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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INDEPENDENT AUDITORS' REPORT

The Board of Control
Public Employees' Individual Retirement
Account Fund/Deferred Compensation Plan

Report on the Financial Statements

We have audited the accompanying financial statements of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (a component unit of the State of Alabama), as of and for the year ended September 30, 2015, and the related notes to the financial statements, which comprise the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's basic financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the net position of the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan, as of September 30, 2015, and the changes in net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior-Year Comparative Information
The financial statements include partial prior-year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles Generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan's financial statements for the year ended September 30, 2014, from which such partial information was derived.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Carr, Riggs & Ingram, LLC

January 31, 2016
Montgomery, Alabama

Public Employees' Individual Retirement Account/Deferred Compensation Plan
Management's Discussion and Analysis
September 30, 2015

The Public Employees' Individual Retirement Account/Deferred Compensation Plan (PEIRAF/DCP) operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States. The following discussion provides an overview of the financial position and results of operation for the PEIRAF/DCP as of and for the fiscal year ended September 30, 2015. 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/DCP include the *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position*. 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 financial statements are prepared under the accrual basis of accounting using the economic resources measurement focus. 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 Position* includes all assets and liabilities of the PEIRAF/DCP and provides a snapshot of the financial position of the PEIRAF/DCP as of the fiscal year-end. Assets are reduced by liabilities resulting in the fiduciary net position restricted for the PEIRAF/DCP's members as of the fiscal year-end.

The *Statement of Changes in Fiduciary Net Position* reports all of the additions and deductions in the fiscal year for the PEIRAF/DCP. Additions are primarily comprised of member contributions and investment income. Deductions primarily consist of distributions made to participants during the fiscal year. The change in fiduciary net position plus the beginning fiduciary net position results in the fiduciary net position restricted for members at fiscal year-end.

The *Notes to the Financial Statements* include a description of the PEIRAF/DCP, a summary of significant accounting policies, and notes and disclosures regarding the PEIRAF/DCP's investments.

Comparative financial statements for the fiscal years ended September 30, 2015, and September 30, 2014, have been included below.

Summary Comparative Statement of Fiduciary Net Position
As of September 30, 2015 and 2014

	2015	2014	Variance	% Increase/ (Decrease)
Assets				
Cash	$ 5	$ 51	$ (46)	(90.20)
Interest and Dividends Receivable	10,491,464	9,797,893	693,571	7.08
Investments	1,830,563,472	1,782,728,270	47,835,202	2.68
Invested Securities Lending Collateral	124,828,997	108,608,018	16,220,979	14.94
Total Assets	**1,965,883,938**	**1,901,134,232**	**64,749,706**	3.41
Liabilities				
Accounts Payable	220	-	220	100.00
Investment Purchases Payable	6,818,261	2,245,073	4,573,188	203.70
Securities Lending Collateral	124,828,997	108,608,018	16,220,979	14.94
Total Liabilities	**131,647,478**	**110,853,091**	**20,794,387**	18.76
Net Position Restricted for Deferred Compensation Benefits	**$ 1,834,236,460**	**$ 1,790,281,141**	**$ 43,955,319**	2.46

Summary Comparative Statement of Changes in Fiduciary Net Position
For the Fiscal Years Ended September 30, 2015 and 2014

	2015	2014	Variance	% Increase/ (Decrease)
Additions				
Member Contributions	$ 142,674,343	$ 141,903,626	$ 770,717	0.54
Interest & Dividend Income	54,321,044	53,136,165	1,184,879	2.23
Net Change in Fair Value of Investments	(21,288,721)	72,815,095	(94,103,816)	(129.24)
Net Income from Securities Lending Activities	1,227,619	1,448,763	(221,144)	(15.26)
Total Additions	**176,934,285**	**269,303,649**	**(92,369,364)**	(34.30)
Deductions				
Normal Distributions	132,548,655	142,018,196	(9,469,541)	(6.67)
Emergency Withdrawals	430,311	470,207	(39,896)	(8.48)
Total Deductions	**132,978,966**	**142,488,403**	**(9,509,437)**	(6.67)
Change in Net Position	**43,955,319**	**126,815,246**	**(82,859,927)**	(65.34)
Net Position Restricted for Deferred Compensation Benefits at Beginning of Year	**1,790,281,141**	**1,663,465,895**	**126,815,246**	7.62
Net Position Restricted for Deferred Compensation Benefits at End of Year	**$ 1,834,236,460**	**$ 1,790,281,141**	**$ 43,955,319**	2.46

