (except State Police) are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. State Police are allowed 2.875% for each year of state police service in computing the formula method.

The JRF benefits vest from five to eighteen years. Except for justices or judges who were either disabled, elected prior to July 30, 1979, or have at least 25 years of credited service, no justice or judge is eligible to receive judicial service retirement pay prior to attaining sixty years of age. Service retirement benefits for justices and judges are dependent upon the particular office held in the judicial branch of government. A retirement benefit is payable upon the request of any member who has: (1) 25 years of credited service (regardless of age), (2) completed 12 years of credited service and has attained age 65, (3) completed 15 years of credited service and whose age plus service equals or exceeds 77, (4) completed 10 years of credited service and has attained age 70 or (5) been elected prior to July 30, 1979 and has 18 years of service (regardless of age). A member eligible to retire who has not requested his or her retirement benefit to commence at the end of the term in which the member's seventieth birthday occurs is entitled only to the refund of his or her contributions (except for members with at least 25 years of credited service). The service retirement benefit for circuit, appellate, and probate judges is 75% of the member's salary at the time of separation

(Dollar Amounts in Thousands)

from service. The service retirement benefit for a district judge is 75% of the position's salary immediately prior to retirement.

Covered members of the TRS and ERS (except state police and certified law enforcement, correctional officers and firemen) are required by statute to contribute 5% of earnable compensation to the TRS and ERS. State police members of the ERS contribute 10% of earnable compensation. JRF members and certified law enforcement, correctional officers, and firemen members of the TRS and ERS are required to contribute 6% of earnable compensation.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The TRS, ERS, and JRF financial statements are prepared using the accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized when due and payable in accordance with the terms of the plans. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. The accompanying financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the TRS, ERS, and JRF are considered component units of the State of Alabama and are included in the State's Comprehensive Annual Financial Report. Subsequent events were evaluated by management through the date the financial statements were issued.

B. Investments

The Boards of Control of the Systems have the responsibility and authority to invest and reinvest available funds, through the Secretary-Treasurer (CEO) and Investment Committee, in bonds, mortgage-backed securities, common and preferred stock, and 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 plan assets are carried at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Short-term investments 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. The fair value of real estate investments is based on independent appraisals. 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.

C. Comparative Combining Statements

The basic financial statements include the prior year Combining Statement of Plan Net Assets and Combining Statement of Changes in Plan 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 RSA's prior year financial report from which the prior year Statements were derived.

D. Interfund Transfers

Interfund transfers result from transfers of members between retirement systems.

E. New Accounting Pronouncements

No new accounting pronouncements were implemented in fiscal year 2009. GASB 53, *Accounting and Financial Reporting for Derivative Instruments* will be implemented in fiscal year 2010.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts on the financial statements. Actual results may differ from these estimates.

3) LEGALLY REQUIRED RESERVES

A. Annuity Savings

Member contributions are credited to the Annuity Savings account. Interest at 4% per annum is credited to the annuity savings account of each member on the basis of the average of the beginning and end of year balances (as of June 30 for the TRS and September 30 for the ERS and JRF).

When a member withdraws from service prior to becoming vested, the member's accumulated contributions and a portion of accumulated interest credited to the Annuity Savings account are returned to the member. The portion of accumulated interest that, by law, is not payable to the member is transferred to the Expense fund.

When a TRS or ERS member dies prior to becoming eligible for retirement, the member's accumulated contributions and accumulated interest credited to the Annuity Savings account are returned to the member's designated beneficiary. If the pre-retirement death benefit defined below is not payable, an additional death benefit equal to the member's accumulated contributions, up to five thousand dollars, is paid from the Pension Accumulation account to the member's beneficiary.

When a member retires or when a survivor allowance becomes payable, the amount of the member's accumulated contributions and accumulated interest is transferred from the Annuity Savings account to the Pension Accumulation account.

B. Pension Accumulation

The Pension Accumulation account is credited with contributions made by the employer and net investment income. The lump sum death benefit is paid from this account when a TRS or ERS member dies prior to becoming eligible for the pre-retirement death benefit or retirement. Periodic interest representing member's earnings is transferred from the Pension Accumulation account to the Annuity Savings account. When a TRS, ERS, or JRF member retires or when a survivor allowance becomes payable, the member's accumulated contributions and accumulated interest is credited to the pension accumulation account, and all monthly benefit payments are paid from this account.

C. Pre-retirement Death Benefit

The Pre-retirement Death Benefit (PRDB) account (established October 1, 1983, under the provisions of Act 616 of the Legislature of 1983) is credited with contributions made by TRS and ERS employers and investment income on such funds. The pre-retirement death benefit (in the form of group term life insurance) is paid in addition to the return of member contributions upon the death of an active TRS or ERS member who has completed at least one year of active membership in the system and whose date of death was within 180 days of such member's last date of actual service. However, a surviving spouse beneficiary of a deceased member who was eligible for service retirement may elect a survivor allowance in lieu of this benefit. The pre-retirement death benefit is equal to the annual earnable compensation of the member as reported to the System for the preceding year ending June 30 for the TRS and September 30 for the ERS. There is no PRDB available for JRF members.

