



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

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

Ernst & Young LLP

 **ERNST & YOUNG**

State Board of Administration  
Florida Retirement System Trust Fund

Financial Statements

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 Florida Retirement System Trust Fund (the Fund) managed 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 audit 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, or the State Board of Administration of Florida or the Florida Retirement System 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 managed 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements referred to above. The supplemental information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. The information presented in this section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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 grants 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 11 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.

A handwritten signature in cursive script that reads 'Ernst & Young LLP'.

December 17, 2010

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis

Year Ended June 30, 2010

The information contained in this Management's Discussion and Analysis (MD&A) introduces the basic financial statements and provides an analysis of the financial activities and performance of the Florida Retirement System Trust Fund (the Fund) administered by the State Board of Administration (SBA) of Florida for the fiscal years ended June 30, 2010 and June 30, 2009. Since this discussion and analysis is designed to focus on current activities, it should also be read in conjunction with the financial statements and the accompanying notes, which follow this section.

The Florida Retirement System (FRS), a cost-sharing, multiple-employer defined benefit pension plan, was established by the Legislature of the State of Florida in accordance with Chapter 121, 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. Under this Plan, employers make contributions to the Department of Management Services, Division of Retirement (DMS) which are initially deposited into the Florida Retirement System Contributions Clearing Fund (Clearing Fund) which holds all contributions for all plans of the FRS until the assets are transferred to the Fund for investment by the SBA. The Fund holds the assets of the FRS in trust for the exclusive benefits of Plan 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**

- The net assets (total assets minus total liabilities) of the Fund at June 30, 2010 were \$109.17 billion, increasing \$10.52 billion (10.7%) from the net assets at June 30, 2009.
- Transfers to the Fund from DMS related to employer contributions, and participant directed transfers from the Public Employee Optional Retirement Program (PEORPTF) for fiscal year 2010 totaled \$2.75 billion; a decrease of 6% compared to fiscal year 2009 transfers of \$2.93 billion.

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

Year Ended June 30, 2010

- Net investment income for fiscal year 2010 was \$14.64 billion. During fiscal year 2010, the Fund received an investment return on its portfolio of 14.03%, 2.53% ahead of target, compared to a negative return of 19.03% for fiscal year 2009.
- Total transfers (deductions) from the Fund for fiscal year 2010 totaled \$6.87 billion; an increase of 10.5% over fiscal year 2009 deductions of \$6.22 billion.

**Overview of the 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 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) of the Fund as of the end of the fiscal year and the changes in those net assets during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's additions (revenues) and deductions (expenses) are included in the financial statements, regardless of when the cash is received or paid. The difference between the total assets and total liabilities, or net assets, on the Statement of Net Assets provides a measurement of the financial position of the Fund as of the end of the fiscal year. The Statement of Changes in Net Assets provides information on the activities that caused the financial position to change during the fiscal year.

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.

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

**Analysis of Assets, Liabilities and Net Assets**

At June 30, 2010, the Fund had net assets (total assets in excess of total liabilities) of \$109.17 billion, an increase of \$10.52 billion (10.7%) from \$98.65 billion at June 30, 2009. The Fund's assets consist primarily of investments. The increase in net assets was primarily the result of improved market conditions.

- The decrease in cash and cash equivalents was primarily from a decrease in time deposits held in the security lending collateral portfolios from \$306 million at June 30, 2009, to \$0 on June 30, 2010.
- From June 30, 2009 to June 30, 2010 the invested security lending collateral and the related liability obligations under security lending both decreased approximately 46% to 49% in value. In July 2009, following a third-party study of current practices in securities lending, the SBA began transitioning from a general collateral/cash reinvestment program to an intrinsic/repo only lending model. The latter model recognizes and monetizes only the demand driven lending value of securities held in the portfolio and avoids the credit and liquidity risk of a credit oriented reinvestment portfolio.

Existing reinvestment portfolios contained legacy non-repo securities supported by lending until they were either sold without loss or matured. All new lending would be done utilizing one day repurchase agreements of U.S. Government guaranteed securities as reinvestment.

The expectation was that both lending revenue and utilization would drop substantially, resulting in the need to reduce the number of lending agents in the program. One agent lender's program was transitioned to the Fund's custodian, leaving two third party agents.

As of June 30, 2010, approximately 82% of the lending program was intrinsic, with full implementation expected by June 30, 2011.

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

Year Ended June 30, 2010

- The increase in the fair value of investments of approximately 11% was a result of the overall net appreciation in investment values in the United States and abroad during the fiscal year, as the world economy recovered from the economic recession that began in late 2007.
- Forward contracts to buy and sell currency almost doubled in value in fiscal year 2010 over fiscal year 2009 values. One of the Fund's fixed income portfolio managers, who in fiscal year 2009 had zero risk allocated to their currency strategies, asked to implement such strategies in fiscal year 2010, which was subsequently approved. The manager added a number of currency strategies starting in the first quarter of 2010.
- The increase in investments sold, but not settled and investments purchased, but not settled was primarily due to a change in investment strategy. The Fixed Income Asset Class changed investment strategy in fiscal year 2010 with the roll off of a mortgage-backed security (MBS) total return swap for approximately \$1 billion and instead of replacing it, a new MBS index replication strategy was put into place. This strategy increased the trading volume of mortgage-backed "to be announced" (TBA) securities over the previous year.
- The \$3.5 million increase in prepaid expenses reflected the overall increase in asset allocation to alternative investments, including private equity and real estate. Many private equity managers require payment of investment management fees at the beginning of the applicable management period.
- Short sell obligations increased 17.7% in fiscal year 2010 over fiscal year 2009. The change reflects the growth in the aggregate prime broker equity portfolio account values for the fiscal year and the proportionate amount of short-sells needed to maintain the targeted 30% short position.

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

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

	<u>Year Ended June 30</u>		<b>Percent Change</b>
	<b>2010</b>	<b>2009</b>	
<b>Assets</b>			
Cash and cash equivalents	\$ 133,747	\$ 476,377	(71.9)%
Invested security lending collateral	5,145,215	9,509,812	(45.9)
Investments	112,783,877	101,396,430	11.2
Transfers due from DMS	265,299	260,663	1.8
Investment income receivables	387,891	398,219	(2.6)
Forward currency contracts receivable	564,629	285,334	97.9
Investments sold, but not settled	2,566,914	1,676,158	53.1
Prepaid expenses	9,435	5,916	59.5
Total assets	<u>121,857,007</u>	<u>114,008,909</u>	6.9
<b>Liabilities</b>			
Due to DMS	313,784	362,514	(13.4)
Accounts payable and accrued expenses	60,768	65,181	(6.8)
Forward currency contracts payable	562,818	286,371	96.5
Investments purchased, but not settled	5,704,288	3,668,689	55.5
Options sold	8,757	1,929	354.0
Short sell obligations	724,659	615,754	17.7
Obligations under security lending agreements	5,307,937	10,357,706	(48.8)
Total liabilities	<u>12,683,011</u>	<u>15,358,144</u>	(17.4)
Net assets held in trust	<u>\$ 109,173,996</u>	<u>\$ 98,650,765</u>	10.7

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

Year Ended June 30, 2010

**Analysis of Additions and Deductions**

The net appreciation in fair value of investments for fiscal year 2010 was \$11.6 billion, compared to the net depreciation experienced in fiscal year 2009. The Fund experienced significant economic benefit as global financial markets recovered from their cathartic upheaval of the prior year. Other significant changes are discussed below.

- Investment expenses increased approximately 10.7%. Since most investment management agreement fees are set as a percentage of fair value, these fees increased along with the net appreciation in fair value of investments.
- Security lending income and expenses both dropped substantially in fiscal year 2010. The SBA adopted a new policy regarding security lending in fiscal year 2010. In July 2009, the Fund began transitioning from a general collateral/cash re-investment program to an intrinsic/repo only lending model as more fully discussed above in the Analysis of Assets, Liabilities and Net Assets.
- Total transfers to the Fund from the DMS related to FRS employer contributions decreased 6.1% during fiscal year 2010, while total transfers from the Fund to the DMS increased 10.5%. The net transfers to the Fund (transfers in less transfers out) increased by \$829.6 million to \$4.12 billion in fiscal year 2010.

State Board of Administration  
Florida Retirement System Trust Fund

Management's Discussion and Analysis (continued)

Year Ended June 30, 2010

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

	<b>Year Ended June 30</b>		<b>Percent</b>
	<b>2010</b>	<b>2009</b>	<b>Change</b>
<b>Additions</b>			
Investment income (loss):			
Interest, dividends and other investment income	\$ 3,307,717	\$ 3,591,993	(7.9)%
Net appreciation/(depreciation) in fair value of investments	11,613,923	(28,042,855)	141.4
Less investment expenses	(318,529)	(287,648)	10.7
Securities lending income	54,797	216,588	(74.7)
Less cost of lending	(16,795)	(120,420)	(86.1)
Net investment income (loss)	<u>14,641,113</u>	<u>(24,642,342)</u>	(159.4)
Transfers in:			
Participant transfers from the Public Employee Optional Retirement Program Trust Fund (PEORPTF)	21,002	18,513	13.4
Transfers from DMS related to employer contributions	2,733,277	2,913,608	(6.2)
Total transfers in	<u>2,754,279</u>	<u>2,932,121</u>	(6.1)
Total additions	<u>17,395,392</u>	<u>(21,710,221)</u>	(180.1)
<b>Deductions</b>			
Participant transfers to the PEORPTF	674,731	523,137	29.0
Transfers to DMS	6,197,430	5,697,281	8.8
Total deductions	<u>6,872,161</u>	<u>6,220,418</u>	10.5
Net increase (decrease)	<u>10,523,231</u>	<u>(27,930,639)</u>	(137.7)
Net assets:			
Beginning of year	98,650,765	126,581,404	(22.1)
End of year	<u>\$ 109,173,996</u>	<u>\$ 98,650,765</u>	10.7

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 2009-2010 due mainly to turmoil in European credit markets. While the Russell 3000 Index showed steady recovery through the first three quarters of 2009-10, 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.

