

Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan
(A Component Unit of the State of Alabama)

FINANCIAL STATEMENTS

For the Fiscal Year Ended September 30, 2015

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Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan
Notes to the Financial Statements
For the Fiscal Year Ended September 30, 2015

D. Mortgage-backed Securities

As of September 30, 2015, the PEIRAF/DCP had investments in mortgage-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.

3) Future Accounting Pronouncements

GASB issued Statement No. 72, *Fair Value Measurement and Application*, in February 2015 and is effective for financial statements for periods beginning after June 15, 2015. GASB Statement No. 72 defines fair value, describes how fair value should be measured, what assets and liabilities should be measured at fair value, and the required disclosures related to fair value in the notes to the financial statements. Under GASB Statement No. 72, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. Before the issuance of GASB Statement No. 72, state and local governments have been required to disclose how they arrived at their measures of fair value if not based on quoted market prices. Under the new guidance, those disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

The PEIRAF/DCP will be subject to the provisions of GASB Statement No. 72 beginning with the fiscal year ending September 30, 2016.