D. Term Life Insurance

The Alabama Teacher's Group Term Life Insurance Plan (established October 1, 1987) is credited with a portion of the employer contributions. All active contributing members of the TRS are covered by this plan. Contingent on availability of funds, upon death, a benefit is paid to the designated beneficiary of an

(Dollar Amounts in Thousands)

insured member of the TRS. Beneficiaries of full-time employees receive fifteen thousand dollars while beneficiaries of part-time employees receive a pro-rated amount of fifteen thousand dollars.

E. Expense

The Expense fund is used to pay the administrative expenses of the RSA. A portion of the employer contributions and the interest not payable upon member withdrawal provide the funding of the Expense fund. The majority of expenses are directly identifiable as expenses of the TRS, ERS, or JRF. As discussed in Note 1, certain administrative salaries and other expenses are shared on an equitable basis between the TRS and ERS.

F. Deferred Retirement Option Plan (DROP)

The DROP was established for election to participate on or after June 1, 2002, under the provisions of Act 23 of the Legislature of 2002. Eligible members may elect to retire, and, in lieu of immediate withdrawal from service, continue employment for a period of three to five years. The retirement allowance, employee contributions, and interest earned are accumulated in an account for the benefit of the member. At the end of participation, the account balance is paid to the member. DROP participation is an option available to eligible members that have at least twenty-five years of service (exclusive of sick leave), are at least fifty-five years of age, and are eligible for retirement. See the actuarial section for additional information.

G. Reserves

The reserves of the RSA are funded to the full extent required by statute. The reserve balances as of September 30, 2009, are as follows:

	TRS	ERS	JRF
Annuity Savings	$ 3,233,664	$ 1,973,511	$ 32,533
Pension Accumulation	12,093,632	5,372,845	177,550
Preretirement Death Benefit	25,063	21,045	-
Term Life Insurance	12,635	-	-
Deferred Retirement Option Plan	643,733	252,704	-
Expense	2,624	4,132	932

4) CASH

Cash consists of deposits held by the State Treasurer in the respective retirement systems' 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,* as amended, 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. Virtually all cash on hand at September 30 was restricted for administrative expenses.

5) INVESTMENTS

A. Investment Risks

Investments are subject to certain types of risks, including interest rate risk, custodial credit risk, credit quality risk, and foreign currency risk. The following describes those risks and the RSA's policies regarding 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. The Systems do not have a formal policy regarding interest rate risks. However, the Systems' 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 will be 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 RSA's custodial credit risk policy requires the custodial agent to hold or direct its agents or subcustodians to hold, for the account of the RSA 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 RSA's safekeeping agent holds all investments of the RSA in the RSA's name with the exception of securities purchased with securities lending cash collateral.

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. International fixed-maturity investments may consist of securities with a rating of at least A by one of the principal rating agencies at the time of purchase or acquisition, except that up to 2% of the fair value of each System's total portfolio may be invested in obligations of sovereign countries with a rating of BBB or BAA at the time of purchase. The Systems may hedge against the possible adverse effects of currency fluctuations on each System's portfolio of international fixed income obligations when it is considered appropriate. 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.

Foreign Currency Risk – The risk that changes in exchange rates will adversely affect the fair value of an investment. In order for an international security to be eligible for purchase by the Systems, the issuing company must be incorporated in a country whose debt securities are eligible for purchase as discussed above, and the fair value of the aggregate outstanding equity of the issuing company must be at least $100 million.

Concentration of Credit Risk – The investment policies limit the aggregate amount that can be invested in each class of investments. The policy limits are as follows:

- Domestic Fixed Income – Limited to 50% of the fair value of the aggregate portfolio for each System.
- International Fixed Income – Limited to 10% of the fair value of each System's total portfolio.
- Domestic Equity – Limited to 65% of the fair value of each System's aggregate portfolio.
- International Equity – The aggregate fair value of international equities is limited to 25% of the aggregate fair value of each System's total portfolio. Also, each System may not purchase or hold more than 5% of any class of the outstanding stock of a company.
- Real Estate – The suggested limit is 15% of the book value of each System's portfolio.

(Dollar Amounts in Thousands)

- Alternative Investments (mezzanine financing, LBO's, venture capital, limited partnerships, futures, commodities and derivative investments) – Limited to 10% of the book value of each System's aggregate portfolio.
- Short-term Investments – Limited to 20% of the fair value of each System's aggregate portfolio.

