

FINANCIAL STATEMENTS, MANAGEMENT'S
DISCUSSION AND ANALYSIS, AND
OTHER REPORT

State Board of Administration of Florida
Florida Retirement System (FRS) Investment Plan Trust Fund
Fiscal Years Ended June 30, 2015 and 2014
With Report of Independent Certified Public Accountants

Ernst & Young LLP



State Board of Administration
FRS Investment Plan Trust Fund

Financial Statements, Management's
Discussion and Analysis and
Other Report

Fiscal Years Ended June 30, 2015 and 2014

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Ernst & Young LLP
Suite 1700
390 North Orange Avenue
Orlando, FL 32801-1671

Tel: +1 407 872 6600
Fax: +1 407 872 6626
ey.com

Report of Independent Certified Public Accountants.

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System Investment Plan Trust Fund (the Trust) administered by the State Board of Administration (SBA) of Florida as trustee, as of and for the year ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust managed by the SBA as of June 30, 2015 and 2014, and the changes in financial position for the year then ended in conformity with U.S. generally accepted accounting principles.

Basis of Presentation

As discussed in Note 1 to the financial statements, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2015 and 2014, or their changes in financial position for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 and 16 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 which 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, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated November 6, 2015 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Trust's internal control over financial reporting and compliance.

Ernst & Young LLP

November 6, 2015

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2015 and 2014

Introduction

This section of the financial statements of the Florida Retirement System (FRS) Investment Plan Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2015 and 2014. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

As further described in Note 1 to the financial statements, the FRS Investment Plan (the Plan) is a defined contribution plan for eligible members of the Florida Retirement System who elect to participate in the Plan in lieu of participation in the FRS Pension Plan, a defined benefit plan.

The Plan is administered by the State Board of Administration of Florida (the SBA). The SBA has defined the roles and responsibilities of affected employers, the Division of Retirement within the Department of Management Services (DMS) and other service providers pertaining to the Plan. The Florida Legislature is responsible for setting contribution rates and providing statutory authority to the SBA for the administration of the Plan.

Contributions to the Plan are collected by DMS and transmitted to the SBA, which deposits them in the Trust. Aon Hewitt, the Plan Administrator contracted by the SBA, is responsible for the placement of member-directed trades among investment options offered by the Plan and maintaining records of individual member accounts. Members choose from a diverse offering of low-cost institutional and mutual fund investment options selected by the SBA. In addition, a Self-Directed Brokerage Account investment option was added in January 2014. (See Note 3 to the financial statements for more information.) Aon Hewitt records in each member's account all relevant contributions, withdrawals, fees, and the investment performance of the funds selected by the member. Benefits a member receives from the Plan vary based on the member's individual account balance.

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Financial Statements

The financial reporting entity represented in the basic financial statements and accompanying notes is the Trust, which consists of the assets held in trust by the SBA for the payment of retirement benefits and reasonable administrative expenses of the Plan.

The Trust's basic financial statements include two-year comparative statements of net position and statements of changes in net position. The statements of net position provide information on the financial position of the Trust at the end of each fiscal year. The statements of changes in net position present the results of investing activities during the fiscal years presented in this report. The notes to the financial statements offer additional discussion that is essential to the full understanding of the data presented in the financial statements. The notes provide more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

Statements of Net Position

The statements of net position present the assets, liabilities, and net position (total assets in excess of total liabilities) of the Trust as of the end of the fiscal year and are point-in-time financial statements. The primary assets in the Trust are the members' investment accounts.

	As of June 30		
	2015	2014	2013
	<i>(In Millions)</i>		
Assets:			
Investments	\$ 9,178	\$ 9,041	\$ 7,884
Receivables	36	33	32
Investments sold, but not settled	107	-	-
Total assets	9,321	9,074	7,916
Liabilities:			
Accounts payable and accrued liabilities	2	2	2
Investments purchased, but not settled	147	-	-
Total liabilities	149	2	2
Net position held in trust	\$ 9,172	\$ 9,072	\$ 7,914

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Statements of Changes in Net Position

The statements of changes in net position show the net investment income earned by the Trust, the contributions from employers and employees, and the withdrawals for members and beneficiaries that occurred during the fiscal year.

	Fiscal Years Ended June 30		
	2015	2014	2013
	<i>(In Millions)</i>		
Additions:			
Net investment income	\$ 224	\$ 1,206	\$ 720
Contributions and other additions:			
Employer/employee contributions received from DMS	368	352	338
Member-directed benefits received from the FRS Trust Fund	719	808	794
Member-directed rollover deposits	87	69	57
Subtotal contributions and other additions	<u>1,174</u>	<u>1,229</u>	<u>1,189</u>
Total additions	<u>1,398</u>	2,435	1,909
Deductions:			
Benefit payments to members	1,235	1,217	1,128
Member-directed benefits sent to the FRS Trust Fund	58	50	44
Administrative expenses	5	10	13
Total deductions	<u>1,298</u>	<u>1,277</u>	<u>1,185</u>
Changes in net position	<u>100</u>	1,158	724
Net position held in trust:			
Beginning of year	9,072	7,914	7,190
End of year	<u>\$ 9,172</u>	<u>\$ 9,072</u>	<u>\$ 7,914</u>

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Analysis

The Trust's net position increased by \$100 million (1.1%) and \$1.16 billion (14.6%) during fiscal years 2015 and 2014, respectively. For fiscal year 2015, the growth in net position was due to positive domestic equity investment performance and a reduction in administrative expenses paid by the Trust. For fiscal year 2014, the growth in net position was due primarily to positive investment returns across the asset classes, led by strong equity market performance.