Financial Highlights

- The PEIRAF/DCP's annual rate of return on investment options as calculated by State Street Bank and Trust Company, the PEIRAF/DCP's investment custodian, was 0.04% for the short-term investment fund, 2.82% for the bond fund, and (0.61)% for the equity fund.

- Member contributions increased slightly by 0.54% during the fiscal year as a result of increases in the amount of salary deferrals received during the year.

- Member distributions decreased by 6.67% as a result of decreases in transfers out to other Section 457 plans.

- During March 2015, the PEIRAF/DCP began offering a cash equivalent investment option.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Fiduciary Net Position
September 30, 2015 with comparative amounts at September 30, 2014

	2015	2014
Assets		
Cash	**$ 5**	$ 51
Interest and Dividends Receivable	**10,491,464**	9,797,893
Investments, at Fair Value (Note 2)		
Commercial Paper	**36,994,033**	90,489,060
Money Market Funds	**74,265,930**	79,869,345
U. S. Government Guaranteed Bonds	**370,702,254**	335,395,570
U. S. Agency Securities	**86,754,968**	91,685,825
Mortgage-backed Securities	**202,917,463**	182,885,999
Corporate Bonds	**551,892,527**	509,854,511
Private Placements	**4,672,272**	5,745,096
Common and Preferred Stocks	**502,364,025**	486,802,864
Total Investments	**1,830,563,472**	1,782,728,270
Invested Securities Lending Collateral	**124,828,997**	108,608,018
Total Assets	**1,965,883,938**	1,901,134,232
Liabilities		
Accounts Payable	**220**	-
Investment Purchases Payable	**6,818,261**	2,245,073
Securities Lending Collateral	**124,828,997**	108,608,018
Total Liabilities	**131,647,478**	110,853,091
Net Position Restricted for Deferred Compensation Benefits	**$ 1,834,236,460**	$ 1,790,281,141

See accompanying Notes to the Financial Statements.

PUBLIC EMPLOYEES' INDIVIDUAL RETIREMENT ACCOUNT FUND
DEFERRED COMPENSATION PLAN
Statement of Changes in Fiduciary Net Position
For the Fiscal Year Ended September 30, 2015 with comparative amounts shown for 2014

	2015	2014
Additions		
Member Contributions	**$ 142,674,343**	$ 141,903,626
Investment Income (Note 2)		
From Investing Activities		
Interest and Dividends	**54,321,044**	53,136,165
Net (Decrease)/Increase in Fair Value of Investments	**(21,288,721)**	72,815,095
Total Investment Income from Investing Activities	**33,032,323**	125,951,260
From Securities Lending Activities		
Securities Lending Income	**1,712,237**	2,076,508
Less Securities Lending Expenses:		
Borrower Rebates	**64,647**	16,301
Management Fees	**419,971**	611,444
Total Securities Lending Expenses	**484,618**	627,745
Income from Securities Lending Activities, Net	**1,227,619**	1,448,763
Net Investment Income	**34,259,942**	127,400,023
Total Additions	**176,934,285**	269,303,649
Deductions		
Normal Distributions	**132,548,655**	142,018,196
Emergency Withdrawals	**430,311**	470,207
Total Deductions	**132,978,966**	142,488,403
Change in Net Position	**43,955,319**	126,815,246
Net Position Restricted for Deferred Compensation Benefits:		
Beginning of Year	**1,790,281,141**	1,663,465,895
End of Year	**$ 1,834,236,460**	$ 1,790,281,141

See accompanying Notes to the Financial Statements.