The following tables provide information as of September 30, 2009, concerning the fair value of investments, interest rate risk, and foreign currency risk:

INVESTMENTS
TRS

Type of Investment	Maturity in Years at Fair value: Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Commercial Paper	$ 309,982	$ -	$ -	$ -	$ 309,982	$ 309,982
U.S. Government Guaranteed	-	95,662	330,548	27,109	453,319	421,911
U.S. Agency	-	162,264	147,702	64,982	374,948	356,911
Corporate Bonds	112,211	461,512	556,953	286,920	1,417,596	1,373,630
Private Placements	94,805	179,826	80,583	1,674,454	2,029,668	2,491,645
GNMAs	21	595	616	59,892	61,124	57,153
CMOs	-	2,004	447	264,933	267,384	257,793
Money Market Funds	161,195	-	-	-	161,195	161,195
Total Domestic Fixed Maturity	$ 678,214	$ 901,863	$ 1,116,849	$ 2,378,290	5,075,216	5,430,220
Equities						
Domestic					6,839,463	6,039,274
Private					162,560	342,845
International						
United Kingdom - Pound Sterling					461,452	480,684
Japan - Yen					505,592	556,795
France - Euro					253,972	220,816
Germany - Euro					192,324	160,100
Switzerland - Franc					184,510	130,808
Netherlands - Euro					69,068	63,849
Italy - Euro					85,915	98,170
Spain - Euro					112,133	81,708
Australia - U.S. Dollar					175,406	113,017
Singapore - U.S. Dollar					28,115	23,791
Belgium - Euro					21,818	29,703
Finland - Euro					29,073	31,087
Hong Kong - U.S. Dollar					56,097	45,799
Sweden - Krona					54,218	43,099
Denmark - Krone					22,302	14,757
Portugal - Euro					7,217	8,412
Ireland - Euro					8,304	16,255
Norway - Krone					18,863	12,825
Greece - Euro					14,394	14,315
Austria - Euro					9,155	8,471
New Zealand - Dollar					1,969	2,734
Emerging Markets					71,976	67,000
Total International Equities					2,383,873	2,224,195
Total Equities					9,385,896	8,606,314
Real Estate					1,404,652	1,191,560
Total Investments					**$ 15,865,764**	**$ 15,228,094**

(Dollar Amounts in Thousands)

INVESTMENTS
ERS

Type of Investment	Maturity in Years at Fair Value: Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Commercial Paper	$ 169,893	$ -	$ -	$ -	$ 169,893	$ 169,893
U.S. Government Guaranteed	-	45,077	151,588	12,445	209,110	194,895
U.S. Agency	-	77,913	68,851	29,744	176,508	167,917
Corporate Bonds	47,106	212,014	253,414	136,085	648,619	627,549
Private Placements	46,731	79,375	37,369	828,461	991,936	1,220,895
GNMAs	4	282	667	25,105	26,058	24,499
CMOs	-	830	141	120,626	121,597	117,317
Money Market Funds	93,967	-	-	-	93,967	93,967
Total Domestic Fixed Maturity	$ 357,701	$ 415,491	$ 512,030	$ 1,152,466	2,437,688	2,616,932
Equities						
Domestic					3,227,650	2,854,548
Private					150,876	283,698
International						
United Kingdom - Pound Sterling					202,912	210,216
Japan - Yen					222,202	245,348
France - Euro					111,901	96,785
Germany - Euro					84,419	69,969
Switzerland - Franc					80,950	56,611
Netherlands - Euro					30,400	27,517
Italy - Euro					37,833	43,007
Spain - Euro					49,411	35,226
Australia - U.S. Dollar					77,034	49,685
Singapore - U.S. Dollar					12,371	10,437
Belgium - Euro					9,748	13,134
Finland - Euro					12,771	13,829
Hong Kong - U.S. Dollar					24,592	20,147
Sweden - Krona					23,744	18,970
Denmark - Krone					9,788	6,458
Portugal - Euro					3,181	3,688
Ireland - Euro					3,594	7,080
Norway - Krone					8,183	5,662
Greece - Euro					6,319	6,291
Austria - Euro					4,004	3,746
New Zealand - Dollar					865	1,221
Emerging Markets					34,377	32,000
Total International Equities					1,050,599	977,027
Total Equities					4,429,125	4,115,273
Real Estate					683,221	600,541
Total Investments					**$ 7,550,034**	**$ 7,332,746**