**Requests for Information**

This financial report is designed to provide a general overview of the Fund. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Operating Officer, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, Florida 32317-3300.

State Board of Administration  
Florida Retirement System Trust Fund

Statement of Net Assets

June 30, 2010  
(In Thousands)

<b>Assets</b>	
Cash and cash equivalents	\$ 133,747
Security lending collateral	5,145,215
Investments, at fair value:	
Certificates of deposit	584,932
Commercial paper	3,656,140
Money market funds	4,652
Repurchase agreements	1,565,763
U.S. government guaranteed bonds and notes	6,448,166
Federal agencies	7,969,768
Domestic corporate bonds and notes	14,289,373
Domestic fixed income funds	177,152
International bonds and notes	3,354,160
Domestic stocks	40,179,374
Equity group trust	2,082
International stocks	17,066,866
International equity comingled funds	4,958,217
Private equity limited partnerships	6,372,309
Real estate	6,160,289
Options purchased	5,615
Swap contracts (fixed income)	(10,981)
Total investments	<u>112,783,877</u>
Receivables:	
Transfers due from DMS	265,299
Accrued interest and dividends	383,982
Futures trade equity	3,909
Forward currency contracts	564,629
Investments sold, but not settled	2,566,914
Total receivables	<u>3,784,733</u>
Prepaid manager fees	9,435
Total assets	<u>121,857,007</u>
<b>Liabilities</b>	
Transfers due to DMS	313,784
Accounts payable and accrued liabilities	54,406
Futures trade equity payable	6,362
Forward currency contracts payable	562,818
Investments purchased, but not settled	5,704,288
Options sold	8,757
Short sell obligations	724,659
Obligations under security lending	5,307,937
Total liabilities	<u>12,683,011</u>
Net assets held in trust	<u>\$ 109,173,996</u>

See accompanying notes to financial statements.

State Board of Administration  
Florida Retirement System Trust Fund

Statement of Changes in Net Assets

Year Ended June 30, 2010

*(In Thousands)*

**Additions**

Investment income:	
Interest income	\$ 1,438,671
Dividend income	1,384,741
Real estate income, net	377,464
Fines, forfeits and securities litigation proceeds	44,464
Other investment income	62,377
Net change in unrealized appreciation of investments	<u>11,613,923</u>
Total investment income	14,921,640
Investment expenses:	
Bank fees	(4,220)
Investment management fees	(285,335)
SBA investment service charges	(16,680)
Other fees and expenses	<u>(12,294)</u>
Total investment expenses	<u>(318,529)</u>
Net investment income	<u>14,603,111</u>
Security lending income	54,797
Security lending expenses	<u>(16,795)</u>
Net income from security lending	<u>38,002</u>
 Net investment income	 14,641,113
 Transfers:	
Transfers from participants of the PEORPTF	21,002
Transfers from DMS related to employer contributions	<u>2,733,277</u>
Total transfers	<u>2,754,279</u>
Total additions	<u>17,395,392</u>

**Deductions**

Participant transfers to PEORPTF	674,731
Transfers to DMS	<u>6,197,430</u>
Total deductions	<u>6,872,161</u>
Increase in net assets	10,523,231
 Net assets held in trust	
Beginning of year	98,650,765
End of year	<u><u>\$ 109,173,996</u></u>

*See accompanying notes to financial statements.*

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements

June 30, 2010

**1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The State Board of Administration of Florida (SBA) was established on June 21, 1929, pursuant to Chapter 14486, Laws of Florida (1929). The SBA was subsequently created as a constitutional body corporate on January 1, 1943, by Article IX, Section 16 of the State Constitution of 1885, as amended. The SBA was subsequently continued as a body corporate by Article IV, Section 4(e) of the State Constitution (1968), as amended. The SBA is governed by a three-member board of trustees consisting of: the Governor, as Chairman; the Chief Financial Officer, as Treasurer; and the Attorney General, as Secretary.

The Department of Management Services (DMS), Division of Retirement is responsible for administering the Florida Retirement System (FRS), a cost-sharing, multiple-employer defined benefit pension plan, established by the Legislature of the State of Florida in accordance with Chapter 121, 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. Under the FRS, employers make contributions to the DMS, Division of Retirement which are initially deposited into the Florida Retirement System Contributions Clearing Fund (Clearing Fund) which holds all contributions for all plans of the FRS. The DMS, as the administrative agency for the FRS, provides full accounting and administration of benefit payments and contributions, commissions actuarial studies, and proposes rules and regulations for the administration of the FRS.

The Florida Retirement System Trust Fund (the Fund) was established by the SBA pursuant to Chapter 121, Florida Statutes, to receive, invest and hold the assets of the FRS for the exclusive benefit of the FRS participants and for the payment of reasonable costs of the Fund. The DMS transfers member government contributions from the Clearing Fund to the Fund for investment by the SBA. The Fund holds the assets of the FRS in trust for the exclusive benefits of FRS participants and beneficiaries and for the payment of reasonable administrative expenses of the FRS.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**1. Summary of Significant Accounting Policies (continued)**

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.

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 FRS as of June 30, 2010, and the changes in their financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

**B. Basis of Presentation**

The accompanying financial statements were prepared in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the GASB. The GASB is the accepted standard-setting body for establishing governmental accounting and reporting principles.

**C. Measurement Focus and Basis of Accounting**

The financial statements are prepared using the 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.

**D. New Accounting Pronouncements**

In June 2009, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB 53), effective for financial statements for reporting periods beginning after June 15, 2009, with earlier application encouraged. GASB 53 establishes

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**1. Summary of Significant Accounting Policies (continued)**

uniform financial reporting standards for derivative instruments. The Fund records all derivative instruments at fair value. The requirements of this statement have been implemented during the fiscal year ended June 30, 2010.

**E. Cash and Cash Equivalents**

The Fund reports all cash on hand and on deposit in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit as cash and cash equivalents. Cash equivalents are short-term, highly liquid investments with an original maturity of ninety days when purchased.

**F. Investments**

Section 215.47, Florida Statutes, gives the SBA the authority to invest in a range of instruments, including security lending agreements. All of the Fund's investments are recorded at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Unrealized gains and losses are reflected in the Statement of Changes in Net Assets as "net change in unrealized appreciation of investments." Earnings on investments are recognized as earned. Investment transactions and the related gains and losses are recorded on a trade date basis. Dividend income is recorded on the ex-dividend date, and interest income is accrued as earned.

The fair value of the Fund's assets are obtained or estimated in accordance with the Global Pricing Guidelines established with the SBA's custodian BNY Mellon Bank. BNY Mellon Bank uses a variety of independent pricing sources and designates certain vendors as the primary source based on asset type, class or issue. BNY Mellon Bank monitors fair value information supplied by these primary sources and may use a supplemental pricing source or change the primary pricing source if any of the following occurs:

- The fair value of a security is not received from the primary pricing source.
- The primary pricing source no longer provides fair values for a particular asset type, class or issue.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**1. Summary of Significant Accounting Policies (continued)**

- The SBA or its portfolio investment manager challenges a fair value and BNY Mellon Bank reviews the fair value with the vendor, who agrees that the fair value information provided by that vendor may not be appropriate.
- The fair value from the primary source exceeds BNY Mellon Bank's price tolerance checkpoints and results in a vendor comparison review where another source is deemed to be more appropriate by the BNY Mellon Bank.

When a portfolio includes securities or instruments for which the custodial bank does not receive fair value information from its vendor pricing source, the custodial bank uses a "non-vendor pricing source." Examples, include, but are not limited to, limited partnerships or similar private investment vehicles that do not actively trade through established exchange mechanisms; other private placements where there is limited or no information in the market place; and unique fixed income and equity instruments. The SBA does not provide direction regarding the substitution of prices in such instances where securities or instruments are in the portfolio of an investment manager appointed by the SBA. In such cases where the SBA directed the purchase of such securities or instruments, BNY Mellon Bank may obtain the non-vendor fair values by contacting the SBA only if it is not commercially reasonable to directly obtain the non-vendor fair value information from the broker of record, as identified by the SBA. BNY Mellon Bank may perform a limited reasonableness review of non-vendor fair value information by comparing the current month-end value to the prior month-end value.

For alternative investments where no readily ascertainable market value exists (including limited partnerships and real estate pooled funds), management has determined fair values for the individual investments based on the net asset value (capital account balance) at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees, and reserves. The valuation techniques vary based upon investment type and involve a certain degree of expert judgment. The most significant input into the net asset value of an entity is the value of its investment holdings. The net asset value is provided by the general partner and/or investment manager and reviewed by management. Annually, the financial statements of the limited partnerships are audited by independent auditors.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**1. Summary of Significant Accounting Policies (continued)**

Beginning with the quarter ending March 31, 2010, all real estate direct owned properties are required to be valued by independent external appraisers selected by an appraisal management company retained by the SBA. These appraisals are to be prepared as of each property's respective fiscal year end (March 31, June 30, September 30, or December 31). The annual externally appraised value is adjusted for subsequent events (capital calls and capital distributions; operating income and expenses; and realized gains and losses) to derive the monthly market value. Prior to this change, real estate valuations for direct owned properties were based on internal appraisals prepared by the investment advisors annually, as of the property's respective fiscal year end. These valuations were also adjusted monthly by the subsequent events listed above. External appraisals were required to be performed every two years and used as a reasonableness check against the investment advisor's internal appraisal. Direct owned properties are held within title holding companies, whose financial statements are subject to annual audit by an auditing firm retained by the SBA.

