



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

State Board of Administration of Florida
Public Employee Optional Retirement Program Trust Fund
June 30, 2010
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Financial Statements, Management’s Discussion and Analysis
and Other Reports

June 30, 2010

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Report of Independent Certified Public Accountants

Board of Trustees
State Board of Administration of Florida

We have audited the accompanying statement of net assets of the Public Employee Optional Retirement Program Trust Fund (the Fund) administered by the State Board of Administration of Florida as of June 30, 2010, and the related statement of changes in net assets for the year then ended. These financial statements are the responsibility of the Fund's management. 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 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. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State of Florida, the Public Employee Optional Retirement Program or the State Board of Administration of Florida as of June 30, 2010, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund administered by the State Board of Administration of Florida at June 30, 2010, and the changes in its financial position for the year then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010, on our consideration of the Fund's internal control over financial reporting and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

December 17, 2010

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis

Year Ended June 30, 2010

The information contained in this Management's Discussion and Analysis introduces the basic financial statements and provides an analysis of the financial activities and performance of the Public Employee Optional Retirement Program Trust Fund (the Fund) administered by the State Board of Administration of Florida (SBA) for the fiscal years ended June 30, 2010 and June 30, 2009. This section should also be read in conjunction with the financial statements and the accompanying notes.

The Public Employee Optional Retirement Program (the Plan), also known as the FRS Investment Plan, a defined contribution pension plan, was established by the SBA pursuant to Section 121.4501, Florida Statutes to provide for retirement benefits for eligible employees of the State who elect to participate in the Plan. Under this program, employers make contributions to an account set up in the participant's name and the participant directs where the contributions are invested from a series of twenty diversified investment options. The Fund was established pursuant to Section 121.4502, Florida Statutes to hold the assets of the Plan in trust for the exclusive benefits of such Plan's participants and beneficiaries and for the payment of reasonable administrative expenses of the Plan.

The Fund is accounted for as an investment trust fund pursuant to Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31), and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As such, the Fund presents a Statement of Net Assets and a Statement of Changes in Net Assets using the economic resources measurement focus and accrual basis of accounting.

Financial Highlights

- Fund net assets (total assets minus total liabilities) at June 30, 2010, were \$5.1 billion, increasing \$975.4 million (23.7%) from the Fund net assets of \$4.1 billion at June 30, 2009.
- Transfers related to employer contributions from the State of Florida Department of Management Services (DMS), Division of Retirement (DOR) for fiscal year 2010 totaled \$1.13 billion; an increase of 14.5% compared to fiscal year 2009 transfers of \$990.56 million. Transfers are comprised of participating employer contributions, rollover deposits, and participant-directed transfers from the Florida Retirement System Trust Fund (FRS Trust Fund), a cost-sharing, multiple-employer, public retirement system, defined benefit plan.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

- Deductions for fiscal year 2010 totaled \$606.0 million; a decrease of 2.6% over fiscal year 2009 deductions of \$621.9 million. Deductions are comprised of transfers to the DMS for benefit payments and participant-directed transfers to the FRS Trust Fund of \$597.2 million and administrative expenses of \$8.8 million.
- Total investment income for fiscal year 2010 was \$448.6 million. During fiscal year 2010, the Fund received an investment return on its portfolio of 11.07%, 0.75% ahead of target, contrasted to a negative return of 15.20% for fiscal year 2009.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The Fund's financial statements consist of the Statement of Net Assets, the Statement of Changes in Net Assets, and the Notes to the Financial Statements.

The Statement of Net Assets and the Statement of Changes in Net Assets report information about the net assets (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in those net assets during the fiscal year. These statements reflect all of the Fund's activities as incurred.

The Notes to Financial Statements are also important to the reader's understanding of the financial statements and provide additional information regarding the Fund, such as information about the accounting policies and investment activities.