Net investment income was approximately \$224 million and \$1.21 billion for fiscal years 2015 and 2014, respectively. Fiscal year 2015 experienced a drop in contributions to the Trust, due to an \$89 million (11%) reduction over prior fiscal year in member-directed benefits transferred in from the FRS Trust Fund. Fiscal year 2014 contributions to the Trust posted a slight increase over the prior year, due in part to the number of new employees joining the Plan and an overall increase in member payroll. Deductions from the Trust in both fiscal years consist mainly of benefit payments to members. Benefit payments increased by \$18 million (1.5%) and \$89 million (7.9%) during fiscal years 2015 and 2014, respectively, as the number of members requesting benefits continued to climb.

Additional Plan highlights and trends follow.

Plan Participation and Membership

The number of employers participating in the Plan increased marginally, while overall Plan membership increased by approximately 4% annually during the most recent fiscal years.

	As of June 30		
	2015	2014	2013
Participating employers	1,017	1,015	1,008
Plan membership:			
Active members ¹	115,294	113,216	110,465
Inactive members ²	48,162	44,011	40,256
Total Plan membership	163,456	157,227	150,721

¹ Active members are those employees currently receiving contributions into their retirement account.

² Inactive accounts are held on behalf of members that are no longer employed by an eligible employer so they are not receiving contributions at this time. This includes retirees with a remaining balance, plan beneficiaries and alternate payees as a result of a Qualified Domestic Relations Order.

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Active Plan Membership by Class

Over the last three fiscal years, active Plan membership has continued to increase in many of the membership classes, with marginal declines in elected officer, special risk, and other employee memberships.

	As of June 30						Total
	Regular	Senior Management	Special Risk Admin	Elected Officers	Special Risk	Other	
2015	99,226	2,280	26	497	11,278	1,987	115,294
2014	96,329	2,252	19	505	11,364	2,747	113,216
2013	93,948	2,199	17	507	11,463	2,331	110,465

Plan Choice

The number of new employees eligible to make an initial retirement plan choice has increased over the last three fiscal years. The percentage of those employees choosing the Plan declined by 1% annually for fiscal years 2014 and 2015. The number of employees joining the Plan through a Second Election has declined in each of the last three fiscal years.

	Fiscal Years Ended June 30		
	2015	2014	2013
New employees making initial plan choice	56,572	51,924	45,345
Number of new employees joining FRS Investment Plan	13,498	13,024	11,895
% Electing FRS Investment Plan	24%	25%	26%
Employee Second Elections ¹ :			
To the FRS Investment Plan	5,068	5,718	5,741
To the FRS Pension Plan	662	583	547

¹ Florida Retirement System members are granted a one-time option to transfer from one retirement plan (Pension or Investment) to the other during their FRS-covered employment. This is considered a Second Election.

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Benefit Payments

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The number of members requesting benefit payments during the year increased by 2,699 (5.4%) and 6,178 (14.1%) for fiscal years 2015 and 2014, respectively. The annual amount of benefits disbursed to plan members has increased over that same time period. Benefit payments increased by \$18 million (1.5%) in fiscal year 2015, compared to \$89 million (7.9%) in fiscal year 2014.

	Fiscal Years Ended June 30		
	2015	2014	2013
Members requesting benefits	52,636	49,937	43,759
Benefit payments (<i>In Millions</i>):			
Rollovers	\$ 759	\$ 722	\$ 666
All other	476	495	462
Total	\$ 1,235	\$ 1,217	\$ 1,128

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Contribution Rates¹

Employer contribution rates, which are established by the Legislature and reflected in Section 121.72, *Florida Statutes*, vary by membership class.

Membership Class	Employee Rate	Employer Rate ²		
	FYs 2013-15	FY 2015	FY 2014	FY 2013
Regular	3.00%	3.30%	3.30%	3.30%
Special risk	3.00	11.00	11.00	11.00
Special risk: administrative support	3.00	4.95	4.95	4.95
Legislators	3.00	6.38	6.38	6.38
Governor, Lt. Governor, cabinet officers	3.00	6.38	6.38	6.38
State Attorney, public defenders	3.00	6.38	6.38	6.38
Justices, judges	3.00	10.23	10.23	10.23
County and local elected officers	3.00	8.34	8.34	8.34
Senior management service	3.00	4.67	4.67	4.67

¹ Employer contribution rates have remained unchanged since the employer contribution rate reduction in fiscal year 2012. In fiscal year 2011, legislation was passed mandating employee contributions (3% of gross compensation) to the Plan.

² Employer rates presented in this table do not include employer contributions for the Health Insurance Subsidy (1.26% FY 2015, 1.20% FY 2014 and 1.11% FY 2013), plan administrative/educational expense (.04% for FY 2015 and .03% for FYs 2014 and 2013) or the disability program (varies by membership class) as these amounts are not deposited into the FRS Investment Plan Trust Fund.