Real Estate commingled funds, per contractual arrangements, are valued by the fund manager. The fund manager's market value is adjusted for subsequent events (capital calls and capital distributions; operating income and expenses; and realized gains and losses) to derive the monthly market value. Annually, the commingled funds are audited by an independent auditing firm of national recognition and standing.

All derivative financial instruments are reported at fair value in the Statement of Net Assets. The instruments are adjusted to fair value at least monthly, with valuation changes recognized in investment earnings. Gains and losses are recorded in the Statement of Changes in Net Assets as "net change in unrealized appreciation of investments" during the period. The nature and use of derivative instruments is discussed in Note 2.

Because of the inherent uncertainty of the valuation using pricing methodologies other than the quoted prices, the estimated fair values may differ from the values that would have been used had a ready market existed.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**1. Summary of Significant Accounting Policies (continued)**

**G. Transfers from and to DMS and PEORPTF**

The DMS sends FRS employer contributions and PEORPTF sends participant directed transfers to the Fund for investment purposes. Transfers may occur daily. Likewise, both DMS and PEORPTF may request transfers from the Fund to meet normal benefit obligations of the FRS, or to fulfill participant directed transfer requests. To insure timely payment, the Fund estimates such obligations at the first of each month and allocates them to the Fund's public market asset classes (excluding the Cash asset class). The allocations constitute liquidity assessments which the asset classes are required to provide in cash in a prudent, but reasonable expeditious fashion.

At fiscal year-end, the Fund accrues a receivable due from DMS for employer contributions that are due for the month of June, but that DMS will not transfer to the Fund until the following fiscal year. The Fund also accrues a payable due to DMS at fiscal year-end for the amount of expected transfers to be requested by DMS to fund June FRS benefit obligations.

**H. Management Fees and Administrative Expenses**

The SBA hires external investment managers to invest a significant portion of the Fund's investment assets. The Fund typically pays investment management fees based on individually negotiated investment management agreements. Certain fees and charges are performance-related, typically associated with exceeding a market benchmark or hurdle rate. Investment management fees are usually paid quarterly, with fees based on a sliding scale of the portfolio's net asset value at quarter-end, calculated by multiplying each level of net assets by a specified basis point charge. Fees are paid from the appropriate investment portfolio and are recognized as an expense over the time period for which the fees are applicable. Certain investment management fees, usually in private equity portfolios, are paid at the beginning of the period. These fees are recorded as prepaid manager fee assets on the Statement of Net Assets and are expensed over their applicable time period.

Pursuant to Section 215.515, Florida Statutes, the SBA charges the Fund a monthly SBA investment service charge of 1.5 basis points (annualized) based on the month-end net asset value of the total Fund. The service charge is calculated and deducted from the Fund after each month's total net asset value of the Fund is determined. These charges are reported on the Statement of Changes in Net Assets as part of the Fund's investment expenses.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**1. Summary of Significant Accounting Policies (continued)**

**I. Use of Estimates**

The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the 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.

**2. Deposits and Investments**

**A. Deposits**

As of June 30, 2010, the carrying amount of deposits totaled \$133.7 million and consisted of U.S. dollars and foreign currencies (U.S. value) in the amounts of \$31.0 million and \$102.7 million. Certain deposits, totaling \$3.5 million in U.S. dollars and \$3.7 million in foreign currencies, were held as initial margin at the SBA's futures clearing broker. All other deposits were held in one of the financial institutions utilized by the SBA.

*1. Custodial Credit Risk*

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The SBA's custodial credit risk policy states that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third party custodian banks of sufficient financial strength to custody securities and collateral in the SBA's name, to the extent possible, to protect the assets of the Fund. To the extent possible, negotiated trust and custody contracts shall require that all deposits, investments and collateral be held in accounts in the SBA's name, separate and apart from the assets of the custodian banks. This policy applies to investments evidenced by cash or securities, and does not apply to investments evidenced by contractual agreements such as private equity or real estate investments.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Bank deposits as of June 30, 2010, were \$133.7 million. A portion of the deposits, totaling \$782 thousand, are covered by federal depository insurance. Uninsured and uncollateralized amounts of \$3.5 million in U.S. dollars and \$3.7 million in foreign currency were held as initial margin by the Fund's futures clearing broker at June 30, 2010. The remaining uninsured and uncollateralized deposits of U.S. dollars at the Fund's custodian banks in excess of the \$250,000 per account federal depository insurance totaled \$26.8 million. The remaining uninsured and uncollateralized deposits, totaling \$98.9 million, were held in foreign currencies in SBA's custodian's nominee name.

*2. Foreign Currency Risk for Deposits*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of a deposit. Under Section 215.47, Florida Statutes, and subject to the limitation and conditions of the State Constitution or of the trust agreement relating to a trust fund, moneys available for investments by the Fund may be invested in fixed income obligations or stocks denominated in foreign currency. The SBA has developed a total fund Investment Policy Statement for the investment of assets in the Fund that sets ranges on investments by asset class. During the majority of the fiscal year ended June 30, 2010, total Fund assets held in the foreign equities asset class (all non-U.S. investments) were limited to a range of 11% to 25% of total investments with a target of 20%. On June 8, 2010, the SBA Trustees adopted a new Fund Investment Policy Statement that combined domestic and foreign equity asset classes into one overall global asset class; therefore, the previously adopted range limiting assets in the foreign equities asset class is no longer in effect. Other asset classes may hold non-U.S. securities as well, depending on portfolio guidelines. In both cases, Florida law limits the exposure to foreign securities to 35% of the total fund. This investment activity in foreign investments resulted in deposits in foreign currency as of June 30, 2010, as illustrated in the following schedule (in thousands):

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

**Foreign Currency Deposits Held  
As of June 30, 2010**

<b>Currency</b>	<b>Bank Statement Balance (in U.S. \$)</b>
Australian dollar	\$ 2,837
Botswana pula	62
Brazilian real	5,512
British pound sterling	5,164
Canadian dollar	3,194
Croatian kuna	253
Czech koruna	278
Danish krone	832
Egyptian pound	48
Euro currency unit	9,097
Hong Kong dollar	7,001
Indian rupee	176
Indonesian rupiah	76
Israeli shekel	546
Japanese yen	44,286
Kenyan shilling	628
Malaysian ringgit	314
Mexican new peso	2,181
Moroccan dirham	131
New Zealand dollar	50
Norwegian krone	1,190
Philippines peso	96
South African rand	144
South Korean won	569
Swedish krona	495
Swiss franc	1,445
Taiwan new dollar	12,684
Thailand baht	2,043
Turkish new lira	1,285
Other	34
	<hr/>
Total deposits subject to foreign currency risk	\$ 102,651

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

**B. Investments**

The SBA has the authority and responsibility for the investment of the Fund assets pursuant to Section 215.47, Florida Statutes, in a range of instruments including, but not limited to, federally-guaranteed obligations, certain state bonds, corporate bonds, commercial paper, banker's acceptances, short-term obligations purchased individually or in pooled accounts, interests in certain open-end and closed-end management type investment companies or investment trusts, common and preferred stock, repurchase and reverse repurchase agreements and real estate. The SBA may also buy and sell futures contracts, option contracts and domestic or foreign notional principal contracts.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

The schedule below discloses these investments at fair value at June 30, 2010 (in thousands).

	<u>Fair Value</u>
<b>Investment Type</b>	
Certificates of deposit	\$ 584,932
Commercial Paper	3,656,140
Money market funds	4,652
Repurchase agreements	1,565,763
U.S. guaranteed obligations	6,448,166
Federal agencies	7,969,768
Domestic corporate bonds and notes <sup>1</sup>	14,289,373
Domestic fixed income commingled funds	177,152
International bonds and notes <sup>1</sup>	3,354,160
Domestic stocks <sup>1</sup>	40,179,374
Domestic equity group trust	2,082
International stocks <sup>1</sup>	17,066,866
International equity commingled funds	4,958,217
Limited partnerships – domestic	5,859,263
Limited partnerships – international	513,046
Option contracts purchased	5,615
Swap contracts (debt related)	(10,981)
Real estate investments	6,160,289
Total investments excluding securities lending collateral	<u>112,783,877</u>
 <b>Securities Lending Collateral Investments</b>	
Money market funds	3,876
Repurchase agreements	4,255,464
Domestic corporate bonds and notes <sup>1</sup>	673,046
International bonds and notes <sup>1</sup>	212,829
Total securities lending collateral investments	<u>5,145,215</u>
Total investments	<u>\$ 117,929,092</u>
 <b>Investments Sold Short</b>	
U.S. guaranteed obligations	\$ (16,321)
Federal agencies	(73,536)
Domestic stocks <sup>1</sup>	(474,631)
International stocks <sup>1</sup>	(160,171)
Option contracts	(8,757)
Total investments sold short <sup>2</sup>	<u>\$ (733,416)</u>

<sup>1</sup> Bonds and notes were categorized as “Domestic” or “International” based on the country of issue. Stocks were categorized as “Domestic” or “International” based on the country of risk provided by the SBA’s custodian bank. Any bond or note with a country of issue, or stock with a country of risk, other than the United States of America, was reported as “International.”