Fund Highlights

The Plan offers twenty investment options, including three balanced funds, eleven stock funds (eight domestic and three foreign), four bond funds, a money market fund, and a U.S. Treasury Inflation Protected Securities Fund.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

During the fiscal year 2010, nearly 45,000 newly hired employees employed by the 950 participating employers had the opportunity to choose to participate in either the Plan or the FRS Defined Benefit Pension Plan. Approximately 23% of those newly hired employees elected to enroll in the Plan.

The Fund's total investment return for the fiscal year 2010 was 11.07%, outperforming the Fund's target return by 75 basis points. Fixed income funds outperformed their benchmarks by 188 basis points and domestic equity funds outperformed their benchmarks by 104 basis points. The international equities funds outperformed their benchmarks by 37 basis points. TIPS ended the fiscal year ahead of benchmark by 9 basis points. The money market fund underperformed its benchmark by 14 basis points, while emphasizing preservation of principal and quality over maximizing yield. The balanced funds added 28 basis points of value above their aggregate benchmark.

Fund Net Assets – Analysis of Assets, Liabilities, and Net Assets

For fiscal year ended June 30, 2010, there was an increase in the Fund's net assets of \$975.4 million (or 23.7%), which resulted from (a) transfers of \$1.1 billion from the DMS related to contributions from participating state employers and transfers from the FRS Trust Fund, offset by transfers to the DMS for benefit payments and transfers to the FRS Trust Fund of \$597.2 million; (b) normal investment activity; and (c) improved market conditions.

A condensed comparison of the Fund's Statement of Net Assets for the past two fiscal years is presented below.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

Table 1: Fund Net Assets
(In Thousands)

	Year Ended June 30		Percent
	2010	2009	Change
Assets			
Investments	\$ 5,049,712	\$ 4,074,814	23.9%
Receivables	41,574	40,406	2.9
Interest and dividends receivable	798	1,743	(54.2)
Total assets	<u>\$ 5,092,084</u>	<u>\$ 4,116,963</u>	23.7
Liabilities			
Accounts payable and accrued liabilities	\$ 1,065	\$ 1,376	(22.6)
Total liabilities	<u>1,065</u>	<u>1,376</u>	(22.6)
Total net assets held in trust	<u>\$ 5,091,019</u>	<u>\$ 4,115,587</u>	23.7

Changes in Fund Net Assets – Analysis of Revenues and Expenses

The net appreciation in fair value of investments for fiscal year 2010 was \$422.9 million, compared to the net depreciation of \$701.1 million experienced in fiscal year 2009. The Fund captured significant economic benefit as the financial markets rebounded from the prior year. That, together with participant directed transfers from the FRS Trust Fund and transfers from DMS of contributions for Plan participants, along with normal investment activity resulted in the increase in net assets.

A condensed comparison of the Fund's Statement of Changes in Net Assets for the past two fiscal years is presented below.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

Table 2: Changes in Fund Net Assets
(In Thousands)

	Year Ended June 30	Year Ended June 30	Percent
	2010	2009	Change
Additions			
Investment income:			
Net increase (decrease) in fair value of investments	\$ 422,917	\$ (701,112)	160.3%
Interest, dividends and other investment income	25,729	41,715	(38.3)
Investment expenses	(1,634)	(1,604)	1.9
Net investment income	<u>447,012</u>	<u>(661,001)</u>	167.6
Contributions:			
Transfers from DMS	425,468	420,751	1.1
Rollover deposits	34,238	46,670	(26.6)
Participant-directed transfers from defined benefit plan	<u>674,731</u>	<u>523,137</u>	29.0
Total contributions	<u>1,134,437</u>	<u>990,558</u>	14.5
Total additions	<u>1,581,449</u>	<u>329,557</u>	379.9
Deductions			
Administrative expenses	8,784	7,771	13.0
Transfers to DMS	576,231	595,644	(3.3)
Participant-directed transfers to defined benefit plan	<u>21,002</u>	<u>18,513</u>	13.4
Total deductions	<u>606,017</u>	<u>621,928</u>	(2.6)
Increase (decrease) in net assets	975,432	(292,371)	433.6
Net assets held in trust			
Beginning of year	<u>4,115,587</u>	4,407,958	(6.6)
End of year	<u>\$ 5,091,019</u>	<u>\$ 4,115,587</u>	23.7