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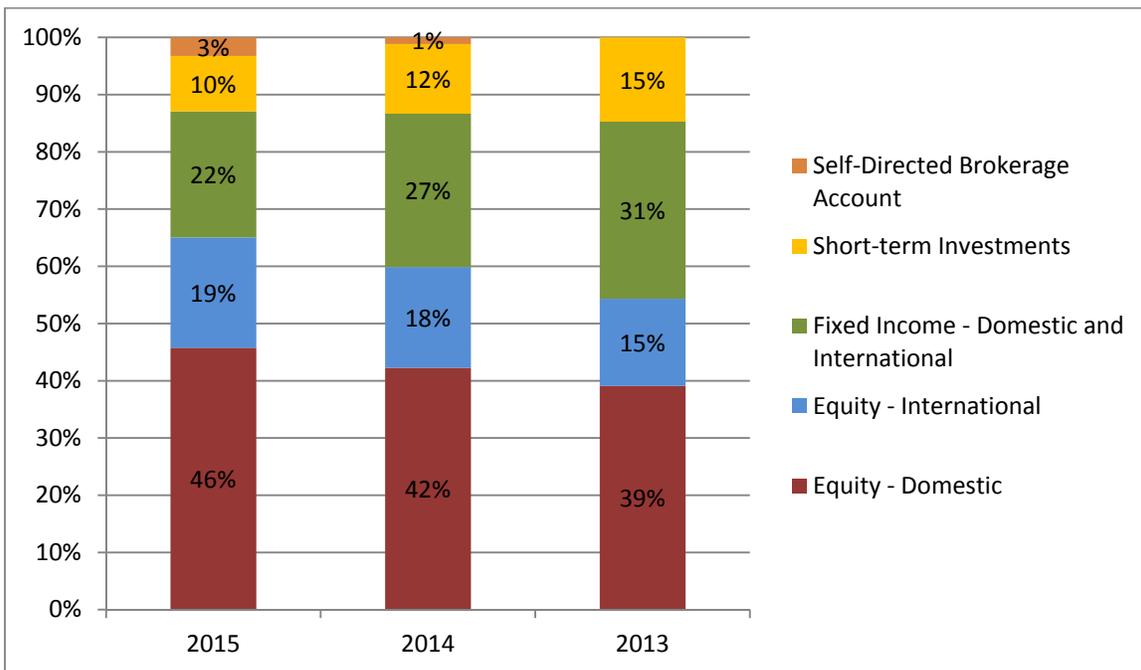
Management’s Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Asset Allocation

The asset allocation of the Trust is a function of the members’ investment decisions across the various investment options offered. Member allocations into equities continued to increase due to overall favorable equity market performance. Domestic equities posted positive performance for the last three fiscal years. International equities produced strong returns in fiscal years 2013 and 2014, despite a negative return in 2015. Allocations into fixed income continued to decline as fixed income returns lagged behind equities. Participation and assets invested in the Self-Directed Brokerage Account (SDBA) continued to increase. Note 3 to the financial statements describes the Plan’s Investment Policy Statement (IPS) and oversight of the Trust’s investments.

(By Percentage of Invested Assets)¹



¹ A Self-Directed Brokerage Account was added as an investment option during fiscal year 2014.

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Investment Returns

The Trust's performance is a function of the members' investment decisions across the various investment options offered by the Plan. The SBA does not influence these decisions; however, investment performance affects the Trust's net position and is included below for analysis purposes.

The Trust's total return for fiscal year 2015 was 2.6%. Investment income was driven by the modest performance of the domestic equity investments as well as positive returns for the fixed income assets. The Trust's total return for fiscal year 2014 was 15.5% due to continued strength in equity market performance.

As of June 30, 2015, the Trust has outperformed its aggregate benchmark over the trailing one-, three-, five-, and ten-year periods. The Trust's overall performance compared with its benchmark reflects the relative performance for the underlying fund options in which members are investing. More detailed information and analysis of the Trust's performance can be obtained from the SBA's Annual Investment Report, which can be found at www.sbafla.com. Performance for the SDBA is not included since there is no comparable benchmark. The member assumes the full risk and responsibility for the investments selected in the SDBA and for monitoring the performance of these investments.

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Investment Returns (continued)¹

Included below are Trust performance returns for the last three fiscal years by asset type.

	As of June 30		
	2015	2014	2013
Balanced Funds ^{2,4}	-%	14.3%	8.7%
Retirement Date Funds ^{2,4}	0.9	-	-
Short-term	0.2	0.2	0.3
TIPS ³	-	4.6	(4.8)
Real Assets ³	(4.6)	-	-
Fixed Income	1.4	4.9	0.6
Domestic Equity	7.4	26.1	22.5
International Equity	(2.5)	23.6	17.6
Total Trust return	2.6%	15.5%	10.1%
Total Trust aggregate benchmark	2.1	15.1	9.7
Over (under) benchmark	0.5%	0.4%	0.4%

¹ The investment performance information for each fiscal year end is the official investment return data supplied by the SBA's master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services.

² In July 2014, the Balanced Funds were mapped (converted) into Retirement Date Funds.

³ A real asset portfolio was added in fiscal year 2015 and combined with the TIPS portfolio for performance purposes. For financial reporting purposes, Real Assets are classified as domestic equity and TIPS are included in domestic fixed income.

⁴ Balanced Funds and Retirement Date Funds consist of Plan fund investments in different proportions within the other asset classes shown in the table.