<sup>2</sup> Investments sold short are classified as liabilities on the Statement of Net Assets.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Certain investments included in the above schedule were pledged as collateral with the SBA's futures clearing broker. These investments are presented below (in thousands):

**Securities Pledged as Collateral for Futures Contracts**

<u>Investment Type</u>	<u>Fair Value</u>
U.S. guaranteed obligations	\$ 8,532
Federal agencies	66,230
Domestic stocks	56,499
Total	<u>\$ 131,261</u>

The Fund's investments are subject to various risks. Among these risks are custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Each one of these risks is discussed in more detail below.

*1. Custodial Credit Risk*

Custodial credit risk, as it relates to investments, is the risk that in the event of the failure of the counterparty to a transaction, the Fund will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

The Fund's custodial credit risk policy states that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third party custodian banks. To the extent possible, negotiated trust and custody contracts shall require that all deposits, investments and collateral be held in accounts in the SBA's name, separate and apart from the assets of the custodian banks. This policy applies to investments evidenced by cash or securities, and does not apply to investments evidenced by contractual agreements such as private equity or real estate investments.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

As required by negotiated trust and custody contracts, many of the Fund’s investments were held in the SBA’s name by the custodial financial institutions at June 30, 2010. Investments that were uninsured and unregistered, with securities held by the counterparty, or by its trust department, included the following (in thousands):

**Custodial Credit Risk as of June 30, 2010**

	<b>Fair Value</b>
Invested security lending collateral:	
Repurchase agreements	\$ 1,780,000
Domestic corporate bonds and notes	469,565
International bonds and notes	196,402
Total investments exposed to custodial credit risk	\$ 2,445,967

*2. 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. The credit risk of issuers and debt instruments is evaluated by nationally recognized statistical rating agencies such as Standard & Poor’s Corporation (S&P), Moody’s Investors Service, Inc. (Moody’s), and Fitch Ratings (Fitch). Concentration of credit risk is the risk of loss attributed to the magnitude of the Fund’s investment in a single issuer.

The SBA, in compliance with Section 215.47, Florida Statutes, has adopted certain investment policies with regard to credit risk of debt securities. Investment policies vary by portfolio. Below are the investment policies and credit risk disclosures for the Fund. Investments are generally managed through individual portfolios with various asset classes, as listed below. Some of the individual portfolios have slightly different restrictions on credit quality.

*Short-term portfolios* – Securities must be investment grade at the time of purchase. For Short-term investment ratings, this is defined as the highest applicable rating from one of the three Nationally Recognized Statistical Rating Organizations (NRSRO) – S&P A-1; Moody’s P-1;

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Fitch F1. For long-term investment ratings, this is defined as a minimum mid-single A rating from one of the three NRSROs – S&P A, Moody's A2, Fitch A. Securities of a single issuer should not represent more than 5% of portfolio amortized cost (excluding U.S. Treasuries and Agencies).

*Mortgage portfolios* – Securities are generally limited to those issued by the Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). No specific credit rating criteria are listed. The State may own notes secured by first mortgages on Florida real property, insured or guaranteed by the Federal Housing Administration or the U.S. Department of Veterans Affairs, but exposure is limited to 10% of portfolio market value. All collateralized mortgage obligations (CMOs) should have publicly traded GNMA, FNMA, or FHLMC securities as underlying collateral. Exposure is limited to 10% of the portfolio. U.S. Treasury and Agency debentures are allowed but are limited to 10% of portfolio market value.

*Government/Corporate portfolios* – Securities should be rated investment grade by at least one of the three NRSROs at the time of purchase. Minimum ratings include S&P BBB-, Moody's Baa3, and Fitch BBB-. Securities of a single issuer are generally limited to 5% of the market value of the portfolio (excluding U.S. Treasuries and Agencies).

*Core portfolios* – Securities should be rated investment grade by one of the three NRSROs at the time of purchase. Minimum ratings include S&P BBB-, Moody's Baa3, and Fitch BBB-. Securities of a single issuer are generally limited to 5% of the market value of the portfolio (excluding U.S. Treasuries and Agencies).

*Core Plus portfolios* – The strategic portion of the portfolio is invested in investment grade securities with a tactical weighting to the 'plus' sectors such as high yield, emerging markets, foreign governments, and preferred stock. Non-dollar obligations issued by foreign governments, foreign agencies, or supranationals must be rated investment grade by at least one NRSRO. The policies dictate no limitations on concentration of credit risk on investments for a single issuer.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

*High Yield portfolios* – All securities should be rated single B or double B by one of the NRSROs at the time of purchase. If a security is no longer rated at least the equivalent of single B- by any of the NRSROs, the manager must provide written notification within 30 days and justify retaining such investment beyond 90 days. Also, no more than 5% of market value shall be invested in investment grade securities (BBB- or higher by two of the three NRSRO's). Securities of a single issuer should not exceed 5% of portfolio market value. No more than 35% of market value may be in any one industry.

*Lending portfolios* – Short-term rating requirements are similar to short-term portfolio rating requirements. Repos should be fully collateralized. The Fund may hold up to the greater of \$5 million or 5% of its assets in securities by a single issuer (excluding U.S. Government guaranteed investments, its agencies or instrumentalities). For all lending programs, up to an additional 5% of the book value of the portfolio may be invested in the obligations of any single issuer, guarantor, or repo counterparty that will mature on the next business day, that are redeemable upon demand, or that contain an unconditional put feature.

The Fund did not hold any investments with a single issuer representing 5% or more of the Fund's fair value at June 30, 2010. The schedule below discloses credit quality ratings on investments held in the Fund at June 30, 2010 (in thousands).

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Certificates of Deposit	Commercial Paper	Money Market Funds	Net of Federal Agencies	Domestic Bonds and Notes <sup>1</sup>	International Bonds and Notes	Total <sup>2</sup>	S&P Rating <sup>3</sup>	Moody's Rating <sup>3</sup>
\$ -	\$ 3,656,140	\$ 8,528	\$ -	\$ -	\$ -	\$ 3,664,668	A-1/AAAm	
-	-	-	939,472	3,028,431	761,342	4,729,245	AAA	
-	-	-	7,936	986,290	530,572	1,524,798	AA	
-	-	-	74,502	3,960,146	795,614	4,830,262	A	
-	-	-	-	2,934,748	645,405	3,580,153	BBB	
-	-	-	-	1,078,153	121,069	1,199,222	BB	
-	-	-	-	1,423,197	160,150	1,583,347	B	
-	-	-	-	337,503	5,730	343,233	CCC	
-	-	-	-	79,376	-	79,376	CC	
-	-	-	-	5,835	-	5,835	D	
-	-	-	12,495	433,163	5,233	450,891		Aaa
-	-	-	-	5,214	20,489	25,703		Aa
-	-	-	-	85,473	33,127	118,600		A
-	-	-	-	26,421	25,136	51,557		Baa
-	-	-	-	8,026	2,051	10,077		Ba
-	-	-	-	11,605	10,374	21,979		B
-	-	-	-	27,916	4,044	31,960		Caa
-	-	-	-	-	211,250	211,250		Ca
584,932	-	-	6,935,363	708,074	235,403	8,463,772	Not rated	Not rated
\$ 584,932	\$ 3,656,140	\$ 8,528	\$ 7,969,768	\$ 15,139,571	\$ 3,566,989	\$ 30,925,928		
				Repurchase agreements		5,821,227	Not rated	Not rated
				U S guaranteed obligations		6,448,166	Not rated	Not rated
				Domestic stocks		40,179,374	Not rated	Not rated
				Domestic equity group trust		2,082	Not rated	Not rated
				International stocks		17,066,866	Not rated	Not rated
				International equity commingled funds		4,958,217	Not rated	Not rated
				Limited partnerships – domestic		5,859,263	Not rated	Not rated
				Limited partnerships – international		513,046	Not rated	Not rated
				Options purchased		5,615	Not rated <sup>4</sup>	Not rated <sup>4</sup>
				Swap contracts		(10,981)	Not rated <sup>4</sup>	Not rated <sup>4</sup>
				Real estate investments		6,160,289	Not rated	Not rated
				Total investments		\$ 117,929,092		

<sup>1</sup> The Domestic bonds and notes column includes domestic fixed income commingled funds totaling \$177,151,978 with a B credit rating by Standard & Poor's (S&P)

<sup>2</sup> All investments are included in this table, including security lending collateral investments

<sup>3</sup> S&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 except for "A-1," which is a top tier short-term rating for S&P, and "AAAm," the top money market fund rating for S&P.

<sup>4</sup> Although option contracts and swap contracts do not have specific credit quality ratings, counterparty credit ratings are available and are disclosed in separate schedules.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Counterparty credit ratings for option positions at June 30, 2010, are presented below (in thousands).

Fair Value	S&P Counterparty Credit Rating (Long/Short) <sup>1</sup>	Moody's Counterparty Credit Rating (Long/Short) <sup>1</sup>	Fitch Counterparty Credit Rating (Long/Short) <sup>1</sup>
\$ 1,304	Exchange traded	Exchange traded	Exchange traded
4,311	A/A-1	A/P-1	NR/F1
<u>\$ 5,615</u>	Total options purchased		
\$ (2,188)	Exchange traded	Exchange traded	Exchange traded
(3,791)	A/A-1	A/P-1	NR/F1
(2,778)	NR/NR	NR/P-1	NR/NR
<u>\$ (8,757)</u>	Total options sold <sup>2</sup>		

<sup>1</sup> If no rating exists, "NR" is reported.