INVESTMENTS
JRF

Type of Investment	Maturity in Years at Fair Value: Less Than 1	1-5	6-10	More Than 10	Total Fair Value	Cost
Fixed Maturity						
Domestic						
Commercial Paper	$ 12,506	$ -	$ -	$ -	$ 12,506	$ 12,506
U.S. Government Guaranteed	-	1,485	7,935	622	10,042	9,307
U.S. Agency	-	3,867	4,489	1,480	9,836	9,325
Corporate Bonds	1,393	9,786	13,959	6,065	31,203	30,932
Private Placements	227	3,476	-	2,229	5,932	6,215
GNMAs	-	8	21	809	838	813
CMOs	-	75	47	6,053	6,175	5,961
Money Market Funds	5,086	-	-	-	5,086	5,086
Total Domestic Fixed Maturity	$ 19,212	$ 18,697	$ 26,451	$ 17,258	81,618	80,145
Equities						
Domestic					109,305	82,309
International						
United Kingdom - Pound Sterling					2,813	3,914
Japan - Yen					3,064	4,168
France - Euro					1,513	1,850
Germany - Euro					1,171	1,260
Switzerland - Franc					1,121	1,238
Netherlands - Euro					421	526
Italy - Euro					523	757
Spain - Euro					684	683
Australia - U.S. Dollar					1,068	993
Singapore - U.S. Dollar					177	163
Belgium - Euro					133	248
Finland - Euro					177	225
Hong Kong - U.S. Dollar					346	336
Sweden - Krona					333	386
Denmark - Krone					127	115
Portugal - Euro					44	54
Ireland - Euro					50	129
Norway - Krone					116	113
Greece - Euro					89	118
Austria - Euro					56	77
New Zealand - Dollar					12	15
Emerging Markets					1,074	1,000
Total International Equities					15,112	18,368
Total Equities					124,417	100,677
Real Estate					2,530	892
Total Investments					**$ 208,565**	**$ 181,714**

(Dollar Amounts in Thousands)

The following tables provide information as of September 30, 2009, concerning credit risk:

RATINGS OF FIXED MATURITIES
TRS

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
US Govt Guaranteed Securities	$ 514,443	$ 479,064	10.136
Aaa	639,514	611,843	12.601
Aa2	91,905	89,933	1.811
Aa3	47,043	40,852	0.927
P-1	166,186	166,186	3.274
P-2	304,990	304,990	6.009
A1	181,445	162,068	3.575
A2	213,103	197,661	4.199
A3	204,199	206,958	4.023
A (SP)	5,237	5,055	0.103
Baa1	294,159	265,099	5.796
BBB+ (SP)	25,707	21,898	0.507
Baa2	188,787	182,381	3.720
Baa3	142,870	147,890	2.815
Ba1	44,271	42,002	0.872
Ba2	46,290	56,861	0.912
Ba3	20,522	20,679	0.404
B2	367	355	0.007
B3	11,438	11,820	0.225
‡ Not Rated	1,932,740	2,416,627	38.084
Totals	$ 5,075,216	$ 5,430,222	100.000

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated" category.

‡ Primarily consists of private placements.

RATINGS OF FIXED MATURITIES
ERS

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
US Govt Guaranteed Securities	$ 235,167	$ 219,394	9.647
Aaa	296,982	284,084	12.183
Aa2	42,351	41,462	1.737
Aa3	22,052	19,142	0.905
A1	87,370	77,393	3.584
A2	97,978	90,922	4.019
P-1	93,967	93,967	3.855
P-2	169,893	169,893	6.969
A3	92,437	93,795	3.792
A (SP)	2,440	2,355	0.100
Baa1	136,170	122,124	5.586
BBB+ (SP)	11,325	9,647	0.465
Baa2	86,582	83,622	3.552
Baa3	61,185	63,560	2.510
Ba1	20,983	19,744	0.861
Ba2	21,869	27,024	0.897
Ba3	9,358	9,430	0.384
B2	151	146	0.006
B3	5,220	5,394	0.214
Caa2	53	75	0.002
‡ Not Rated	944,155	1,183,759	38.732
Totals	$ 2,437,688	$ 2,616,932	100.000

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated" category.

‡ Primarily consists of private placements.

(Dollar Amounts in Thousands)

RATINGS OF FIXED MATURITIES
JRF

Moody's Ratings§ (Unless Noted)	Fair Value	Cost	Fair Value as a Percent of Total Fixed Maturity Fair Value
US Govt Guaranteed Securities	$ 10,879	$ 10,120	13.329
Aaa	15,889	15,163	19.468
Aa2	2,452	2,451	3.004
Aa3	763	714	0.935
A1	3,562	3,276	4.364
A2	5,045	4,723	6.181
P-1	5,086	5,086	6.231
P-2	12,506	12,506	15.323
A3	4,110	4,145	5.036
Baa1	7,100	6,771	8.699
Baa2	4,618	4,453	5.658
Baa3	1,287	1,386	1.577
Ba1	3,125	2,895	3.829
Ba2	310	360	0.380
Ba3	469	473	0.575
B3	269	278	0.330
Caa2	812	1,143	0.995
‡ Not Rated	3,336	4,202	4.086
Totals	$ 81,618	$ 80,145	100.000

§ The Moody's ratings are used when available. The Standard & Poor's rating is used when it is available and a Moody's rating is not available. Standards and Poor's ratings are denoted by (SP). Fixed maturity investments that are not rated are included in the "Not Rated" category.