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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Economic Factors

The fiscal year was characterized by diverging market trends from both a policy and economic perspective. Economic growth in the U.S. became more sure-footed throughout the year, while growth overseas, and particularly in Europe and Japan, stalled in the first half of the year before showing modest signs of improvement. Elsewhere, signs of economic weakness across most emerging market economies continued to unnerve investors and specifically, concerns were focused on an economic slowdown in China. Central banks around the globe responded to these economic indicators with corresponding guidance and policies. These diverging trends in economic growth and in central bank policies not only impacted investor sentiment and capital market returns, they also impacted currency markets. The U.S. dollar appreciated drastically relative to most currencies, rallying roughly 25% over the first nine-months of the year. Late in 2014, oil prices plummeted nearly 40% on concerns surrounding the demand for oil due to the Organization of the Petroleum Exporting Countries (OPEC) deciding not to cut production. Volatility immediately spiked as concerns rose for energy companies and oil-exporting countries, but eventually the lower oil prices were viewed as a net stimulus for the U.S. consumer-driven economy and the associated volatility subsided. Additionally, ongoing geopolitical events, i.e., ISIS, Ukraine, Argentina bond default and Greek debt crisis, also impacted market sentiment.

The resulting capital market returns for the one-year period illustrate the wide economic and central bank policy divergence. The broad U.S. equity market, as measured by the Dow Jones U.S. Total Stock Market Index, returned 7.2% on continued economic growth, continued support from the Fed, and from being relatively isolated from, and resilient to, the geopolitical events overseas. Developed international and emerging markets provided a stark contrast, declining 4.2% and 5.1% as measured in U.S. dollar terms by the MSCI EAFE Index and the MSCI Emerging Markets Index, respectively. The strong appreciation of the U.S. dollar over the year was the main detractor of international market returns for U.S. based investors. Despite improved returns in the latter half of the year from accommodating central bank policies and positive economic indicators, it was not enough to offset the numerous headwinds that faced international markets.

State Board of Administration
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Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2015 and 2014

Economic Factors (continued)

Amongst the volatility throughout the year, the U.S bond market acted as somewhat of a safe-haven for investors. Despite a slight uptick in U.S. Treasury rates in the second half of the year, rates fell over the full one-year period and the broad U.S. bond market, as measured by the Barclays Aggregate Bond Index, returned 1.9%. U.S. government bonds outperformed their investment grade and high yield counterparts as credit spreads widened over the year. Long U.S. government bonds were the greatest beneficiaries, with the Barclays Long Government Bond Index returning 6.2% for the one-year period. U.S. Treasury Inflation Protected Securities (TIPS) produced a negative 1.7% over the year, as inflation expectations remained muted. Lastly, commodities were hit hard during the year due to supply growth, diminishing global demand and the U.S. dollar rally. The Bloomberg Commodity Index fell 23.7% for the one-year period.

Contacting the Trust's Financial Management

This financial report is designed to provide citizens, taxpayers, Plan members, and other interested parties with an overview of the Trust's finances and the prudent exercise of the SBA's oversight. If you have any questions regarding this report or need additional information, please contact the Senior Defined Contribution Programs Officer, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317.

State Board of Administration
FRS Investment Plan Trust Fund

Statements of Net Position

	As of June 30	
	2015	2014
	<i>(In Thousands)</i>	
Assets		
Investments, at fair value:		
Short-term	\$ 886,893	\$ 1,102,335
Fixed income:		
Domestic	2,000,853	2,422,050
International	22,209	-
Equities:		
Domestic	4,201,676	3,821,196
International	1,766,727	1,572,063
Self-Directed brokerage account	299,571	123,082
Total investments, at fair value	<u>9,177,929</u>	<u>9,040,726</u>
Receivables:		
Accounts receivable	277	474
Interest and dividends	1,574	568
Due from DMS	34,332	32,563
Investments sold, but not settled	106,961	-
Total receivables	<u>143,144</u>	<u>33,605</u>
Total assets	<u>9,321,073</u>	<u>9,074,331</u>
Liabilities		
Accounts payable and accrued liabilities	1,570	2,450
Investments purchased, but not settled	147,325	-
Total liabilities	<u>148,895</u>	<u>2,450</u>
Net position held in trust	<u>\$ 9,172,178</u>	<u>\$ 9,071,881</u>

See accompanying notes to the financial statements.

State Board of Administration
FRS Investment Plan Trust Fund

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2015	2014
	<i>(In Thousands)</i>	
Additions		
Investment income:		
Dividend income	\$ 18,948	\$ 20,002
Interest and other investment income	2,236	44
Net increase in fair value of investments	<u>204,936</u>	<u>1,188,048</u>
	<u>226,120</u>	<u>1,208,094</u>
Investment expenses:		
Bank fees	(350)	(474)
Investment management fees	(1,913)	(1,651)
Total investment expense	<u>(2,263)</u>	<u>(2,125)</u>
Net investment income	<u>223,857</u>	<u>1,205,969</u>
Contributions and other additions:		
Employer/employee contributions received from DMS	367,944	351,928
Member-directed benefits received from the FRS Trust Fund	719,182	807,672
Member-directed rollover deposits	86,523	69,110
Other additions	-	241
Total contributions and other additions	<u>1,173,649</u>	<u>1,228,951</u>
Total additions	<u>1,397,506</u>	<u>2,434,920</u>
Deductions		
Benefit payments to members	1,234,729	1,216,535
Member-directed benefits sent to the FRS Trust Fund	57,536	50,024
Administrative expenses	4,944	10,000
Total deductions	<u>1,297,209</u>	<u>1,276,559</u>
Changes in net position	<u>100,297</u>	<u>1,158,361</u>
Net position held in trust:		
Beginning of year	<u>9,071,881</u>	7,913,520
End of year	<u>\$ 9,172,178</u>	<u>\$ 9,071,881</u>