<sup>2</sup> Options sold are reported as liabilities in the Statement of Net Assets

Counterparty credit ratings for swaps held at June 30, 2010, are presented below (in thousands).

Fair Value	S&P Counterparty Credit Rating (Long/Short) <sup>1</sup>	Moody's Counterparty Credit Rating (Long/Short) <sup>1</sup>	Fitch Counterparty Credit Rating (Long/Short) <sup>1</sup>
\$ (17,576)	AA/A-1	Aa/P-1	NR/F1
2,463	A/A-1	Aa/P-1	NR/F1
2,889	A/A-1	A/P-1	NR/F1
1,492	NR/A-1	NR/P-1	NR/NR
(249)	NR/NR	NR/P-1	NR/NR
<u>\$ (10,981)</u>	Total swaps		

<sup>1</sup> If no rating exists, "NR" is reported.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Counterparty credit ratings for forward currency contracts held at June 30, 2010, are presented below (in thousands).

<b>Receivable Fair Value</b>	<b>Payable Fair Value</b>	<b>Net Unrealized Gain/(Loss)</b>	<b>S&amp;P Counterparty Credit Rating<sup>1</sup> (Long/Short)</b>	<b>Moody Counterparty Credit Rating<sup>1</sup> (Long/Short)</b>	<b>Fitch Counterparty Credit Rating<sup>1</sup> (Long/Short)</b>
\$ 33,433	\$ (33,503)	\$ (70)	AA/A-1	Aaa/P-1	NR/F1
11,449	(11,656)	(207)	AA/A-1	Aa/P-1	NR/F1
897	(901)	(4)	AA/A-1	Aa/P-1	NR/NR
9,204	(9,019)	185	AA/A-1	A/P-1	NR/F1
195,721	(195,660)	61	A/A-1	Aa/P-1	NR/F1
52,010	(52,045)	(35)	A/A-1	A/P-1	NR/F1
24,401	(24,430)	(29)	A/A-1	NR/P-1	NR/F1
151,763	(150,320)	1,443	A/A-1	NR/P-1	NR/NR
23,600	(23,877)	(277)	NR/A-1	NR/P-1	NR/F1
57,259	(56,516)	743	NR/NR	NR/P-1	NR/NR
4,025	(4,028)	(3)	NR/NR	NR/NR	NR/F1
867	(863)	4	NR/NR	NR/NR	NR/NR
<u>\$ 564,629</u>	<u>\$(562,818)</u>	<u>\$ 1,811</u>			

<sup>1</sup> If no rating exists, "NR" is reported.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

*3. Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of debt instruments.

The Fund manages its exposure to interest rate risk through various investment policies. Policies and interest rate risk disclosures for debt investments of the Fund are presented below. Investments authorized by Section 215.47, Florida Statutes, are managed through individual portfolios with various asset classes. The individual portfolios may have different policies regarding interest rate risk. Major types of debt portfolios are listed below.

*Short-term portfolios* – Weighted average maturity to final maturity date (WAL) is limited to 120 days in the internally managed FRS Short-term Investment Pool (STIPFRS) portfolio and weighted average time to coupon reset (WAM) is limited to 60 days. For securities without a fixed interest rate, the next coupon reset date is used as the maturity for the WAM calculation. In STIPFRS, no individual security shall have a final maturity date longer than one year except for U.S. Treasury and Agency securities, which shall not exceed five years. The Cash and Central Custody portfolio is a participant in STIPFRS.

*Mortgage portfolios* – Portfolio duration should be similar to the duration of the mortgage-related fixed income market and should remain within plus or minus 1.0 year of index duration. The index is the Barclays Capital U.S. MBS Index component of the Barclays Capital U.S. Aggregate Bond Index.

*Government/Corporate portfolios* – Portfolio duration should remain within plus or minus 0.25 years of the Barclays Capital U.S. Aggregate Bond Index less the MBS index component.

*Core portfolios* – Portfolio duration should remain within plus or minus 0.50 – 1.0 year of the Barclays Capital U.S. Aggregate Bond Index duration.

*Core Plus portfolios* – Portfolio duration should remain within plus or minus 1.0 year of the Barclays Capital U.S. Aggregate Bond Index duration.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

*High Yield portfolios* – Portfolio duration should remain within 2.5 years of the Barclays Capital Ba/B 2% Issuer Cap index duration.

*Security Lending portfolios* – Maximum WAM for a portfolio is 60 to 90 days, depending on the lending program.

Presented in the following schedule is the interest rate risk table for the Fund. Investment types related to debt portfolios are presented using effective weighted duration. Investment types related to short-term and security lending collateral portfolios are presented using weighted average maturity (in thousands).

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Investment type	Fair Value (Duration)	Effective Weighted Duration (in years)	Fair Value (WAM)	Weighted Average Maturity (in days)
Certificates of deposit	\$ —	NA	\$ 584,932	30
Commercial paper	—	NA	3,656,140	24
Money market funds	—	NA	8,528	1
Repurchase agreements	—	NA	5,821,227	1
U.S. guaranteed obligations:				
U.S. Treasury bonds and notes	4,233,740	6.82	—	NA
U.S. Treasury strips	127,937	11.88	—	NA
Index linked government bonds	539,667	4.66	—	NA
U.S. government guaranteed	495,510	2.57	—	NA
GNMA mortgage-backed	525,737	2.19	—	NA
GNMA commitments to purchase (TBAs)	503,429	1.98	—	NA
GNMA collateralized mortgage obligations (CMOs)	20,559	2.51	—	NA
GNMA interest-only CMOs	1,138	(51.14)	—	NA
GNMA interest-only inverse floating CMOs	449	(1.46)	—	NA
Federal agencies				
Discount notes	7,824	0.15	—	NA
Unsecured bonds and notes	1,035,915	4.23	—	NA
Agency strips	18,920	7.96	—	NA
Mortgage-backed(FNMA,FHLMC)	4,082,564	2.21	—	NA
FNMA, FHLMC commitments to purchase (TBAs)	2,713,922	2.39	—	NA
Mortgage-backed CMOs	47,580	1.34	—	NA
Interest-only CMOs	14,305	(16.87)	—	NA
Interest-only inverse floating CMOs	26,221	3.45	—	NA
Inverse floating CMOs	4,343	3.62	—	NA
Principal-only CMOs	18,174	5.97	—	NA
Domestic bond and notes:				
Corporate	9,578,122	4.74	24,609	16
Non-government asset and mortgage backed	1,256,599	2.97	402,317	25
Non-government backed CMOs and CMBS	3,311,919	2.90	246,120	19
Non-government backed interest-only CMOs	11,848	1.22	—	—
Municipal/provincial	111,940	7.01	—	NA
Real estate mortgage loans	18,945	6.31	—	NA
Domestic fixed income commingled funds	177,152	2.92	—	NA
International bonds and notes:				
Government and regional	521,372	4.61	—	NA
Government agency	82,076	3.10	—	NA
Corporate	2,668,612	3.71	—	NA
Non-government asset and mortgage backed	82,100	(0.01)	29,183	46
Non-government backed CMOs and CMBS	—	NA	183,646	36
Futures contracts—long <sup>1</sup>	—	4.52	—	NA
Futures contracts—short <sup>1</sup>	—	2.27	—	NA
Options purchased	5,615	(334.29)	—	NA
Swap contracts <sup>1</sup>	(10,981)	1.09	—	NA
Total debt investments	<u>\$ 32,233,253</u>		<u>\$ 10,956,702</u>	

<sup>1</sup> The futures and swap contracts effective weighted duration was calculated using notional values rather than fair values. For foreign futures, local notional value was converted to a U.S. dollar value based on foreign exchange rates at June 30, 2010.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Interest rate risk information for debt investments sold short is presented below (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>Effective weighted duration (in years)</b>
GNMA commitments to sell (TBAs)	\$ (16,321)	1.01
FNMA, FHLMC commitments to sell (TBAs)	(73,536)	1.85
Options sold	(8,757)	(177.54)
Total debt investments sold short <sup>1</sup>	<u>\$ (98,614)</u>	

<sup>1</sup> Investments sold short are reported as liabilities on the Statement of Net Assets.

*4. Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment.

The Fund's foreign equities asset class range limits, as adopted in the Fund's Investment Policy Statement, were 11-25% of total fund assets, with a target of 20%, for most of the fiscal year. On June 8, 2010, the SBA Trustees adopted a new Fund Investment Policy Statement that merged domestic and foreign equities together into a global equities asset class. Therefore, the range of 11-25% is no longer applicable. Other asset classes may hold non-U.S. securities as well, depending on portfolio guidelines. A limited amount of exposure occurs in certain fixed income portfolios. In all cases, Florida law limits the total exposure to foreign securities to 35% of the total fund. There is no requirement that this exposure to foreign currency be hedged through forward currency contracts, although the managers use them in many cases.

Presented below are the Fund's investments, at fair value, and short-sell obligations (in U.S. dollars), exposed to foreign currency risk as of June 30, 2010, presented in total, by currency (in thousands).

