Public Employees' Individual Retirement Account Fund

(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2011

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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, 2011, 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 2010 financial statements and, in our report dated January 28, 2011, 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 2011 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, 2011, 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 through 4 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.

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

January 31, 2012
Montgomery, Alabama

Public Employees' Individual Retirement Account Fund (PEIRAF)
Management's Discussion and Analysis

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, 2011, respectively. For more detailed information, please refer to the financial statements, including the Notes to the Financial Statements.

Overview of the Financial Statements

The financial statements of the PEIRAF include the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets. The Notes to the Financial Statements are also included in this report and are considered an integral part of the financial statements.

The financial statements are prepared using the economic resources measurement focus and the 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.

The *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 are reduced by liabilities resulting in the net assets that are held in trust for PEIRAF's members as of the fiscal year-end.

The Statement of Changes in Fiduciary Net Assets reports all of the additions and deductions in the fiscal year for the PEIRAF plan. Additions are primarily comprised of investment income. Deductions primarily consist of distributions made by members during 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* are considered an integral part of the financial statements and should be read in conjunction with the financial statements. The Notes include a description of the Plan, the accounting policies used by the Plan, and notes and disclosures regarding the PEIRAF's investments.

Comparative financial statements for the years ending September 30, 2011 and September 30, 2010 have been included below.

Summary Comparative Statement of Fiduciary Net Assets
As of September 30, 2011 and 2010

	2011	2010	Variance	% Increase (Decrease)
Assets				
Cash	$ 1	$ 420	$ (419)	(99.76)
Interest Receivable	839,161	922,750	(83,589)	(9.06)
Investments	88,052,827	86,619,501	1,433,326	1.65
Invested Securities Lending Collateral	12,614,904	13,689,433	(1,074,529)	(7.85)
Total Assets	101,506,893	101,232,104	274,789	0.27
Liabilities				
Investment Purchases Payable	369,000	-	369,000	100.00
Securities Lending Collateral	12,614,904	13,689,433	(1,074,529)	(7.85)
Total Liabilities	12,983,904	13,689,433	(705,529)	(5.15)
Net Assets Held in Trust for Deferred Compensation Benefits	**$ 88,522,989**	**$ 87,542,671**	**$ 980,318**	**1.12**

Summary Comparative Statement of Changes in Fiduciary Net Assets
For the Fiscal Years Ended September 30, 2011 and 2010

	2011	2010	Variance	% Increase (Decrease)
Additions				
Interest Income	$ 3,818,208	$ 4,055,832	$ (237,624)	(5.86)
Net Increase in Fair Value of Investments	265,400	3,517,679	(3,252,279)	(92.46)
Net Income from Securities Lending Activities	67,281	39,852	27,429	68.83
Total Additions	**4,150,889**	**7,613,363**	**(3,462,474)**	(45.48)
Deductions				
Normal Distributions	3,170,571	2,897,618	272,953	9.42
Total Deductions	**3,170,571**	**2,897,618**	**272,953**	9.42
Increase in Fiduciary Net Assets	**980,318**	**4,715,745**	**(3,735,427)**	(79.21)
Net Assets Held in Trust for Deferred Compensation Benefits at Beginning of Year	87,542,671	82,826,926	4,715,745	5.69
Net Assets Held in Trust for Deferred Compensation Benefits at End of Year	**$ 88,522,989**	**$ 87,542,671**	**$ 980,318**	1.12

Financial Highlights

- The Public Employees' Individual Retirement Account Fund (PEIRAF) invests in domestic fixed securities. As of September 30, 2011, the highest percentage of the total fair market value of investments was in corporate bonds (41%) and U.S. government guaranteed securities (24%).

- The PEIRAF's annual rate of return on investments as calculated by State Street Bank and Trust Company, the Fund's investment custodian, was 4.78 % for fiscal year 2011.

- During the fiscal year, net securities lending income increased by 68.83%. This was primarily the result of a 10% increase in securities lending revenue and a 68.48% decrease in borrower rebates, a component of securities lending expense. The increase in securities lending revenue was driven by the demand for securities lending throughout the market and an effort by the State Street lending team to lock in some longer term loans and to focus more on the fee based non-cash collateral loans. Borrower rebates declined due to a decline in short-term interest rates and an aforementioned shift to non-cash collateral over cash collateral where the borrower rebates are derived. The other component of securities lending expense, management fee expense, increased 39% this fiscal year as a direct result of the increase in securities lending revenue.