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

1) Organization and Summary of Significant Accounting Policies

A. Plan Description

On November 26, 1986, the Public Employees' Individual Retirement Account Fund (PEIRAF) Board of Control established the Public Employees' Individual Retirement Account Fund/Deferred Compensation Plan (PEIRAF/DCP) under the provisions of the *Code of Alabama 1975, Title 36, Chapter 27A* (Act 1986-685 of the Alabama Legislature) to afford the PEIRAF members the greatest possible tax benefits under the federal income tax laws. The PEIRAF/DCP operates as a deferred compensation plan as defined in Section 457 of the Internal Revenue Code of the United States and began receiving deferred portions of employees' income on January 1, 1987. The responsibility for the general administration and operation of the PEIRAF/DCP is vested in its Board of Control. In accordance with the Governmental Accounting Standards Board (GASB) pronouncements, the PEIRAF/DCP is considered a component unit of the State of Alabama (State) and is included in the State's *Comprehensive Annual Financial Report*.

Effective January 1, 2015, each member may defer a maximum of $18,000 per calendar year. Any member, age 50 and older, may make additional deferrals of $6,000 for calendar year 2015. A member may "catch-up" unused eligible amounts for one to three years if the member did not defer the maximum deferral amount in the years beginning with 1986 and was eligible to participate. In order to make these additional deferrals ("catch-up" deferrals), a member must be within three years of normal retirement and be eligible for an unreduced pension.

PEIRAF/DCP investments are participant-directed in either a short-term investment fund, an S&P 500 Index Fund, or fixed income investments such as corporate bonds, U.S. agency obligations, government national mortgage association securities, and commercial paper.

All members of the Teachers' Retirement System of Alabama (TRS), the Employees' Retirement System of Alabama (ERS), the Judicial Retirement Fund (JRF), and employees of employers eligible to participate in the ERS pursuant to provisions of the *Code of Alabama 1975, Section 36-27-6*, and public officials and employees of the State of Alabama or any political subdivision thereof (collectively, participating employers) are members of the PEIRAF/DCP and are eligible to participate. As of September 30, 2015, there were 35,742 participants.

Effective October 1, 1997, the PEIRAF/DCP adopted Trust status in compliance with The Small Business Job Protection Act of 1996. Deferred income and investment earnings are held in trust for the exclusive benefit of the PEIRAF/DCP's participants and their beneficiaries.

B. Cash

Cash consists of deposits held by the State Treasurer in the PEIRAF/DCP's name. Deposits are entirely insured by the Federal Deposit Insurance Corporation 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.

C. Basis of Accounting

The PEIRAF/DCP is a private purpose trust fund that operates under the accrual basis of accounting using the economic resources measurement focus. 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 ERS, in bonds, mortgage-backed securities, common and preferred stocks, 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 investments are carried at fair value. Short-term investments 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 independent appraisal is performed to determine the fair value of the private placements.

E. Income Distribution

All investment income earned on the accrual basis is posted monthly to member accounts based on average daily balances. Income was posted to member accounts at an annual rate of 0.07% for the short-term investment option. Income was posted to member accounts at an annual rate of 2.91% for the fixed investment option. Income was posted to member accounts at an annual rate of (0.61) % for the stock investment option.

F. Administrative Costs

Pursuant to the provisions of the *Code of Alabama 1975, Section 36-27A*-7 (Act 2001-1061 of the Alabama Legislature), the administrative costs incurred directly for the operation of the PEIRAF/DCP are provided from the expense funds of the TRS and the ERS.

G. Distribution Policy

An employee may retire or terminate service and receive a lump-sum distribution, a partial distribution followed by equal monthly payments, or a monthly disbursement. The Internal Revenue Code and Regulations require that distributions to the member begin no later than April 1 of the calendar year following the calendar year in which the employee attains age 70-1/2 or retires, whichever is later. Generally, distributions may begin at any age following retirement or separation of service. Normal distributions include monthly benefit disbursements, lump-sum distributions upon retirement or separation of service, and rollovers to other qualified plans. Member withdrawals include emergency disbursements.