‡ Primarily consists of private placements.

B. Concentration of Investments

As of September 30, 2009, the TRS and ERS owned debt and equity securities of Raycom Media Corporation which represented approximately 5.98% and 6.73%, respectively, of the TRS and ERS investments.

C. Securities Lending Program

The TRS, ERS, and JRF are authorized by the Boards of Control to participate in a securities lending program. The Systems' custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the TRS, ERS, and JRF are loaned to borrowers approved by the Systems for collateral that will be returned for the same type of securities. 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 TRS, ERS, JRF, 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 loaned 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 shall 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 TRS, ERS, and JRF 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 guidelines. The QDF's average effective duration is restricted to 90 days or less. The maximum option-adjusted duration of any variable rate security investment of the QDF shall be 2.5 years or less. All fixed rate instruments must have an option-adjusted duration not to exceed 18 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, 2009, the average term of the loans was 4, 5, and 3 days, respectively for the TRS, ERS, and JRF. 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.

At September 30, 2009, the fair value of the securities on loan was $2,445,354, $1,059,337, and $23,374 for the TRS, ERS, and JRF, respectively. The fair value of the collateral pledged by the borrowers was $2,520,474, $1,091,033 and $24,046 for the TRS, ERS, and JRF, respectively. Since the amounts owed by the TRS, ERS, and JRF exceeded the amounts the borrowers owed to the TRS, ERS, and JRF, there was no credit risk exposure as of September 30, 2009. 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 Systems. Securities pledged as collateral are held by the custodial agent, but not in the name of the Systems. 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, 2009, concerning securities lent:

(Dollar Amounts in Thousands)

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

Type of Investment Lent	TRS	ERS	JRF	Totals
For Cash Collateral				
Domestic Fixed Maturities	$ 917,516	$ 401,429	$ 9,310	$ 1,328,255
Domestic Equity	986,510	445,144	11,437	1,443,091
International Equity	422,951	152,922	1,851	577,724
Total Lent for Cash Collateral	2,326,977	999,495	22,598	3,349,070
For Non-cash Collateral				
Domestic Equity	2,888	2,341	295	5,524
International Equity	115,489	57,501	481	173,471
Total Lent for Non-cash Collateral	118,377	59,842	776	178,995
Total Securities Lent	**$ 2,445,354**	**$ 1,059,337**	**$ 23,374**	**$ 3,528,065**
Type of Collateral Received				
Cash Collateral - Invested in State Street Quality D Fund	$ 2,394,634	$ 1,027,835	$ 23,213	$ 3,445,682
Non-cash Collateral				
For Lent Domestic Equity Securities				
Securities Collateral - USD	8,637	6,706	335	15,678
For Lent International Equity Securities				
Securities Collateral				
EURO	22	-	-	22
US Dollar	117,181	56,492	498	174,171
Total Non-cash Collateral	125,840	63,198	833	189,871
Total Collateral Received	**$ 2,520,474**	**$ 1,091,033**	**$ 24,046**	**$ 3,635,553**

D. Mortgage-backed Securities

As of September 30, 2009, the TRS, ERS, and JRF had investments in mortgaged-backed securities. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments of the underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees 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.

6) FUNDED STATUS AND FUNDING PROGRESS

State law provides that the Boards of Control engage an actuary to prepare an annual valuation of the assets and liabilities of the various reserve funds. Under the provisions of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans,* the actuary determines the "unfunded

actuarial liability." The "unfunded actuarial liability" is the difference between the actuarial value of assets and the actuarial accrued liability.

The funded status of each plan as of the latest actuarial valuation is as follows:

FUNDED STATUS

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Percentage Funded	Annual Covered Payroll	UAAL as a % of Covered Payroll
	(A)	(B)	(B-A)	(A/B)	(C)	((B-A)/C)
TRS						
9/30/2008	$ 20,812,477	$ 26,804,117	$ 5,991,640	77.6	$ 6,294,341	95.2
ERS						
9/30/2008	9,905,766	13,078,687	3,172,921	75.7	3,553,330	89.3
JRF						
9/30/2008	259,071	323,428	64,357	80.1	41,167	156.3

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

ACTUARIAL ASSUMPTIONS

	TRS	ERS	JRF
Valuation date	September 30, 2008	September 30, 2008	September 30, 2008
Actuarial cost method	Entry Age Normal	Entry Age Normal	Projected unit credit
Asset valuation method	5-year smoothed market	5-year smoothed market	5-year smoothed market
Amortization method	Level percent open	Level percent open	Level percent open
Remaining amortization period	20 years	Within 20 years - varies by employer	20 years
Actuarial assumptions:			
Investment rate of return ‡	8%	8%	8%
Projected salary increases ‡	5.00%-7.75%	4.61%-7.75%	5%
Cost of living adjustments	None	None	None

‡ Includes inflation at 4.5%.