- During the fiscal year, member distributions increased by 9.42% compared to the previous fiscal year. This change is largely a result of an increase in the amount of rollover distributions made by members.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
Statement of Fiduciary Net Assets
September 30, 2011 with comparative amounts at September 30, 2010

	2011	2010
Assets		
Cash	**$ 1**	$ 420
Interest Receivable	**839,161**	922,750
Investments, at Fair Value (Note 2)		
Commercial Paper	**3,999,227**	1,999,511
Money Market and Mutual Funds	**5,357,204**	4,676,390
U. S. Government Guaranteed Bonds	**20,761,913**	20,237,591
U. S. Agency Securities	**7,814,917**	10,708,516
Mortgage-backed Securities	**11,566,538**	8,238,156
Corporate Bonds	**35,916,228**	36,843,451
Private Placements	**2,602,380**	3,908,563
Preferred Stocks	**34,420**	7,323
Total Investments	**88,052,827**	86,619,501
Invested Securities Lending Collateral	**12,614,904**	13,689,433
Total Assets	**101,506,893**	101,232,104
Liabilities		
Investment Purchases Payable	**369,000**	-
Securities Lending Collateral	**12,614,904**	13,689,433
Total Liabilities	**12,983,904**	13,689,433
Net Assets Held in Trust for PEIRAF Benefits	**$ 88,522,989**	$ 87,542,671

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, 2011 with comparative amounts shown for 2010

	2011	2010
Additions		
Investment Income (Note 2)		
From Investing Activities		
Interest and Dividends	**$ 3,818,208**	$ 4,055,832
Net Increase in Fair Value of Investments	**265,400**	3,517,679
Total Investment Income from Investing Activities	**4,083,608**	7,573,511
From Securities Lending Activities		
Securities Lending Income	**102,676**	93,631
Less Securities Lending Expenses:		
Borrower Rebates	**11,564**	36,690
Management Fees	**23,831**	17,089
Total Securities Lending Expenses	**35,395**	53,779
Income from Securities Lending Activities, Net	**67,281**	39,852
Net Investment Income	**4,150,889**	7,613,363
Total Additions	**4,150,889**	7,613,363
Deductions		
Normal Distributions	**3,170,571**	2,897,618
Total Deductions	**3,170,571**	2,897,618
Change in Net Assets	**980,318**	4,715,745
Net Assets Held in Trust for PEIRAF Benefits:		
Beginning of Year	**87,542,671**	82,826,926
End of Year	**$ 88,522,989**	$ 87,542,671

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, 2011 there were 1,989 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 GASB. Subsequent events were evaluated by management through the date the financial statements were issued.

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 except money market funds with a remaining maturity of one year or less at the time of purchase which are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sales price at current exchange rates. Mortgage-backed securities are reported based on estimated 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. The income posted to member accounts was at an annual rate of 4.86 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

Distributions to members can be in the form of a lump-sum distribution, a partial distribution, monthly distributions, or a rollover distribution. Upon attaining the age of 59 ½, a member may receive monthly distributions 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.

I. 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.

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 fluctuates 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.

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 except for securities in the Securities Lending Program.

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 invests in domestic fixed securities.

A. Investment Risks, Continued

The following table provides information as of September 30, 2011, concerning the fair value of investments and interest rate risk:

INVESTMENTS

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						
Money Market Funds	$ 5,357,204	$ -	$ -	$ -	$ 5,357,204	$ 5,357,204
Commercial Paper	3,999,227	-	-	-	3,999,227	3,999,227
U.S. Agency	-	3,288,508	4,044,585	481,824	7,814,917	7,179,655
U.S. Government Guaranteed	-	5,686,002	12,633,071	2,442,840	20,761,913	19,004,517
Corporate Bonds	2,340,925	12,458,104	14,181,324	6,935,875	35,916,228	34,118,545
Private Placements	-	1,120,000	-	1,482,380	2,602,380	3,937,852
GNMAs	-	3,371	-	755,254	758,625	698,461
Collateralized Mortgage Obligations	-	-	313,855	10,494,058	10,807,913	10,491,343
Total Domestic Fixed Maturity	$ 11,697,356	$ 22,555,985	$ 31,172,835	$ 22,592,231	88,018,407	84,786,804
Equities						
Domestic					34,420	400,050
Total Investments					**$ 88,052,827**	**$ 85,186,854**