H. Comparative Statements

The basic financial statements include the prior fiscal year *Statement of Fiduciary Net Position* and the *Statement of Changes in Fiduciary Net Position* for comparative purposes only. Prior fiscal year note disclosures are not included. Therefore, the prior fiscal year basic financial statement presentation does not meet the minimum level of detail required for a presentation in conformity with U.S. generally accepted accounting principles. Accordingly, the prior fiscal year statements should be read in conjunction with the PEIRAF/DCP's prior fiscal year financial report from which the prior fiscal year statements were derived.

I. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in 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, credit quality risk, and concentration of credit 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 – 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/DCP'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/DCP, 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/DCP's safekeeping agent holds all investments of the PEIRAF/DCP in the PEIRAF/DCP'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.

Concentration of Credit Risk – The distribution of investments between fixed maturity investments and the S & P index fund is determined by member elections.

A. Investment Risks, Continued

The following table provides information as of September 30, 2015, 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	$ 74,265,930	$ -	$ -	$ -	$ 74,265,930	$ 74,265,930
Commercial Paper	36,994,033	-	-	-	36,994,033	36,994,033
U.S. Agency	-	56,491,434	30,263,534	-	86,754,968	85,021,415
U.S. Government Guaranteed	-	144,427,514	191,601,790	34,672,950	370,702,254	360,868,297
Corporate Bonds	102,092,370	213,774,121	118,990,720	117,035,316	551,892,527	545,442,328
Private Placements	-	-	-	4,672,272	4,672,272	4,672,272
GNMAs	-	-	24,718	16,540,224	16,564,942	16,617,891
CMO	-	5,038,389	448,926	180,865,206	186,352,521	184,293,229
Total Domestic Fixed Maturity	$ 213,352,333	$ 419,731,458	$ 341,329,688	$ 353,785,968	1,328,199,447	1,308,175,395
Equities						
Preferred					12,308,594	11,251,000
Domestic					490,055,431	361,087,733
Total Equities					502,364,025	372,338,733
Total Investments					**$ 1,830,563,472**	**$ 1,680,514,128**

A. Investment Risks, Continued

The following table provides information as of September 30, 2015, concerning credit risk:

RATINGS OF FIXED MATURITIES

Moody's	Cost	Fair Value	Fair Value as a Percentage of Total
Aaa [1]	$ 643,303,446	$ 656,620,999	49.44
Aa1	50,638,636	50,456,052	3.80
Aa2	4,914,580	5,285,073	0.40
Aa3	5,483,525	6,462,068	0.49
P-1	74,265,930	74,265,930	5.59
P-2	36,994,033	36,994,033	2.79
A1	42,443,963	44,113,469	3.32
A2	25,610,274	26,475,807	1.99
A3	77,979,953	80,599,377	6.07
Baa1	100,123,842	101,601,730	7.65
Baa2	107,427,160	107,585,238	8.10
Baa3	58,448,611	56,367,559	4.24
Ba1	12,714,178	12,453,806	0.94
Ba2	10,261,665	10,277,645	0.77
Caa2	2,114,803	2,128,088	0.16
Not Rated [2]	55,450,796	56,512,572	4.25
Total Fixed Maturities	$ 1,308,175,395	$ 1,328,199,446	100.00