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Currency	Investment Type			
	Bonds	Equity	Limited Partnerships <sup>1</sup>	Short-Sells Equity <sup>2</sup>
Australian dollar	\$ -	\$ 623,990	\$ -	\$ (1,699)
Brazilian real	-	266,868	-	-
British pound sterling	-	2,462,332	-	(18,236)
Canadian dollar	23,526	757,571	-	(18,117)
Czech koruna	-	45,195	-	-
Danish krone	-	153,317	-	(3,132)
Egyptian pound	-	36,711	-	-
Euro currency unit	3,035	3,437,071	154,928	(33,035)
Hong Kong dollar	-	1,132,921	-	(955)
Hungarian forint	-	17,920	-	-
Indian rupee	-	299,262	-	-
Indonesian rupiah	-	54,406	-	-
Israeli shekel	-	47,878	-	-
Japanese yen	-	2,444,831	-	(49,817)
Malaysian ringgit	-	74,603	-	-
Mexican peso	26,127	120,660	-	-
Norwegian krone	-	85,787	-	(523)
Philippines peso	-	23,827	-	-
Polish zloty	-	46,757	-	-
Singapore dollar	-	309,628	-	(131)
South African rand	-	229,100	-	-
South Korean won	-	385,599	-	-
Swedish krona	-	279,415	-	(696)
Swiss franc	-	1,086,930	-	(1,380)
Taiwan new dollar	-	387,517	-	-
Thailand baht	-	147,429	-	-
Turkish Lira	-	166,667	-	-
Other	-	101,097	-	-
Equity linked notes (various currencies) <sup>3</sup>	-	10,327	-	-
International equity commingled funds <sup>1</sup>	-	4,958,217	-	-
International private equity limited partnerships <sup>1</sup>	-	-	358,118	-
Total investments subject to foreign currency risk	\$ 52,688	\$ 20,193,833	\$ 513,046	\$ (127,721)

<sup>1</sup> International equity commingled funds and international private equity limited partnerships are commingled investments where the Fund owns only a portion of the overall investment. The overall investment is reported in U.S. dollars, but the underlying investments are exposed to foreign currency risk in various currencies. If the private equity limited partnership provided financial statements in Euro currency units, it was reported above as having foreign currency risk in Euro currency units.

<sup>2</sup> Equity securities sold short are reported as liabilities on the Statement of Net Assets. They are included here since they do have exposure to foreign currency risk.

<sup>3</sup> Equity linked notes are participatory notes that allow the holder to participate in certain foreign equity markets where direct participation is not possible due to local government regulations, tax policies, or other reasons. The notes themselves may be valued in U.S. dollars, but the underlying assets are subject to currency risk.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

In addition to the investments presented above, the Fund holds positions in futures contracts that are subject to foreign currency risk. A futures contract is an agreement between two parties, a buyer and a seller, to exchange a particular good for a particular price at a particular date in the future, all of which are specified in a contract common to all participants in a market on an organized futures exchange. Upon entering into a futures contract, collateral is deposited with the broker, in SBA's name, in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. The frequency of cash flows depends upon specified collateral and margin limits mutually agreed upon by the SBA and third-party broker. The margin payments are exposed to foreign currency risk. The Fund's futures contract positions at June 30, 2010, that have exposure to foreign currency risk are presented below (in thousands):

	Currency	Number of Contracts <sup>1</sup>	In Local Currency			Unrealized Gain/Loss (in U.S. \$)
			Notional Traded Exposure	Notional Market Exposure	Unrealized Gain/(Loss) <sup>2</sup>	
Bond Futures:						
UK Long Gilt	British pound sterling	26	3,093	3,147	54	\$ 81
Euro BOBL	Euro currency unit	490	58,888	59,246	358	438
Euro Bund	Euro currency unit	(46)	(5,951)	(5,952)	(1)	(1)
Japan 10 Year Bond	Japanese yen	(75)	(10,544,250)	(10,624,500)	(80,250)	(907)
Stock Index Futures:						
GBP FTSE 100 Index	British pound sterling	130	6,741	6,345	(396)	(593)
Canada S&P/TSE 60 Index	Canadian dollar	45	6,136	5,933	(203)	(191)
DJ Euro STOXX 50	Euro currency unit	465	12,436	11,941	(495)	(606)
TOPIX Index Future	Japanese yen	86	740,156	721,110	(19,046)	(215)

<sup>1</sup> Long positions are positive and short positions are negative.

<sup>2</sup> Margin receipts or payments are settled periodically in the respective local currency and are subject to foreign currency risk.

In addition, the Fund holds positions in several interest rate swap agreements that are subject to foreign currency risk. The Fund either receives or pays a fixed interest rate and also pays or receives a variable three- or six-month LIBOR (London Inter-Bank Offered Rate) in each currency. A summary of interest rate swaps with currency exposure are presented below (in thousands).

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

Currency	Notional Amount (Local Currency)	Receive <sup>1</sup>	Pay <sup>1</sup>	Maturity Dates	Fair Value in Local Currency	Fair Value in U.S. Dollars
Euro Currency unit	11,510	EURIBOR 6-month	3.94% – 4.055%	5/12/40 – 5/14/40	(526)	\$ (644)
Euro Currency unit	131,730	4.085% – 4.36%	EURIBOR 6-month	4/23/20 – 4/23/40	448	549
		GBP 6-month				
British pound sterling	220,640	LIBOR	3.41% – 4.44%	8/4/15 – 8/16/25	(12,412)	(18,570)
British pound sterling	201,210	4.1331% – 4.1926%	GBP 6 month LIBOR	8/4/20 – 8/16/20	12,693	18,990
			KWCDC 3-month			
South Korean won	112,867,158	3.262% – 3.9%	LIBOR	6/12/11 – 7/8/11	683,023	559
					<u>683,226</u>	<u>\$ 884</u>

<sup>1</sup> If a range of interest rates are presented, they represent the lowest to highest fixed rates received or paid. The EURIBOR (Euro Interbank Offered Rate) is the rate at which euro wholesale money market (or interbank market) term deposits within the euro zone are offered by one prime bank to another prime bank. The “KWCDC 3-Month LIBOR” is the South Korean Won 3-month LIBOR rate.

The Fund also holds credit default swaps where it either buys or sells protection against default of an underlying debt security or basket of debt securities. If protection is purchased and the underlying debt security(s) go into default, the Fund would be made whole. If protection is sold and the underlying debt security(s) go into default, the Fund would be required to make the purchaser whole. The premiums are paid or received in foreign currency and are thus, subject to foreign currency risk. A summary of credit default swaps with currency exposure are presented below (in thousands).

Currency	Local Currency Notional Amount	Buying or Selling Protection	Payment Frequency	Annual Premium Rate <sup>1</sup>	Maturity Dates	Fair Value in Local Currency	Fair Value in U.S. Dollars
Euro currency unit	38,000	Buying	Quarterly	1.00%	6/20/2015	507	\$ 621

<sup>1</sup> The Fund pays an annual 1% premium on 38,000,000 euro currency units notional value. Premiums are paid quarterly.

The Fund also enters into forward foreign currency exchange contracts. Forward foreign currency exchange contracts are agreements to exchange the currency of one country for the currency of another country at an agreed-upon price and settlement date. The contracts are

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

subject to foreign currency risk. The contracts are recorded as receivables and payables on the Statement of Net Assets. A schedule of all forward foreign currency exchange contracts outstanding at June 30, 2010, is presented below, by currency (in thousands).

Currency to Buy	Amount to Buy (Local Currency)	Currency to Sell	Amount to Sell (Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (in U.S. \$)	Net Unrealized Gain/(Loss) (in U.S. \$)
Australian dollar	8,257	Swiss franc	(7,700)	\$ 6,914	\$ (7,150)	\$ (236)
Australian dollar	7,680	U.S. dollar	(6,669)	6,442	(6,669)	(227)
Brazilian real	1,227	U.S. dollar	(685)	681	(685)	(4)
British pound sterling	4,771	Euro currency unit	(5,784)	7,137	(7,088)	49
British pound sterling	7,482	U.S. dollar	(11,224)	11,194	(11,224)	(30)
Canadian dollar	7,295	Euro currency unit	(5,745)	6,861	(7,040)	(179)
Canadian dollar	41,695	U.S. dollar	(39,824)	39,232	(39,824)	(592)
Egyptian pound	1	U.S. dollar	-	-	-	-
Euro currency unit	2,908	Australian dollar	(4,317)	3,563	(3,614)	(51)
Euro currency unit	2,875	British pound sterling	(2,349)	3,523	(3,515)	8
Euro currency unit	2,875	Canadian dollar	(3,607)	3,523	(3,392)	131
Euro currency unit	2,908	Japanese yen	(319,927)	3,564	(3,620)	(56)
Euro currency unit	8,524	Norwegian krone	(68,106)	10,445	(10,433)	12
Euro currency unit	5,630	Swedish krona	(54,034)	6,899	(6,943)	(44)
Euro currency unit	5,670	Swiss franc	(7,656)	6,948	(7,110)	(162)
Euro currency unit	58,084	U.S. dollar	(72,071)	71,163	(72,071)	(908)
Hong Kong dollar	17,605	U.S. dollar	(2,262)	2,261	(2,262)	(1)
Indonesian rupiah	9,330,686	U.S. dollar	(1,028)	1,029	(1,028)	1
Israeli shekel	181	U.S. dollar	(47)	47	(47)	-
Japanese yen	318,052	Euro currency unit	(2,868)	3,599	(3,514)	85
Japanese yen	771,785	U.S. dollar	(8,685)	8,726	(8,685)	41
Kenyan shilling	3,769	U.S. dollar	(47)	46	(47)	(1)
New Zealand dollar	12,916	U.S. dollar	(8,873)	8,833	(8,873)	(40)
Nigerian naira	23,875	U.S. dollar	(160)	159	(160)	(1)
Norwegian krone	57,201	Euro currency unit	(7,213)	8,763	(8,839)	(76)
Norwegian krone	22,972	Japanese yen	(316,529)	3,519	(3,581)	(62)
Norwegian krone	2,335	U.S. dollar	(360)	359	(360)	(1)
S. African rand	2,049	U.S. dollar	(268)	267	(268)	(1)
Singapore dollar	605	U.S. dollar	(434)	433	(434)	(1)