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Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

Plan Membership

The table below reflects the active Plan membership by class at June 30, 2009 and June 30, 2010.¹

Table 3: Changes in Membership

	<u>Regular</u>	<u>Special Risk</u>	<u>Special Risk Admin</u>	<u>Senior Management</u>	<u>Elected Officers</u>	<u>Total</u>
June 30, 2009	82,886	10,289	18	1,907	402	95,502
June 30, 2010	84,846	10,739	18	1,996	431	98,030

The following table provides the contribution rates for Plan members by membership class for the fiscal years 2008–09 and 2009–10:²

<u>Employment Class</u>	<u>Rate</u>
Regular	9.00%
Special risk	20.00
Special risk administrative support	11.35
Elected officers:	
Legislators	13.40
Governor, Lt. Governor, cabinet officers	13.40
State Attorney, public defenders	13.40
Justices, judges	18.90
County elected officers	16.20
Senior management service	10.95

Asset Allocation

The following table indicates the asset allocation at June 30, 2010 and June 30, 2009. The asset allocation of the Fund is determined by individual plan participant investment decisions.

¹ Including inactive members, the number of member accounts is 127,940.

² Established by Section 121.72(4), *Florida Statutes*

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

Year Ended June 30, 2010

Table 4: Asset Allocation
Percentage of Assets
(By Percentage)

	June 30	
	2010	2009
Assets		
Balanced funds	40.10%	37.10%
FRS Select Conservative Balanced Fund	8.00	7.30
FRS Select Moderate Balanced Fund	24.15	22.50
FRS Select Aggressive Balanced Fund	7.95	7.30
Cash	14.70	18.60
FRS Select Yield Plus Money Market Active Fund	14.70	18.60
Tips	3.80	4.10
FRS Select TIPS Fund	3.80	4.10
Fixed income	10.70	10.20
FRS Select U.S. Bond Enhanced Index Fund	2.10	2.10
PIMCO Total Return Fund	5.10	4.60
Pyramis Intermediate Duration Pool Fund	1.40	1.30
PIMCO High Yield Fund	0.00	2.20
FRS High Yield Fund	2.10	0.00
Domestic equities	22.50	21.30
FRS Select U.S. Stock Market Index Fund	3.16	2.90
Pioneer Fund	2.00	2.10
FRS Select U.S. Large Value Stock Fund	2.92	3.00
FRS Select U.S. Large Growth Stock Active Fund	1.07	1.00
QMA Mid Cap Quantitative Core Fund	3.48	2.90
Fidelity Growth Company Fund	4.27	4.30
Fidelity Low Priced Stock Fund	0.45	0.50
T. Rowe Price Small Cap Stock Fund	3.16	2.90
American Beacon Small Cap Value Fund	1.99	1.70
International equities	8.20	8.70
FRS Select Foreign Stock Index Fund	2.00	2.00
American Funds Euro-Pacific Growth Fund	3.10	3.40
American Funds New Perspective Fund	3.10	3.30

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

Year Ended June 30, 2010

Investment Activities

Unlike the FRS Defined Benefit Pension Plan, participant benefits received from the Plan vary, depending on the individual participant's investment plan account performance, which is based on the investment options selected by the Plan participants. The Plan enables participants to play an active investment role in selecting from a diverse set of twenty investment options.

The Plan has an Investment Policy Statement, which is reviewed annually by the SBA. In fiscal year 2009, the SBA requested a review and evaluation of the Investment Policy Statement by an investment consultant who was asked to make recommendations to the Investment Advisory Council. The Investment Policy Statement was updated December 9, 2008, which incorporated statutory requirements adopted by the Florida Legislature and recommendations made by the investment consultant. The Investment Policy Statement generally follows the Employee Retirement Income Security Act (ERISA) private sector diversification guidelines and is scheduled for periodic review and modification as necessary.

The SBA staff and Trustees, and its consultants review the Fund's performance quarterly. The Investment Advisory Council reviews performance every six months. Performance is evaluated by asset class, which includes domestic equities, international equities, and fixed income.