(Dollar Amounts in Thousands)

7) CONTRIBUTIONS REQUIRED AND MADE

The actuary has computed, as of the date of the latest available actuarial valuations, the estimated present value of benefits payable to retired members, beneficiaries, and active members. The actuarial valuations for the TRS and ERS are prepared using the entry age method, while the JRF valuation utilizes the projected unit credit method. The present value of all expected benefits payable from each system to the present group of members and beneficiaries is calculated by adding the present value of the expected benefits payable to the active members to the present value of the expected future payments to retired members and beneficiaries.

As required by statute, the TRS, ERS, and JRF provide for employer contributions at actuarially determined rates (expressed as percentages of annual covered payroll) that accumulate sufficient assets to pay benefits when due. The employer contributions required to support the benefits of each system are determined following a level funding approach and consist of a normal contribution, an accrued liability contribution, and a portion to finance administrative costs. Additionally, a portion of the TRS and ERS employer contributions fund a pre-retirement death benefit. Also, a portion of the TRS employer contributions fund a term-life benefit.

For the TRS and ERS, the normal contribution is determined using the "entry age normal" method. Under this method, a calculation is made to determine the uniform and constant percentage rate of employer contributions which, if applied to the compensation of the average new member during the entire period of the member's anticipated covered service, would be required in addition to the contributions of the member to meet the cost of all benefits payable on the member's behalf.

For the JRF, the normal contribution is determined using the "projected accrued benefit" (unit-credit) method. Under this method, the benefits of each individual included in an actuarial valuation are allocated by a consistent formula to valuation years. The actuarial gains (losses), as they occur, generally reduce (increase) the unfunded actuarial accrued liability.

The 2009 retirement contributions were made in accordance with actuarially determined contribution requirements.

8) PROPERTY AND EQUIPMENT

Plan assets used in plan operations are reported at historical cost less accumulated depreciation. Depreciation is determined on the straight-line basis using estimated useful lives of 30 years for buildings and 3 to 10 years for furniture and equipment.

Property and equipment was comprised of the following amounts as of September 30, 2009:

	TRS	ERS
Land	$ 5,085	$ 2,535
Building and Improvements	106,930	53,465
Furniture and Equipment	3,537	1,771
Total Property and Equipment	115,552	57,771
Less Accum Depreciation	(5,915)	(3,003)
Net Property and Equipment	**$ 109,637**	**$ 54,768**

9) OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 1, the TRS, ERS, and JRF (as agencies of the State of Alabama) participate in the State Employees' Health Insurance Plan (SEHIP) administered by the State Employees' Health Insurance Board (Board). The State Employees' Insurance Fund (SEIF) was established in 1965 under the provisions of Act 833 of the Legislature to provide health insurance benefits for employees and retired employees of the State of Alabama. In addition, The *Code of Alabama, Section 36-36-1*, established the Alabama Retired State Employees' Health Care Trust (Trust) for the purpose of accumulating assets to fund retiree benefits. The

Trust is a single-employer plan. The Trust issues financial statements that may be obtained by writing to:

State Employees' Insurance Board
P.O. Box 304900
Montgomery, AL 36130

The *Code of Alabama 1975, Section 36-29-7*, authorizes the employer contributions to the plan. Each year, the Legislature sets the appropriation in the annual appropriation bill required to be paid by employers on behalf of each active member. A portion of the premium is used to assist in funding retiree benefits. The fiscal year 2009 rate set by the State Employees' Insurance Board was $775 per active member per month.

The *Code of Alabama, Section 36-29-19.7* authorizes the retiree contributions to the plan. Required monthly contribution rates for FY2009 were as follows (the following amounts are not in thousands):

Required Member Rates
-Individual Coverage/Non-Medicare Eligible – $171
-Family Coverage/Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – $373
-Family Coverage/Non-Medicare Eligible Retired Member and Dependent Medicare Eligible – $292
-Individual Coverage/Medicare Eligible Retired Member – $0
-Family Coverage/Medicare Eligible Retired Member and Non-Medicare Eligible Dependents(s) – $202
-Family Coverage/Medicare Eligible Retired Member and Dependent Medicare Eligible – $121
-For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

Surviving Spouse Rates
-Surviving Spouse Non-Medicare Eligible – $292
-Surviving Spouse Non-Medicare Eligible and Dependent Non-Medicare Eligible – $494
-Surviving Spouse Non-Medicare Eligible and Dependent Medicare Eligible – $413
-Surviving Spouse Medicare Eligible – $121
-Surviving Spouse Medicare Eligible and Dependent Non-Medicare Eligible – $323
-Surviving Spouse Medicare Eligible and Dependent Medicare Eligible – $242

RSA employees participate in the State Employees' Health Insurance Plan, which is a single employer health insurance plan for the State of Alabama. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit. The following table details the annual required contributions and the percentage contributed. Information will be presented prospectively until the required three year disclosure is met (amounts in thousands).