*Continued on next page.*

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

**Forward Foreign Currency Exchange Contracts (continued)**

Currency to Buy	Amount to Buy (Local Currency)	Currency to Sell	Amount to Sell (Local Currency)	Receivable Fair Value (in U.S. \$)	Payable Fair Value (in U.S. \$)	Net Unrealized Gain/(Loss) (in U.S. \$)
South Korean won	29	U.S. dollar	-	\$ -	\$ -	\$ -
Swedish krona	24,556	Euro currency unit	(2,577)	3,156	(3,158)	(2)
Swedish krona	86,785	U.S. dollar	(11,114)	11,152	(11,114)	38
Swiss franc	3,992	Australian dollar	(4,173)	3,707	(3,494)	213
Swiss franc	14,553	Euro currency unit	(10,418)	13,513	(12,767)	746
Swiss franc	4,973	U.S. dollar	(4,603)	4,611	(4,603)	8
Turkish new lira	1,621	U.S. dollar	(1,024)	1,024	(1,024)	-
UAE dirham	74	U.S. dollar	(20)	20	(20)	-
U.S. dollar	15,308	Australian dollar	(18,401)	15,308	(15,418)	(110)
U.S. dollar	931	British pound sterling	(618)	931	(925)	6
U.S. dollar	54,135	Canadian dollar	(56,569)	54,135	(53,232)	903
U.S. dollar	3	Croatian kuna	(17)	3	(3)	-
U.S. dollar	1,102	Danish krone	(6,730)	1,102	(1,107)	(5)
U.S. dollar	135,260	Euro currency unit	(107,290)	135,260	(131,453)	3,807
U.S. dollar	2,048	Hong Kong dollar	(15,950)	2,049	(2,048)	1
U.S. dollar	667	Indian rupee	(31,280)	667	(673)	(6)
U.S. dollar	2,682	Indonesian rupiah	(24,407,934)	2,682	(2,692)	(10)
U.S. dollar	515	Israeli shekel	(1,944)	515	(501)	14
U.S. dollar	66,763	Japanese yen	(6,009,396)	66,763	(67,944)	(1,181)
U.S. dollar	1,100	Mexican new peso	(14,139)	1,100	(1,097)	3
U.S. dollar	3,475	New Zealand dollar	(4,937)	3,475	(3,376)	99
U.S. dollar	72	Singapore dollar	(101)	72	(72)	-
U.S. dollar	621	South Korean won	(770,158)	621	(630)	(9)
U.S. dollar	12,442	Swedish krona	(99,523)	12,442	(12,789)	(347)
U.S. dollar	1,729	Swiss franc	(1,867)	1,729	(1,731)	(2)
U.S. dollar	2,462	Thailand baht	(80,045)	2,462	(2,471)	(9)
<b>Total</b>	<u>11,169,811</u>		<u>(32,619,300)</u>	<u>\$ 564,629</u>	<u>\$(562,818)</u>	<u>\$ 1,811</u>

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

*5. Security Lending*

The Fund participates in security lending programs. Initial collateral requirements for securities on loan primarily must be 102% or greater. The Fund had received and invested \$5.3 billion in cash and \$17.7 million in U.S. government securities as collateral for the lending programs as of June 30, 2010. At June 30, 2010, the collateral held for the security lending transactions exceeded the fair value of the securities underlying the agreement (including accrued interest). The SBA does not have the ability to pledge or sell the non-cash collateral securities, so the non-cash portion is not reported on the Statement of Net Assets, in accordance with GASB Statement 28, *Accounting and Financial Reporting for Securities Lending Transactions*. All security lending programs have indemnity clauses requiring the lending agent to assume borrower's risk from default. Maturities of investments made with cash collateral generally are not matched to maturities of the securities loaned, because security loan agreements are generally open-ended with no fixed expiration date. As such, investments made with cash collateral are primarily in short-term investments. However, investments purchased for some security lending programs included investments with final maturities of six months or more representing a range of approximately 11% to 44% of total collateral invested. There are no restrictions on the amount of securities that can be loaned at one time to one borrower.

In July 2009, following a third-party study of current practices in securities lending, the SBA began transitioning from a general collateral/cash re-investment program to an intrinsic/repo only lending model. The latter model recognizes and monetizes only the demand driven lending value of securities held in the portfolio and avoids the credit and liquidity risk of a credit oriented re-investment portfolio.

Existing re-investment portfolios contained legacy non-repo securities which will be supported by lending until they are either sold without loss or matured. All new lending will be done using one day repurchase agreements of U.S. Government guaranteed securities as re-investment.

The expectation was that both lending revenue and utilization would drop substantially, resulting in the need to reduce the number of lending agents in the program. One agent lender's program was transitioned to the Fund's custodian, leaving two third-party agents.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

As of June 30, 2010 approximately 82% of the lending program was intrinsic, with full implementation expected by June 30, 2011.

The schedule below discloses the fair value and carrying value of investments on loan at June 30, 2010 (in thousands):

	<b>Fair Value of Securities on Loan</b>	<b>Accrued Interest</b>	<b>Total Fair Value of Securities on Loan</b>
<b>Securities on Loan for Cash Collateral, by Security Type</b>			
U.S. guaranteed obligations	\$ 782,988	\$ 5,968	\$ 788,956
Federal agencies	237,787	1,914	239,701
Domestic corporate bonds and notes	529,558	9,418	538,976
International bonds and notes	144,354	1,780	146,134
Domestic stocks	2,228,136	NA	2,228,136
International stocks	1,178,119	NA	1,178,119
Total securities on loan for cash collateral	<u>5,100,942</u>	<u>19,080</u>	<u>5,120,022</u>
<b>Securities on Loan for Non-Cash Collateral, by Security Type</b>			
Domestic stocks	<u>17,010</u>	NA	<u>17,010</u>
Total securities on loan for non-cash collateral	<u>17,010</u>	NA	<u>17,010</u>
Total securities on loan	<u><u>\$ 5,117,952</u></u>	<u><u>\$ 19,080</u></u>	<u><u>\$ 5,137,032</u></u>

NA – Not Applicable

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

*6. Derivatives*

Effective July 1, 2009, the Fund adopted GASB Statement No. 53 (GASB 53), *Accounting and Financial Reporting for Derivative Instruments*, which was issued in June 2008. GASB 53 establishes accounting and reporting requirements for derivative instruments. Per GASB 53, a derivative instrument is defined as a financial instrument or other contract that has all of the following characteristics:

- a. Settlement factors. It has (1) one or more reference rates and (2) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements and, in some cases, whether or not a settlement is required.
- b. Leverage. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- c. Net settlement. Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

The implementation of GASB 53 had no impact on the Fund's financial statements for the fiscal year ended June 30, 2010, as the change in the fair value of derivative instruments was recorded in the accompanying Statement of Changes in Net Assets. The derivative instruments were recorded at fair value as of June 30, 2010. Derivative instruments consisted of futures, options, mortgage TBAs, forward currency contracts, and swaps.

The SBA has established investment policy guidelines for each investment portfolio. Pursuant to these guidelines, derivative investment instruments are authorized to be used as tools for managing risk or executing investment strategies more efficiently than could otherwise be done in cash markets. Derivative instruments shall only be used as part of a prudent investment process. Various derivative investment instruments are used as part of the investment strategy to

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

hedge against interest rate risk, currency risk in foreign markets, default risk, and mortgage-backed security prepayment risk, as well as to cost effectively manage exposure to domestic and international equities and bond and real estate markets.

A futures contract is an agreement between two parties, a buyer and a seller, to exchange a particular good for a particular price at a particular date in the future, all of which are specified in a contract common to all participants in a market on an organized futures exchange. Upon entering into a futures contract, collateral is deposited with the broker, in SBA's name, in accordance with the initial margin requirements of the broker. Futures contracts are marked to market daily by the board of trade or exchange on which they are traded. The resulting gain/loss is received/paid the following day until the contract expires. The frequency of cash flows depends upon specified collateral and margin limits mutually agreed upon by the SBA and third-party broker. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin disclosed in the Statement of Net Assets. Losses may arise from future changes in the value of the underlying instrument.

An option gives the buyer a stipulated privilege of buying or selling a stated property, security, or commodity at a given price (strike price) within a specified time (for an American-style option, at any time prior to or on the expiration date). A securities option is a negotiable contract in which the seller (writer), for a certain sum of money called the option premium, gives the buyer the right to demand within a specified time the purchase (call) from or sale (put) to the option seller of a specified number of bonds, currency units, index units, or shares of stock, at a fixed price or rate, called the strike price or rate.