Over the past fiscal year, the rebound in the financial markets helped to recover a large portion of the overall loss from the previous fiscal year. The Fund's total return for fiscal year 2010 was 11.07%, outperforming the Fund's target return by 75 basis points. Domestic equity funds outperformed their benchmarks by 104 basis points. Fixed income funds outperformed their benchmarks by 188 basis points. The international equities funds beat their benchmarks by 37 basis points and TIPS added 9 basis points over its benchmark. Only the Money Market Fund underperformed its benchmark by 14 basis points, while emphasizing preservation of principal and quality over maximizing yield. The Balanced Funds added 28 basis points of value above their aggregate benchmark.

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

Year Ended June 30, 2010

**Table 5: Investment Returns
Fund Returns by Asset Type
As of June 30, 2010**

Asset Type	Managed Return	Target Return	Managed vs. Target
Domestic equity	18.62%	17.58%	1.04%
International equity	8.40	8.03	0.37
Fixed income	12.28	10.40	1.88
TIPS	9.61	9.52	0.09
Money market fund	0.23	0.37	(0.14)
Total fund IP	11.07	10.32	0.75

**Table 5: Investment Returns
Fund Returns by Asset Type
As of June 30, 2009**

Asset Type	Managed Return	Target Return	Managed vs. Target
Domestic equity	(26.54)%	(26.70)%	0.16%
International equity	(28.50)	(30.97)	2.47
Fixed income	5.18	4.76	0.42
TIPS	(0.93)	(1.12)	0.19
Money market fund	1.11	1.72	(0.61)
Total fund IP	(15.20)	(15.40)	0.20

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

Year Ended June 30, 2010

Economic Factors

Events throughout the past several years have caused instability in the equity markets. While initial recovery was experienced in the first three quarters of the fiscal year, the equity markets lagged in the fourth quarter of fiscal year 2010 due mainly to turmoil in European credit markets. While the Russell 3000 Index showed steady recovery through the first three quarters of fiscal year 2010, it fell 11.32% during the final quarter of the fiscal year. Foreign stock markets, as measured by the MSCI ACWI ex-U.S. Investable Market Index, lost 12.11% in the final quarter of the fiscal year after showing consistent gains through the first three quarters. Fixed income markets benefited from heightened risk-aversion. With continued uncertainty in the financial markets, the Fund's investment returns are likely to experience the expected market fluctuations in the year ahead.

Contacting the Fund's Financial Management

This financial report is designed to provide citizens, taxpayers, plan participants, and other interested parties with an overview of the Fund'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 DC Program Officer, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317-3300.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Statement of Net Assets

June 30, 2010
(In Thousands)

Assets

Investments:

Money market funds	\$ 883,848
Commingled funds, at fair value:	
Domestic fixed income	1,754,714
Domestic equity	1,593,761
International equity	817,389
Total investments, at fair value	<u>5,049,712</u>

Receivables:

Accounts receivable	313
Transfers due from Department of Management Services	41,261
Interest and dividends	798
Total receivables	<u>42,372</u>
Total assets	<u>5,092,084</u>

Liabilities

Accounts payable and accrued liabilities	1,065
Net assets held in trust	<u>\$ 5,091,019</u>

See accompanying notes.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Statement of Changes in Net Assets

Year Ended June 30, 2010
(In Thousands)

Additions

Investment income:

Interest income	\$ 10
Dividend income	25,673
Other investment income	46
Net appreciation in fair value of investments	422,917
	448,646

Investment expenses:

Bank fees	(590)
Investment management fees	(1,044)
Total investment expense	(1,634)
Net investment income	447,012

Contributions:

Transfers from Department of Management Services	425,468
Participant directed rollover deposits	34,238
Participant directed transfers from FRS defined benefit plan	674,731
Total contributions	1,134,437
Total additions	1,581,449

Deductions

Administrative expenses	8,784
Transfers to DMS for benefit payments to participants	576,231
Participant directed transfers to FRS defined benefit plan	21,002
Total deductions	606,017
Net increase in net assets	975,432