See accompanying notes to the financial statements.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements

Fiscal Years Ended June 30, 2015 and 2014

1. Financial Reporting Entity

The Florida Retirement System (FRS) Investment Plan (the Plan), a defined contribution pension plan, qualified under IRC Section 401(a), was established pursuant to Section 121.4501, *Florida Statutes*, to provide for retirement benefits for eligible employees of the State and all participating county, district school board, community college and university employees who elect to participate in the Plan as an alternative to the FRS Pension Plan or other optional retirement plans. Under the Plan, employers and employees make contributions to an account set up in the member's name and the member directs the investments in the account, choosing from a number of diverse investment options selected and monitored by the State Board of Administration of Florida (SBA). The Plan was first offered to public sector employees in fiscal year 2003, and was modeled after private sector 401(k) plans. The Plan's and SBA's financial activities are reported in the Comprehensive Annual Financial Report (CAFR) of the State of Florida. The SBA is governed by a Board of Trustees, comprised of the Governor, as Chairman, the Attorney General, and the Chief Financial Officer of the State of Florida.

The FRS Investment Plan Trust Fund (the Trust) was established pursuant to Section 121.4502, *Florida Statutes*, to hold the assets of the Plan in trust for the exclusive benefit of the Plan's members.

The Trust is a separate legal entity within the State of Florida. These financial statements and notes include only the net position and changes in net position of the Trust and do not purport to, and do not, present fairly the net financial position of the State of Florida, the SBA or the Plan as of June 30, 2015 and 2014, and the changes in its net financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies

Basis of Presentation

The financial statements of the Trust were prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and reporting principles. The Trust is accounted for as an investment trust fund pursuant to GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31), GASB

State Board of Administration
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Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). As such, the Trust’s financial statements present statements of net position and statements of changes in net position.

Measurement Focus and Basis of Accounting

The financial statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues (additions) are recognized when earned and expenses (deductions) are recognized when incurred, regardless of when the related cash flow takes place.

Investment Valuation

Investments are reported at fair value in accordance with GASB 31, as follows:

- Money market funds – cost, which approximates fair value.
- Other investments – the most recent market prices at the close of the markets on June 30, or the most recent market close of each fiscal year.

Income Recognition

Investment transactions are accounted for on a trade – or investment-date basis. Gains and losses from investment transactions are determined by the average-cost method. Interest and dividend income is recorded on the accrual basis, with dividends accruing on the ex-dividend date.

Other Additions

Other additions include amounts received from non-investment sources, not specifically related to member contributions, such as third-party settlements.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

Administrative Expenses

Pursuant to Section 121.4502, *Florida Statutes*, and in accordance with Internal Revenue Service Revenue Ruling 84-156, reasonable administrative expenses of the Plan may be paid from the Trust. These expenses may include the activities of the Plan administrator, Plan custodian, investment and administrative consulting and other services rendered for the benefit of Plan members.

Use of Estimates

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues (additions) and expenses (deductions) during the reporting period. Actual results could differ from those estimates.

New Accounting Standards

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27 (GASB 68)*. The primary objective of this Statement GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement GASB 68 replaces the requirements of *Statement No. 27, Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of *Statement No. 50, Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this Statement. The provisions of Statement GASB 68 are effective for fiscal years beginning after June 15, 2014. The statements of net position and the statements of changes in net position are not affected by the adoption of GASB 68, as the Trust is not a Pension Plan.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

2. Summary of Significant Accounting Policies (continued)

In November 2013, the GASB issued *Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68 (GASB 71)*. *GASB 71* relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The provisions of *GASB 71* should be applied simultaneously with the provisions of *Statement 68*. The statements of net position and the statements of changes in net position are not affected by the adoption of *GASB 71*, as the Trust is not a Pension Plan.

3. Deposits and Investments

Deposits

At June 30, 2015 and 2014, the Trust did not have any deposits on hand. All contributions and accumulated benefits received from the FRS Trust Fund are invested immediately according to member directions.

Investments

The Plan has an Investment Policy Statement (IPS) that includes, among other items, the investment objectives of the Plan, manager selection, monitoring guidelines and performance measurement criteria. The IPS is reviewed no less than annually to ensure the structure and guidelines are appropriate, taking into consideration the Plan's goals and objectives.

The primary investment objectives of the Plan are to: (1) offer a diversified mix of low-cost investment options that span the risk-return spectrum and give members the opportunity to accumulate retirement benefits; (2) offer investment options that avoid excessive risk, have a prudent degree of diversification relative to broad market indices and provide a long-term rate of return, net of all expenses and fees that seek to achieve or exceed the returns on comparable market benchmark indices; and (3) offer members meaningful, independent control over the assets in their account.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

The SBA's Executive Director & (Chief Investment Officer) CIO is responsible for selecting, evaluating, and monitoring performance of the investment options, with a focus on maximizing return within appropriate risk constraints outlined in the Plan's IPS. The Trust offers a number of low-cost institutional investment funds that invest in various short-term, fixed income and equity securities.