A forward contract is a contractual obligation, typically over-the-counter, traded between two parties to exchange a particular good or instrument at a set price on a future date. The buyer of the forward agrees to pay the price and take delivery of the good or instrument and is said to be "long" the forward contract, while the seller of the forward, or "short," agrees to deliver the good or instrument at the agreed price on the agreed date.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

A swap is a contractual agreement to exchange a stream of periodic payments with a counterparty. Swaps are available in and between all active financial markets, including, but not limited to, interest rate swaps and credit default swaps. A credit default swap is an agreement that allows one party to “buy” protection from another party for losses that might be incurred as a result of default by a specified reference credit (or credits). The “buyer” of protection pays a premium for the protection, and the “seller” of protection agrees to make a payment to compensate the buyer for losses incurred if a defined credit event occurs.

A summary of investment derivatives traded in the Fund is presented below (in thousands):

Investment Derivatives	Changes in Fair Value		Fair Value at June 30, 2010		Notional (in US \$)
	Classification	Amount (in US \$)	Classification	Amount (in US \$)	
Futures <sup>1</sup>	Investment Income	\$ 204,635	Receivable/Payable	\$ –	\$ 236,776
Options	Investment Income	3,486	Investment/Liability <sup>2</sup>	(3,142)	(1,226,880)
Forward currency exchange contracts	Investment Income	(11,108)	Receivable/Payable <sup>3</sup>	1,811	1,811
GNMA commitments to purchase/sell TBAs	Investment Income	35,044	Investment/Liability <sup>2</sup>	487,109	457,455
FNMA, FHLMC commitments to purchase/sell TBAs	Investment Income	152,200	Investment/Liability <sup>2</sup>	2,640,385	2,496,939
Interest rate swaps	Investment Income	(11,577)	Investment/Liability	(6,853)	1,024,840
Credit default swaps	Investment Income	41,954	Investment/Liability	(8,286)	386,636
Total return swaps	Investment Income	37,555	Investment/Liability	4,157	377,665
Equity index swaps	Investment Income	515,033	Not applicable <sup>4</sup>	–	–

<sup>1</sup> The total unrealized loss for open futures contracts at June 30, 2010 was \$29,335,153. However, the majority of this loss has been settled with cash payments totaling \$26,881,788 sent to the futures clearing broker on or before June 30, 2010. Outstanding remaining net futures trade equity at June 30, 2010 totaled -\$2,453,365, which is reported on the Statement of Net Assets as “Futures trade equity receivable” and “Futures trade equity payable”. The total notional values on long and short futures positions were \$5,512,165,847 and -\$5,275,389,880, respectively.

<sup>2</sup> Purchased options and mortgage TBA’s are reported as investments. This schedule nets purchase and sell commitments.

<sup>3</sup> The total Receivable and Payable notional and fair values (in U.S. \$) for forward currency exchange contracts were \$564,628,863 and -\$562,818,119 as of June 30, 2010. These amounts are reported as “Forward currency contracts receivable” and “Forward currency contracts payable” on the Statement of Net Assets.

<sup>4</sup> The equity index swaps were closed prior to the end of the fiscal year.

The Fund also held units in the SSGA Daily Active Emerging Markets Fund, Blackrock Small Cap Plus and Blackrock Index Plus Funds. These funds use equity return swaps and equity futures to gain exposure to certain international equity markets. The Fund does not directly hold positions in these derivatives; it only holds units of the commingled funds.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**2. Deposits and Investments (continued)**

*7. Commitments*

At June 30, 2010, the Fund had entered into a number of agreements (i.e., capital commitments) that commit the Fund, upon request, to make additional investment purchases up to predetermined amounts. The total unfunded capital commitments of \$6.6 billion are not reported on the Fund's Statement of Net Assets. The following table depicts the unfunded commitments by asset class (in thousands).

<u>Asset Class</u>	<u>Unfunded Commitments (in U.S. \$)</u>
Private equity <sup>1</sup>	\$ 4,242,412
Strategic investments	2,126,964
Real estate	276,661
Total	<u>\$ 6,646,037</u>

<sup>1</sup> Includes \$3,894,293,719 in U.S. dollars and 284,201,694 in Euro currency units with a June 30, 2010 U.S. dollar value of \$348,118,657.

**3. Litigation**

During the ordinary course of its operations, the Fund may be party to various claims, legal actions, and class action lawsuits. The SBA's General Counsel 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.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Financial Statements (continued)

June 30, 2010

**4. Related Parties**

The SBA considers the DMS and the PEORPTF to be related parties for the purpose of the financial statements. The Fund has a variety of transactions with the DMS and PEORPTF. The DMS administers the FRS, including collecting employer contributions, remitting those contributions to SBA for investment in the Fund, requesting withdrawals from the Fund for benefit payments, and then paying those benefit payments to participants. The SBA administers the PEORPTF, including working with DMS to collect employer contributions and processing participant directed transfers between the Fund and the PEORPTF.

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

Transfers from the DMS:	
Related to member employer contributions	<u>\$ 2,733,277</u>
Transfers from the PEORPTF:	
Related to participant directed transfers from PEORPTF	<u>\$ 21,002</u>
Transfers to the DMS:	
Related to member benefits and other transfers	<u>\$ 6,197,430</u>
Transfers to the PEORPTF:	
Related to participant directed transfers to PEORPTF	<u>\$ 674,731</u>
Receivables:	
Due from the DMS	<u>\$ 265,299</u>
Payables:	
Due to the DMS	<u>\$ 313,784</u>

# Supplemental Information

State Board of Administration  
Florida Retirement System Trust Fund

Supplemental Information  
(Unaudited)

The Division of Retirement, Department of Management Services is responsible for the administration of the Florida Retirement System (FRS) Defined Benefit Pension Plan. The information below was taken from a letter prepared by Milliman, Inc. Milliman Inc. is the plan actuary under contract to the Department of Management Services. The information has not been reviewed or audited by the SBA. For further information on the FRS Defined Benefit Pension Plan, please contact the State Retirement Director, Florida Retirement System, 1317 Winewood Boulevard, Building 8, Tallahassee, FL 32399.

**Funded Status for the Florida Retirement System**

The following table provides funding information for the FRS Defined Benefit Pension Plan for the past eleven fiscal years (amounts expressed in thousands). Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

**Schedule of Funding Progress<sup>1</sup>**  
(In Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Annualized Covered Payroll <sup>2</sup> (C)	UAAL as a Percentage of Covered Payroll (B-A)/C
July 1, 2000	\$ 88,503,838	\$ 74,948,950	\$ (13,554,888)	118.09%	\$ 20,463,403	(66.24)%
July 1, 2001	95,517,948	80,993,718	(14,524,230)	117.93	21,360,862	(67.99)
July 1, 2002	99,405,677	86,469,774	(12,935,903)	114.96	22,195,184	(58.28)
July 1, 2003	101,906,724	89,251,331	(12,655,393)	114.18	22,270,807	(56.83)
July 1, 2004	106,707,426	95,185,433	(11,521,993)	112.10	23,115,581	(49.85)
July 1, 2005	111,539,878	103,925,498	(7,614,380)	107.33	24,185,983	(31.48)
July 1, 2006	117,159,615	110,977,831	(6,181,784)	105.57	25,327,922	(24.41)
July 1, 2007	125,584,704	118,870,513	(6,714,191)	105.65	26,385,768	(25.45)
July 1, 2008	130,720,547	124,087,214	(6,633,333)	105.35	26,891,340	(24.67)
July 1, 2009 <sup>3</sup>	118,764,692	136,375,597	17,610,905	87.09	26,573,196	66.27
July 1, 2010	120,929,666	139,652,377	18,722,711	86.59	25,765,362	72.67

<sup>1</sup> Source: Milliman letter dated December 9, 2010 obtained from the Florida Retirement System.

<sup>2</sup> Payroll as of July 1, 1999 and after includes Deferred Retirement Option Program (DROP) payroll.

<sup>3</sup> As reported in July 1, 2009 actuarial valuation report, before impact of House Bill 479 (2009).

State Board of Administration  
Florida Retirement System Trust Fund

Supplemental Information (continued)  
(Unaudited)

**Schedule of Employer Contributions<sup>1</sup>**  
*(In Thousands)*

<b>Year Ended June 30</b>	<b>Annual Required Contributions</b>	<b>Percent Contributed</b>
1999	\$ 3,102,984	100%
2000	1,969,057	111 <sup>2</sup>
2001	1,869,731	110
2002	1,825,485	97
2003	1,844,203	98
2004	2,044,540	92
2005	2,141,862	102
2006	2,193,928	96
2007	2,455,255	111
2008	2,612,672	107
2009	2,535,854	111
2010	2,447,374	111

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<sup>1</sup> Source: Milliman letter dated December 9, 2010 obtained from the Florida Retirement System.

<sup>2</sup> The 2000 required annual contributions and the corresponding percent contributed were restated to reflect a change in the annual required contribution through the use of actuarially determined surplus.

State Board of Administration  
Florida Retirement System Trust Fund

Notes to Supplemental Information  
(Unaudited)

The information presented in the supplementary schedules presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows<sup>1</sup>:

Valuation date	July 1, 2010
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay, Open
Equivalent Single amortization period	30 years <sup>2</sup>
Asset valuation method	5-year Smoothed Method
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	5.85% <sup>3</sup>
Includes inflation at	3.00%
Cost-of-living adjustments	3.00%

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<sup>1</sup> Source: Milliman letter dated December 9, 2010 obtained from the Florida Retirement System.

<sup>2</sup> Used for GASB Statement #27 reporting purposes.

<sup>3</sup> Includes individual salary growth of 4.00% plus an age- and service-graded merit scale defined by gender and employment class.

See Table A-2 of the July 1, 2010 actuarial valuation report for merit scale commissioned by DMS.

# 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 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 Florida Retirement System 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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