Net assets held in trust:

Beginning of year	4,115,587
End of year	\$ 5,091,019

See accompanying notes.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements

June 30, 2010

1. Reporting Entity

The Public Employee Optional Retirement Program, also known as the FRS Investment Plan (the Plan), a defined contribution pension plan, was established pursuant to Section 121.4501, Florida Statutes, to provide for retirement benefits for eligible employees of the State who elect to participate in the Plan as an alternative to the Florida Retirement System Defined Benefit Pension Plan (FRS Defined Benefit Plan). Under the Plan, employers make contributions to an account set up in the participant's name and the participant directs where the contributions are invested choosing from twenty 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 included in the financial statements of the State of Florida.

The Public Employee Optional Retirement Program Trust Fund (the Fund) was established pursuant to Section 121.4502, Florida Statutes, to hold the assets of the Plan in trust for the exclusive benefits of such Plan's participants and beneficiaries and for the payment of reasonable administrative expenses of the Plan. The Fund is accounted for as an investment trust fund pursuant to Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31), and GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. As such, the Fund's financial statements present a Statement of Net Assets and a Statement of Changes in Net Assets using the economic resources measurement focus and accrual basis of accounting.

The Fund is not a separate legal entity within the State of Florida. These financial statements and notes thereto include only the net assets and investment activities of the Fund and do not purport to, and do not, present fairly the financial position of the State of Florida, the SBA or the Plan as of June 30, 2010, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

2. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) as applicable to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and reporting principles.

B. 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.

C. New Accounting Pronouncements

In June 2009, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. GASB Statement No. 53 establishes uniform financial reporting standards for derivative instruments. The Fund does not have any direct investment holdings in derivative instruments. Therefore the adoption of this standard did not have an impact on the Fund's financial statements.

D. Investments

Investments are reported at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Short-term investments are reported at cost, which approximates fair value. Fair value of other securities is determined by the most recent market prices at the close of the markets on June 30, 2010, or the most recent market close. The Fund held no cash or cash equivalents as of June 30, 2010.

State Board of Administration
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Notes to Financial Statements (continued)

June 30, 2010

2. Summary of Significant Accounting Policies (continued)

During the year ended June 30, 2010, there were twenty diversified investment funds offered by the Plan, including stock funds (domestic and foreign), bond funds, a money market fund, a U.S. Treasury inflation-protected securities fund, and balanced funds. At fiscal year-end, more than 96% of the Plan's participants allocated at least some of their assets to one or more of the three available balanced funds. Almost 38% of total Fund assets were in the balanced funds.

E. Net Assets

Net assets of the Fund are the difference between total Fund assets and total Fund liabilities and held in trust for Plan participants.

F. Administrative Expenses

Pursuant to Section 121.4502, Florida Statutes, reasonable administrative expenses are paid from the Fund's assets and allocated to each participant account in the Plan.

G. 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.

3. Deposits and Investments

A. Deposits

At June 30, 2010, the Fund did not have any deposits on hand.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

3. Deposits and Investments (continued)

B. Investments

The Executive Director/CIO of the SBA is responsible for selecting, evaluating, and monitoring performance of the investment options, with a focus on maximizing return within appropriate risk constraints. The Fund currently offers twenty low-cost institutional and mutual fund investment options with five public market asset classes. Three risk-targeted balanced funds are available, consisting of optimized mixes of existing investment options.

The Fund's investments at fair value held as of June 30, 2010 (in thousands), are as follows:

	<u>Fair Value</u>
Money market funds	\$ 883,848
TIPS	310,913
Domestic fixed income	1,443,801
Domestic equity funds	1,593,761
International equity funds	817,389
	<u>\$ 5,049,712</u>

1. Credit Risk and Concentration of Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer.

The Plan's Investment Policy Statement provides that it will 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.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

3. Deposits and Investments (continued)

2. Interest Rate Risk

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

The Plan's Investment Policy Statement 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 Fund's sensitivity to interest rate changes will closely approximate that of the performance benchmark.