	Fiscal Year Ended	Annual Required Contributions	Percentage Contributed
TRS	2009	$ 745	29.40
	2008	1,259	17.30
ERS	2009	796	29.10
	2008	1,259	18.10
JRF	2009	11	29.30
	2008	18	18.30

10) PENSION PLAN FOR RSA EMPLOYEES

A portion of the RSA employees participates in the TRS pension plan, which is a cost sharing plan, and a portion of the RSA employees participates in the ERS pension plan, which is an agent multiple-employer pension plan. As a component unit, RSA employees participating in the ERS pension plan are valued with all other State of Alabama employees, and therefore, report under the requirements of a cost sharing unit.

Contributions were made to each plan in accordance with actuarially determined contribution requirements.
A schedule of Employer Contributions is shown below (amounts in thousands):

	Fiscal Year Ended	Annual Required Contributions	Percentage Contributed
TRS	2009	$ 1,215	100
	2008	1,060	100
	2007	739	100
ERS	2009	976	100
	2008	809	100
	2007	558	100

11) RELATED PARTY TRANSACTIONS

The TRS and ERS jointly own office buildings in Montgomery and Mobile and lease office space to agencies of the State of Alabama. These agencies are obligated to the TRS and ERS to lease space for varying terms through the year 2028. Rental payments and other agreed upon payments (reported as investment income) from leases with state agencies totaled $24,599,000 during the 2009 fiscal year.

(Dollar Amounts in Thousands)

1) CONTRIBUTIONS

Contributions were made in accordance with actuarially determined contribution requirements. The employer cost rate expressed as a percent of payroll is determined annually by reviewing a variety of factors including benefits promised, member contributions, investment earnings, mortality, and withdrawal experience.

The employer cost rates for the fiscal year 2009-2010 are 12.51% for the TRS, 11.94% for the ERS - State Employees, 30.57% for the ERS - State Police and 24.20% for the JRF. Local agency rates differ for each agency.

2) ANALYSIS OF FUNDING PROGRESS

Analysis of the dollar amounts of the actuarial value of assets, the actuarial accrued liability, and the unfunded actuarial accrued liability in isolation may be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability (assets to liabilities percentage) provides one indication of the respective retirement system's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the respective system is becoming financially stronger or weaker. Generally, the strength of a retirement system is considered to increase as the assets to liabilities percentage increases. Trends in the actuarial accrued liability and the annual covered payroll are affected by inflation. Expressing the unfunded accrued liability as a percentage of annual covered payroll (liabilities to payroll percentage) approximately adjusts for the effects of inflation and aids analysis of the respective retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the strength of a retirement system is considered to increase as the liabilities to payroll percentage decreases.

(Dollar Amounts in Thousands)

The following schedules provide information concerning funding progress, employer contributions, and actuarial assumptions:

SCHEDULE OF FUNDING PROGRESS

	Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Percentage Funded (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll ((B-A)/C)
TRS							
	9/30/2008	$ 20,812,477	$ 26,804,117	$ 5,991,640	77.6	$ 6,294,341	95.2
**	9/30/2007	20,650,916	25,971,534	5,320,618	79.5	6,310,616	84.3
	9/30/2006	19,821,133	23,945,100	4,123,967	82.8	5,458,443	75.6
*	9/30/2005	19,248,207	23,027,338	3,779,131	83.6	5,326,408	71.0
	9/30/2004	18,704,009	20,886,190	2,182,181	89.6	4,846,677	45.0
	6/30/2003	18,110,470	19,357,735	1,247,265	93.6	4,632,611	26.9
ERS							
	9/30/2008	9,905,766	13,078,687	3,172,921	75.7	3,553,330	89.3
	9/30/2007	9,770,897	12,370,342	2,599,445	79.0	3,389,156	76.7
	9/30/2006	9,287,531	11,457,564	2,170,033	81.1	3,070,146	70.7
	9/30/2005	8,935,358	10,634,976	1,699,618	84.0	2,982,122	57.0
	9/30/2004	8,563,945	9,546,478	982,533	89.7	2,702,393	36.4
	9/30/2003	8,312,500	9,124,279	811,779	91.1	2,677,025	30.3
JRF							
	9/30/2008	259,071	323,428	64,357	80.1	41,167	156.3
	9/30/2007	265,189	315,941	50,752	83.9	41,318	122.8
	9/30/2006	260,664	301,592	40,928	86.4	39,185	104.4
	9/30/2005	256,091	299,664	43,573	85.5	40,144	108.5
	9/30/2004	251,844	293,055	41,211	85.9	39,419	104.5
	9/30/2003	247,011	285,123	38,112	86.6	39,742	95.9