During fiscal year 2002 through fiscal year 2014, the Trust fund offered three risk-targeted balanced funds that consisted of mixtures of various asset classes. Effective July 1, 2014, the Plan's overall investment lineup changed. During fiscal year 2015, the Trust fund offered ten customized Retirement Date Funds that consisted of mixtures of various asset classes. At fiscal year-end 2015, more than 61% of the Plan's members had allocated at least some of their assets to one or more of the ten available Retirement Date Funds. Approximately 43% of total Trust assets were in the Retirement Date Funds.

The SBA follows the *Florida Statutes'* fiduciary standards of care in managing the Plan's investment options. The SBA Trustees appoint nine members to serve on the Investment Advisory Council (IAC), which provides independent advice on the Trust's general objectives, policies, and strategies.

Self-Directed Brokerage Account

Beginning in January 2014, a Self-Directed Brokerage Account (SDBA) was added as an option available to Plan members. The SDBA allows Plan members to invest in thousands of different investments in addition to the Plan's primary investment funds. It is offered through Hewitt Financial Services (HFS), a subsidiary of Hewitt Associates LLC (branded Aon Hewitt), the Investment Plan Administrator.

The SDBA is for experienced investors who want the flexibility to invest in a variety of options beyond those available in the Plan's primary investment funds. It is not suitable for all members.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

The SDBA provides access to the following investment instruments:

- Stocks listed on a Securities Exchange Commission (SEC) regulated national exchange;
- Exchange Traded Funds (except for leveraged Exchange Traded Funds);
- Mutual Funds (except for any of the Plan's primary investment funds);
- Fixed Income products.

The SDBA accessibility does not include any of the following as investment alternatives:

- Illiquid investments;
- Over the Counter Bulletin Board (OTCBB) securities;
- Pink Sheet® (PS) securities;
- Leveraged Exchange Traded Funds;
- Direct Ownership of Foreign Securities;
- Derivatives, including, but not limited to futures and options contracts on securities, market indexes, and commodities;
- Buying/Trading on Margin;
- Limited Partnership Interests;
- Investment Plan products;
- Any investment that would jeopardize the investment plan's tax qualified status.

A Plan member may participate in the SDBA if the member:

- Maintains a minimum balance of \$5,000 in the primary investment options offered under the Plan;
- Makes a minimum initial transfer of funds into the SDBA of \$1,000;
- Makes subsequent transfers of funds into the SDBA in amounts of \$1,000 or greater;
- Pays all trading fees, commissions, administrative fees and any other expenses associated with participating in the SDBA;
- And does not violate any trading restrictions established by the provider, the investment plan, or state or federal law.

The SBA is not responsible for managing the SDBA beyond administrative requirements as established between the SBA and HFS. As such, investments available through the SDBA have not been subjected to any selection process, are not monitored by the SBA, require investment expertise to prudently buy, manage and/or dispose of, and have a risk of substantial loss.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

Fund Lineup Changes

Effective July 1, 2014, the Plan's overall investment fund lineup changed. The changes, approved by the SBA's IAC and Trustees, were made to simplify the existing lineup. Some of the previous funds were combined to create new funds, and a slate of Retirement Date Funds replaced the FRS Select Balanced Funds. Each Retirement Date Fund is a diversified portfolio of other Plan funds and uses an asset allocation concept called "target date funds." The mix of funds in each Retirement Date Fund is based on a different asset allocation depending upon the amount of time a member has before retirement. The asset mix gradually changes as the member approaches retirement. This gradual change follows an investment strategy called a "glide path." Each Retirement Date Fund's glide path was developed for the FRS by a global investment consulting firm and a fiduciary to the FRS.

During Fiscal year 2015, an actively managed fixed income portfolio was added to the Trust investment line-up. This portfolio includes individual fixed income securities bought and sold on the open market. Due to the June 30 financial reporting cut-off, some trades were executed by year end but not settled until the following month. These trades are shown on the Statement of Net Position as "Investments sold, but not settled" in the receivables section and "Investments purchased, but not settled" as a payable.

Investment Performance

The SBA staff, consultants and Trustees review the Trust's performance quarterly. The long-term performance of each actively managed investment option is expected to exceed the returns on its performance benchmark, net of all fees and charges, while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively managed investment option is expected to closely approximate returns of the performance benchmark, net of all fees and charges. At the total Trust level, performance is evaluated by asset class and is measured on an absolute basis and relative to appropriate market benchmarks for each investment option. Performance data is aggregated for the total Trust and for each product type or asset class, using member allocations as the weighting factors. Performance for the SDBA is not included since there is no comparable benchmark. The member assumes the full risk and responsibility for the investments selected in the SDBA and for monitoring the performance of these investments.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

As in years past, future performance is subject to members' investment decisions across the various investment options offered by the Plan. More detailed information can be obtained by visiting the Florida Retirement System website at MyFRS.com.