Presented in the following schedule is the interest rate risk for the Fund (in thousands).

Investment Type	Fair Value (Duration)	Effective Weighted Duration (In Years)
Money market funds	\$ 883,848	0.055
Fixed income and TIPS	1,754,714	4.052
Total fixed income investments	<u>\$ 2,638,562</u>	

3. Foreign Currency Risk

The Fund has no direct investment holdings in foreign currency.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

3. Deposits and Investments (continued)

4. Investment Portfolio Characteristics

	<u>Fair Value</u>	<u>% of Portfolio</u>
Money market funds:		
EB Temporary Investment FD II	\$ 1,922,519	0.04%
FRS Select Yield Plus MM Active Fund	881,925,079	17.46
Total money market funds	<u>883,847,598</u>	<u>17.50</u>
 FRS Select U.S. TIPS Index Fund	 310,913,143	 6.16
 Domestic fixed income		
PIMCO Total Return Fund	256,428,433	5.08
Pyramis Intermediate Duration Pool Fund	319,097,531	6.32
FRS Select U.S. Bond Enhanced Index Fund	761,127,805	15.07
FRS Select High Yield Fund	107,147,436	2.12
Total domestic bond funds	<u>1,443,801,205</u>	<u>28.59</u>
 Domestic stock funds:		
American Beacon Small-Cap Value Fund	100,784,841	1.99
Fidelity Growth Company Fund	215,524,751	4.27
Fidelity Low Priced Stock Fund*	22,960,876	0.45
Pioneer Fund	101,842,327	2.02
T Rowe Price Small-Cap Stock Fund	159,458,463	3.16
Prudential Mid-Cap Quantitative Core Equity Fund	175,620,916	3.48
FRS Select U.S. Large Growth Stock Active Fund	53,969,077	1.07
FRS Select U.S. Stock Market Index Fund	530,864,354	10.51
FRS Select U.S. Large Value Stock Active Fund	232,735,249	4.61
Total domestic stock funds	<u>1,593,760,854</u>	<u>31.56</u>
 International stock funds:		
American Funds Euro-Pacific Growth Fund	155,378,040	3.08%
American Funds New Perspective Fund	156,134,026	3.09
FRS Select Foreign Stock Index Fund	505,877,270	10.02
Total international stock funds	<u>817,389,336</u>	<u>16.19</u>
Total FRS Investment Plan mutual funds	<u>\$ 5,049,712,136</u>	<u>100.00%</u>

* Fund closed to new money at June 30, 2010.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

4. Related-Party Transactions

The Fund 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, the collection of employer contributions, and remitting those contributions to the SBA for deposit into the Fund for the benefit of the Plan members. In addition, the FRS Trust Fund is the source of funding for transfers of member's accumulated benefit obligation (ABO) when a participant in the FRS Defined Benefit Plan elects to join the FRS Investment Plan.

Significant transactions between the Fund and the DMS and the FRS Trust Fund in fiscal year 2010 were as follows (in thousands):

Transfers from DMS for employer contributions	<u>\$ 425,468</u>
Transfers from FRS Trust Fund (ABO) related to participant directed transfers	<u>\$ 674,731</u>
Receivables:	
From DMS	<u>\$ 41,261</u>
Payments to DMS to pay participant benefits	<u>\$ 576,231</u>

5. Contingencies and Litigation

During the ordinary course of its operations, the Fund or the SBA may be a party to various claims, legal actions, and complaints. The SBA General Counsel's Office handles these matters or the SBA may seek 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 Fund.

Other Reports

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

Board of Trustees
State Board of Administration of Florida

We have audited the financial statements of the Public Employee Optional Retirement Program Trust Fund (the Fund) as of and for the year ended June 30, 2010, and have issued our report thereon dated December 17, 2010. 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.

Internal control over financial reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

This report is intended solely for the information and use of management, the Board of Trustees of the State Board of Administration of Florida, the State of Florida and others within the entity and is not intended to be, and should not be, used by anyone other than these specified parties.

Ernst + Young LLP

December 17, 2010

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