A. Investment Risks, Continued

The following table provides information as of September 30, 2011, 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	$ 16,608,344	$ 15,891,226	18.87 %
Aa1	1,459,889	1,238,538	1.66
Aa2	2,151,082	2,008,402	2.44
Aa3	2,163,462	1,904,553	2.46
AA (SP)	1,356,504	1,356,094	1.54
P-1	5,357,204	5,357,204	6.09
P-2	3,999,227	3,999,227	4.54
A1	2,659,743	2,607,919	3.02
A2	3,733,729	3,420,064	4.24
A3	4,232,743	3,787,844	4.81
Baa1	8,332,642	7,674,986	9.47
Baa2	6,383,065	5,890,529	7.25
Baa3	2,413,491	2,350,804	2.74
BBB (SP)	160,835	141,477	0.18
Ba1	1,946,463	1,892,377	2.21
Ba2	162,800	159,214	0.18
Ba3	736,324	804,491	0.84
Caa2	450,727	474,449	0.51
U.S. Government Guaranteed Securities	21,520,538	19,702,978	24.46
Not Rated	2,189,595	4,124,428	2.49
Totals	$ 88,018,407	$ 84,786,804	100.00 %

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

‡ The total fair market value of fixed maturities includes private placement securities in the amount of $2,602,380.

B. Concentration of Investments

As of September 30, 2011, the PEIRAF owned debt securities of Federal Home Mortgage Corporation and Federal National Mortgage Association, which represented approximately 6.99% and 9.41%, 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 PEIRAF's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF are loaned to borrowers approved by the PEIRAF for collateral that will be returned for the same security in the future. Approved borrowers of securities provide acceptable collateral in the form of cash (U. S. and foreign currency), and any other assets permissible under Rule 15c3-3 under the Exchange Act of 1934, U. S. and non U. S. equities 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 (depending on the nature of the loaned securities and the collateral received) a value of 102% or 105% of the fair value of the loaned securities, or such other value, but 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 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 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). Effective December 3, 2010, the collateral fund was restructured, separating the collateral fund into two pools, a liquidity pool and a duration pool. This split allows greater flexibility in managing the available liquidity in the investment in the fund and the outstanding balance of securities on loan.

The following describes the QDF's guidelines. The QDF's Investment Manager shall maintain the dollar-weighted average maturity of QDF in a manner that the Investment Manager believes is appropriate to the objective of QDF; provided, that (i) in no event shall any eligible security be acquired with a remaining legal final maturity (i.e., the date on which principal must be repaid) of greater than 18 months, (ii) the Investment Manager shall endeavor to maintain a dollar-weighted average maturity of the QDF not to exceed 75 calendar days and (iii) the Investment Manager shall endeavor to maintain a dollar weighted average maturity to final of Global Securities Lending Trust (GSLT) not to exceed 180 calendar days. At the time of purchase (i) all eligible securities with maturities of 13 months or less shall (x) be rated at least A1, P1 or F1 by at least any two of the following nationally recognized statistical rating organizations: Standard & Poor's Corp. ("S&P"), Moody's Investor Services, Inc. ("Moody's"), or Fitch, Inc. ("Fitch"), or (y) be determined by the Investment Manager to be of comparable quality and (ii) all eligible securities with maturities in excess of 13 months shall (x) be rated at least A-, A3 or A- by at least any two of S & P, Moody's or Fitch, or (y) be determined by the Investment Manager to be of comparable quality. The QDF may invest up to 10% of its assets at the time of purchase in commingled vehicles managed by the Trustee or its affiliates that conform to the Investment Policy Guidelines. The QDF duration pool includes all asset backed securities (regardless of maturity) and securities of any type with a remaining maturity of 91 days or greater. Each QDF investor as of December 3, 2010 owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The GSLT duration pool will not make additional investments.

C. Securities Lending Program, Continued

As of September 30, 2011, the average term of the loans was 68 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.

At September 30, 2011, the fair value of the securities on loan was $26,897,990. The fair value of the collateral pledged by the borrowers was $27,531,971. 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, 2011. 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. Tri party collateral is held by a third party bank in the name of the custodial agent. State Street, as custodial agent, is authorized to request a third party bank to undertake certain custodial functions in connection with holding of the collateral provided by a borrower.

The following table provides information as of September 30, 2011, concerning securities lent:

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

Type of Investment Lent		**Amounts**
For Cash Collateral		
Domestic Fixed Maturities	$	12,402,522
Total Lent for Cash Collateral		12,402,522
For Non-cash Collateral		
Domestic Fixed Maturities		14,495,468
Total Lent for Non-cash Collateral		14,495,468
Total Securities Lent	$	26,897,990
Type of Collateral Received		
Cash Collateral - Invested in State Street Quality D Fund	$	12,614,904
Non-cash Collateral		
For Lent Domestic Fixed Maturities		14,917,067
Total Non-Cash Collateral		14,917,067
Total Collateral Received	$	27,531,971

D. Mortgage-backed Securities

As of September 30, 2011, 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.