The following schedule discloses further detail of the Trust's investments, by type, at June 30, 2015 and 2014.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

Investment Detail ^{1,3}	As of June 30			
	2015		2014	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
	<i>(In Thousands)</i>			
Short-term:				
EB Temporary Investment FD II	\$ 18,091	0.2%	\$ 2,010	0.0%
FRS Money Market Fund	868,802	9.5	1,100,325	12.2
Total Short-term	886,893	9.7	1,102,335	12.2
Fixed Income-domestic:				
FRS U.S. TIPS Index Fund	195,394	2.1	234,290	2.6
PIMCO Total Return Fund	—	0.0	235,554	2.6
FRS Core Plus Fund	864,278	9.4	176,714	2.0
Pyramis Intermediate Duration Pool Fund	336,428	3.7	432,920	4.8
FRS U.S. Bond Enhanced Index Fund	604,753	6.6	1,342,572	14.9
Total Fixed Income-domestic	2,000,853	21.8	2,422,050	26.9
Fixed Income-international:				
FRS Core Plus Fund	22,209	0.3	—	0.0
Total Fixed Income-international	22,209	0.3	—	0.0
Equities-domestic				
FRS Large Cap Equity Fund	928,142	10.1	1,060,251	11.7
FRS Small/Mid Cap Equity Fund	1,002,229	10.9	967,836	10.7
FRS U.S. Stock Market Index Fund	1,879,585	20.4	1,767,739	19.6
Principal Diversified Real Assets Fund	391,720	4.3	—	0.0
Fidelity Low Priced Stock Fund ²	—	0.0	25,370	0.3
Total Equities-domestic	4,201,676	45.7	3,821,196	42.3
Equities-International:				
American Funds Euro-Pacific Growth Fund	192,658	2.1	194,379	2.2
American Funds New Perspective Fund	253,592	2.8	246,741	2.7
FRS Select Foreign Stock Index Fund	1,320,477	14.4	1,130,943	12.5
Total Equities-international	1,766,727	19.3	1,572,063	17.4
Self-Directed Brokerage Account	299,571	3.2	123,082	1.3
Total Investments	\$ 9,177,929	100%	\$ 9,040,726	100.0%

¹ Balanced Funds and Retirement Date Funds consist of Plan investments in different proportions and are accounted for in the individual investment options in this table.

² Fund closed to new money effective August 1, 2004.

³ Investment option changes: During Fiscal year 2015, the Trust had several investment changes including the addition of a real assets fund, a large cap equity fund, a small-mid cap equity fund, and a fixed income core plus fund that includes the actively managed fixed income portfolio. These new funds consist of prior separate investment managers as well as new investment managers. Prior separate investment managers' assets were mapped directly into these new funds. The Trust closed the PIMCO Total Return fund.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

Investment Risks

The Trust invests in a broad range of financial investments. Financial investments, in general, are exposed to various risks, including credit risk, concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk as well as overall market volatility. Due to the level of risk associated with certain financial investments, it is reasonably possible that changes in the values of financial investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

The Plan's IPS provides a statement of objectives for the Trust, general guidelines for each asset class and the Retirement Date Funds, as well as educational services to help members manage the level of risk associated with the choices they make with their individual investment accounts.

Investments available through the Plan's SDBA are not selected or monitored by the SBA. The SDBA investments are subject to Hewitt Financial Services' Self-Directed Brokerage Account guidelines and the risks inherent in the types of investments selected by participating Plan members.

As required by GASB Statement 40, *Deposit and Investment Risk Disclosures* (GASB 40), the Trust's exposure to the specific risks of credit risk, concentration of credit risk, custodial credit risk, interest rate risk and foreign currency risk follows. Each of these risks is managed by the investment advisors to the mutual funds and trusts subject to guidelines set forth in prospectuses, Statements of Additional Information and other governing documents of each fund's investment manager.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Standard & Poor's Corporation (S&P) and Moody's Investors Service, Inc. (Moody's).

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

The mutual funds and commingled trust funds in the Trust are institutional funds and, as such, are not rated by the nationally recognized statistical rating agencies such as Standard & Poor's Corporation or Moody's Investors Service, Inc.

An actively managed fixed income portfolio was added during fiscal year 2015 and invests in individual fixed income securities.

Credit quality ratings for these Trust investments at June 30, 2015, are disclosed in the following table.

Credit Quality Ratings								
As of June 30, 2015								
S&P¹	Moody's¹	Total	Money Market Funds	Federal Agencies	Domestic Bonds and Notes	Commingled Fixed Income	International Bonds and Notes	
AAA		\$ 32,866	\$ -	\$ -	\$ 32,143	\$ -	\$ 723	
AA		18,417	-	2,402	14,641	-	1,374	
A		26,132	-	-	18,501	-	7,631	
BBB		42,053	-	-	31,947	-	10,106	
BB		1,236	-	-	-	-	1,236	
Not rated	Aaa	22,951	-	-	21,812	-	1,139	
Not rated	Aa	1,428	-	-	1,428	-	-	
Not rated	A	480	-	480	-	-	-	
Not rated	Not rated	2,638,242	886,893	87,871	-	1,663,478	-	
		\$ 2,783,805	\$ 886,893	\$ 90,753	\$ 120,472	\$ 1,663,478	\$ 22,209	

Ratings not applicable:

U.S. guaranteed obligations	\$ 126,150
Commingled domestic equities	4,201,676
Commingled international equities	1,766,727
Self-Directed Brokerage Account	299,571
Total Investments	\$ 9,177,929

¹S&P ratings were primarily used. If S&P did not rate a security, then Moody's ratings were used. If neither rating agency issued a rating, the security was listed as "Not rated." Long-term ratings are presented.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. The Trust did not hold any investments with a single issuer representing 5% or more of the Trust's fair value (amortized cost for short-term portfolios) at June 30, 2015 or 2014.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the custodial counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in possession of an outside party.