** Covered payroll includes the pay increase granted by Act 2007 -296.

* Covered payroll includes the pay increase granted by Act 2005 -174.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Fiscal Year Ended	Annual Required Contribution	Percentage Contributed
TRS		
9/30/2009	$ 753,518	100
9/30/2008	729,995	100
9/30/2007	540,847	100
9/30/2006	434,195	100
9/30/2005	347,862	100
9/30/2004	312,474	100
ERS		
9/30/2009	451,139	100
9/30/2008	329,339	100
9/30/2007	277,254	100
9/30/2006	241,750	100
9/30/2005	195,846	100
9/30/2004	170,713	100
JRF		
9/30/2009	10,326	100
9/30/2008	9,880	100
9/30/2007	9,307	100
9/30/2006	8,916	100
9/30/2005	8,943	100
9/30/2004	8,994	100

Financial Section

Schedule of Administrative Expenses
For the Fiscal Year Ended September 30, 2009

(Amounts in Thousands)

	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Personal Services:				
Salaries	$ 5,892	$ 5,424	$ 418	$ 11,734
Employee Fringe Benefits	2,065	1,980	89	4,134
Total Personal Services	7,957	7,404	507	15,868
Professional Services:				
Actuarial	98	269	20	387
Accounting and Auditing	49	33	13	95
Information Technology	329	171	-	500
Education & Training	41	27	-	68
Mailing Services	172	102	-	274
Legal Services	-	6	-	6
Personnel Services	64	-	-	64
Other Professional Services and Fees	42	26	-	68
Total Professional Services	795	634	33	1,462
Communications and Travel:				
Telecommunications	68	48	-	116
Internet Access	32	36	-	68
Postage	770	652	-	1,422
Travel	87	54	-	141
Total Communications and Travel	957	790	-	1,747
Rentals:				
Office Space	211	99	10	320
Equipment Leasing	27	33	-	60
Total Rentals	238	132	10	380
Miscellaneous:				
Supplies	1,016	425	2	1,443
Maintenance	42	28	-	70
Total Miscellaneous	1,058	453	2	1,513
Total Administrative Expenses	**$ 11,005**	**$ 9,413**	**$ 552**	**$ 20,970**

Financial Section

Schedule of Investment Expenses

For the Fiscal Year Ended September 30, 2009

(Amounts in Thousands)

	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Investment Activity				
Investment Management Fees:				
Salaries and Benefits	$ 4,276	$ 1,992	$ -	$ 6,268
Dues, Subscriptions and Supplies	423	294	-	717
Travel	14	1	-	15
Professional Services:				
Investment Advisor	60	30	-	90
Investment Custodian	166	66	11	243
Real Estate Appraisal	480	268	-	748
Total Investment Activity Expenses	5,419	2,651	11	8,081
Securities Lending Activity				
Securities Lending Borrower Rebates	6,685	3,070	119	9,874
Securities Lending Management Fees	4,412	1,994	69	6,475
Total Securities Lending Activity Expenses	11,097	5,064	188	16,349
Total Investment Expenses	**$ 16,516**	**$ 7,715**	**$ 199**	**$ 24,430**

Financial Section

Schedule of Professional/Consultant Fees

For the Fiscal Year Ended September 30, 2009

(Amounts in Thousands)

Professional/Consultant	Nature of Service	Teachers' Retirement System	Employees' Retirement System	Judicial Retirement Fund	Totals
Cavanaugh MacDonald	Actuary	$ 98	$ 269	$ 20	$ 387
Carr, Riggs & Ingram	Auditor	49	33	13	95
Action in Mailing Inc.	Mail	106	69	-	175
VR Election Services	Mail	49	-	-	49
State Personnel Department	Personnel	64	-	-	64
Fine & Geddie	Consultant	50	-	-	50
Alabama Dept of Finance	Information Technology	18	51	-	69
Auburn Montgomery	Information Technology	289	157	-	446
Various	Other	72	55	-	127
Total Professional/Consultant Fees-Admin Services		**795**	**634**	**33**	**1,462**
Regions Bank	Investment Advisor	60	30	-	90
State Street Bank & Trust Co.	Investment Custodial	166	66	11	243
Pearson Realty Services	Real Estate Appraisor	168	112	-	280
Houlihan, Lokey, Zukin Fin. Advisors	Investment Appraisor	312	156	-	468
Total Professional/Consultant Fees-Investment Services		**706**	**364**	**11**	**1,081**
Total Professional/Consultant Fees		**$ 1,501**	**$ 998**	**$ 44**	**$ 2,543**