Standard & Poor's	Cost	Fair Value	Fair Value as a Percentage of Total
AA+ [1]	$ 670,568,777	$ 685,795,130	51.63
AA	42,781,120	42,367,036	3.19
AA-	19,318,858	20,252,066	1.53
A-1	74,265,930	74,265,930	5.59
A-2	36,994,033	36,994,033	2.79
A+	7,342,299	7,809,551	0.59
A	61,273,190	63,278,023	4.76
A-	77,823,526	80,643,894	6.07
BBB+	131,439,082	133,158,383	10.03
BBB	97,528,872	95,982,507	7.23
BBB-	53,087,815	51,954,001	3.91
BB+	3,878,963	4,411,990	0.33
BB	4,431,178	4,165,380	0.31
BB-	6,382,702	5,865,654	0.44
CCC-	2,114,803	2,128,088	0.16
Not Rated [2]	18,944,247	19,127,780	1.44
Total Fixed Maturities	$ 1,308,175,395	$ 1,328,199,446	100.00

[1] Includes securities guaranteed by the U.S. Government.

[2] Primarily consists of private placements.

B. Concentration of Investments

As of September 30, 2015, the PEIRAF/DCP owned debt securities of the Federal National Mortgage Association (Fannie Mae), which represented approximately, 8.72% of the total fair value of investments.

C. Securities Lending Program

The PEIRAF/DCP is authorized by the Board of Control to participate in a securities lending program. The PEIRAF/DCP's custodian, State Street Bank and Trust Company (State Street), administers the program. Certain securities from the PEIRAF/DCP are loaned to borrowers approved by the PEIRAF/DCP for collateral that will be returned for the same securities in the future. Approved borrowers provide acceptable collateral in the form of cash (U.S. dollar and foreign currency), U.S. and non U.S. equities, assets permissible under Rule 15c3-3 of the Exchange Act of 1934, and 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/DCP 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, 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/DCP 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 collateral fund is separated into two pools, a liquidity pool and a duration pool. The 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 for the liquidity pool: The QDF's Investment Manager shall maintain the dollar-weighted average maturity of the 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 QDF not to exceed 180 calendar days. Additionally, at the time of purchase, all eligible securities with maturities of 13 months or less shall be rated at least A1, P1, or F1 by at least 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 be determined by the Investment Manager to be of comparable quality. Additionally, all eligible securities with maturities in excess of 13 months shall be rated at least A-, A3, or A- by at least two of the following nationally recognized statistical rating organizations: S&P, Moody's, or Fitch or 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 following describes the QDF's guidelines for the duration pool: 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 owns a specified percentage interest in the duration pool which is redeemable only in kind, not in cash. The QDF duration pool will not make additional investments.

C. Securities Lending Program, Continued

As of September 30, 2015, the average loan term was 75 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.

The fair value of the securities on loan was $431,228,624, and the fair value of the collateral pledged by the borrowers was $455,809,383, as of September 30, 2015. Since the amounts owed by the PEIRAF/DCP exceeded the amounts the borrowers owed to the PEIRAF/DCP, there was no credit risk exposure as of September 30, 2015. Additionally, 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 fiscal year.

Investments purchased with cash collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. Securities pledged as collateral are held by the custodial agent, but not in the name of the PEIRAF/DCP. 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. State Street may instruct the third party bank to establish and maintain a borrower's account and a State Street account wherein all collateral including cash shall be maintained by the third party bank in accordance with the terms of the agreement.

The following table provides information as of September 30, 2015, concerning securities lent:

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

Type of Investment Lent	**Amounts**
For Cash Collateral	
Domestic Fixed Maturities	$ 39,115,683
Domestic Equity	83,900,749
Total Lent for Cash Collateral	123,016,432
For Non-cash Collateral	
Domestic Fixed Maturities	293,141,707
Domestic Equity	15,070,485
Total Lent for Non-cash Collateral	308,212,192
Total Securities Lent	$ 431,228,624
Type of Collateral Received	
Cash Collateral - Invested in State Street Quality D Fund	$ 124,828,997
Non-cash Collateral	
Domestic Fixed Securities	244,439,503
Domestic Equity Securities	28,550,598
International Fixed Maturities & Equity	
EURO	2,723,535
U.S. Dollar	55,266,750
Total Non-Cash Collateral	330,980,386
Total Collateral Received	$ 455,809,383

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.