Units or shares of the commingled trusts or mutual funds along with the actively managed fixed income portfolio investments are held at the SBA's custodian bank, BNY Mellon. To the extent possible, the SBA's negotiated custody contract requires that deposits and investments be held in accounts in the SBA's name, separate and apart from the assets of the custodian bank.

The SDBA assets are held at Pershing, LLC (a BNY Mellon company) as custodian for the Plan's SDBA. All brokerage accounts are held in the SBA's name as part of the Plan Participation Agreement for the SDBA.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rate will adversely affect the fair value of the Trust's investments.

The Plan's IPS provides that the money market funds will offer high-quality, liquid, short-term instruments to control interest rate sensitivity. The fixed income funds may be passively or actively managed and will primarily invest in securities in the benchmark. In both cases, the funds' sensitivity to interest rate changes generally will closely approximate that of the performance benchmark.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

Presented in the following table is the effective weighted duration of the money market, TIPS and fixed income investments as a measure of interest rate risk for the Trust.

Investment Type¹	As of June 30, 2015	
	Fair Value <i>(In Thousands)</i>	Weighted Average Duration <i>(In Years)</i>
Money Market Funds	\$ 886,893	0.09
Commingled TIPS	195,394	7.78
Commingled Fixed Income	1,468,084	4.90
U.S. guaranteed obligations:		
U.S. Treasury bonds and notes	111,582	4.61
U.S. government guaranteed	1,019	7.56
GNMA mortgage backed	1,738	2.09
GNMA commitments to purchase (TBAs)	11,811	3.90
Federal agencies:		
Unsecured bonds and notes	2,402	4.28
Mortgage backed (FNMA, FHLMC)	41,492	2.66
FNMA, FHLMC commitments to purchase (TBAs)	30,914	4.74
Mortgage backed CMOs and CMBS	15,945	2.68
Domestic bond and notes:		
Corporate	55,851	8.07
Non-government asset and mortgage backed	47,471	0.86
Non-government backed CMOs and CMBS	13,884	8.35
Municipal/provincial	3,266	15.17
International bonds and notes:		
Corporate	17,021	7.71
Government and regional	5,188	8.13
Total fixed income investments	<u>\$ 2,909,955</u>	

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

3. Deposits and Investments (continued)

Investment Type¹	As of June 30, 2014	
	Fair Value	Weighted Average Duration
	<i>(In Thousands)</i>	<i>(In Years)</i>
Money Market Funds	\$ 1,102,335	0.09
Commingled TIPS	234,290	7.71
Commingled Fixed Income	2,187,760	5.04
Total	\$ 3,524,385	

¹An actively managed fixed income portfolio, which holds individual fixed income securities, was introduced in fiscal year 2015. Prior to that, no individual fixed income securities were held by the Trust.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect an investment's fair value. The Trust's investments in international equity funds (which are commingled with other investors) and individual fixed income securities are reported in U.S. dollars by the investment fund managers. The actively managed fixed income portfolio is prohibited from holding any non U.S. dollar denominated securities. However, the underlying investments in the commingled funds may be exposed to foreign currency risk in various currencies. The fair value of the international equity funds as of June 30, 2015 and 2014, was \$1.77 billion and \$1.57 billion, respectively.

4. Contingencies and Litigation

During the ordinary course of its operations, the SBA on behalf of the Trust may be party to various claims, legal actions, and class action lawsuits. The SBA's General Counsel Office handles these matters either directly or with assistance of outside legal counsel. In the opinion of the SBA's management and legal counsel, these matters are not anticipated to have a material financial impact on the Trust.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2015 and 2014

5. Related-Party Transactions

The Trust considers the State of Florida and its Department of Management Services (DMS), Division of Retirement, and the Florida Retirement System Trust Fund (FRS Trust Fund) to be related parties for the purpose of the financial statements.

The DMS is responsible for the receipt of member demographic data and for collecting employer and employee contributions and remitting those contributions to the SBA for deposit into the Trust for the benefit of the Plan members. The FRS Trust Fund is the source of funding for a member's accumulated benefit obligation (ABO) when a member in the FRS Pension Plan elects to join the FRS Investment Plan. The FRS Trust Fund is also a recipient of certain benefits returned to the Trust.

Significant transactions between the Trust and the DMS and the FRS Trust Fund for fiscal years 2015 and 2014, were as follows:

	2015	2014
	<i>(In Thousands)</i>	
<u>Receivables:</u>		
Due from DMS	\$ 34,332	\$ 32,563
<u>Additions:</u>		
Employer/employee contributions received from DMS	\$ 367,944	\$ 351,928
Member-directed benefits received from the FRS Trust Fund	719,182	807,672
Total additions	\$ 1,087,126	\$ 1,159,600
<u>Deductions:</u>		
Member-directed benefits sent to the FRS Trust Fund	\$ 57,536	\$ 50,024

Other Report

Report of Independent Certified Public Accountants on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Florida Retirement System Investment Plan Trust Fund (the Trust), administered by the State Board of Administration (SBA) of Florida which comprise the statement of net position as of June 30, 2015, and the related statements of changes in net position, and the related notes to the financial statements, and have issued our report thereon dated November 6, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of Trust's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

November 6, 2015

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