

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

State Board of Administration of Florida
Public Employee Optional Retirement Program Trust Fund
June 30, 2011 and 2010
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

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

June 30, 2011 and 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 statements of net assets of the Public Employee Optional Retirement Program Trust Fund (the Trust) administered by the State Board of Administration of Florida (SBA) as trustee as of June 30, 2011 and 2010, and the related statements of changes in net assets for the years then ended. These financial statements are the responsibility of the SBA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Trust's internal control over financial reporting. Our audits 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 Trust'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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the Public Employee Optional Retirement Program or the State Board of Administration of Florida as of June 30, 2011 and 2010, and the changes in its financial position for the years 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 Trust administered by the State Board of Administration of Florida as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011, on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements but is supplementary information recommended by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Ernst + Young LLP

November 11, 2011

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis

June 30, 2011 and 2010

Introduction

This section of the financial statements of the Public Employee Optional Retirement Program Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2011 and 2010. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

As further described in Note 1 to the financial statements, the Public Employee Optional Retirement Program (the Plan), also known as the Florida Retirement System (FRS) Investment Plan, is a defined contribution plan for eligible members of the Florida Retirement System who elect to participate in the Plan in lieu of participation in the FRS Defined Benefit Plan.

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

Contributions to the Plan are collected by DMS and transmitted to the SBA, which deposits them in the Trust. Aon Hewitt, the Plan administrator contracted by the SBA, is responsible for the placement of participant-directed trades among investment options offered by the Plan and maintaining records of individual participant accounts. Participants choose from a diverse offering of low-cost institutional and mutual fund investment options selected by the SBA. Aon Hewitt records in each participant's account balance all relevant contributions, withdrawals, fees, and the investment performance of the funds selected by the participant. Benefits participants receive from the Plan vary based on the participants' individual account balances.

Financial Statements

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

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Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

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

Statements of Net Assets

The statements of net assets present the assets, liabilities and net assets (assets minus liabilities) of the Trust as of the end of the fiscal year and are point in time financial statements.

The statements of net assets were comprised of the following major components as of the end of each of the last three fiscal years. The primary assets in the Trust are the participants' investment accounts.

Trust Net Assets (In Millions)

	June 30		
	2011	2010	2009
Assets			
Investments	\$ 6,737	\$ 5,050	\$ 4,075
Receivables	53	42	42
Total assets	6,790	5,092	4,117
Liabilities			
Accounts payable and accrued liabilities	3	1	1
Net assets	\$ 6,787	\$ 5,091	\$ 4,116

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Public Employee Optional Retirement Program Trust Fund

Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Statements of Changes in Net Assets

Changes in net assets from year to year are presented in the statements of changes in net assets. The purpose of these statements is to present the net investment income earned by the Trust as well as the contributions of employers and withdrawals for participants and/or beneficiaries. A summary of the changes in net assets during the past three fiscal years follows.

Changes in Trust Net Assets (in Millions)

	2011	June 30 2010	2009
Additions			
Net investment income (loss)	\$ 932	\$ 447	\$ (661)
Contributions	1,681	1,134	991
Total additions	<u>2,613</u>	<u>1,581</u>	<u>330</u>
Deductions			
Transfers for benefit payments	874	576	596
Transfers to other plans	34	21	18
Administrative expenses	9	9	8
Total deductions	<u>917</u>	<u>606</u>	<u>622</u>
Net increase (decrease) in net assets	<u>\$ 1,696</u>	<u>\$ 975</u>	<u>\$ (292)</u>

Analysis

The Trust's investments and net assets increased by \$1.7 billion (33%) and \$1.0 billion (24%) during fiscal years 2011 and 2010, respectively. The growth in each year was the net result of (1) contributions to the Trust exceeding transfers out of the Trust for benefit payments and to other plans and (2) increased investment income.

In fiscal year 2011, changes in the mixture of the membership classes and growth in overall participants contributed to the increase in contributions. Contributions into the Trust and transfers out of the Trust for benefit payments increased, in part, due to participant reaction to the 2011 proposed and actual legislative changes to the FRS Defined Benefit Plan and the Deferred Retirement Option Program (DROP). In particular, the number of participants who made a second election to the Plan in fiscal year 2011 increased 87% to 8,300 from 4,400, accounting for \$510 million of the \$547 million increase in contributions.

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Management's Discussion and Analysis (continued)

June 30, 2011 and 2010

Under the Plan, newly hired employees from the 980 participating employers had the opportunity to choose to participate in either the Plan or the FRS Defined Benefit Plan. In fiscal year 2011, approximately 25% of the newly hired employees elected to enroll in the Plan compared with 23% in fiscal year 2010.

The table below reflects the active Plan membership by class at the end of each of the past three fiscal years.

Active Membership Trends

	Regular	Special Risk	Special Risk Admin	Senior Management	Elected Officers	Total
June 30, 2009	82,886	10,289	18	1,907	402	95,502
June 30, 2010	84,846	10,739	18	1,996	431	98,030
June 30, 2011	90,353	12,279	21	2,131	466	105,250

Note: Including inactive members, the number of member accounts as of June 30, 2011 was 136,661.

Contribution rates, which are established by Section 121.72(4), Florida Statutes, vary by membership class. The rates presented in the following table were in effect for fiscal years 2009 through 2011.

Contribution Rates

Membership Class	% of Gross Compensation
Regular	9.00%
Special risk	20.00
Special risk administrative support	11.35
Legislators	13.40
Governor, Lt. Governor, cabinet officers	13.40
State Attorney, public defenders	13.40
Justices, judges	18.90
County elected officers	16.20
Senior management service	10.95

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Management's Discussion and Analysis (continued)

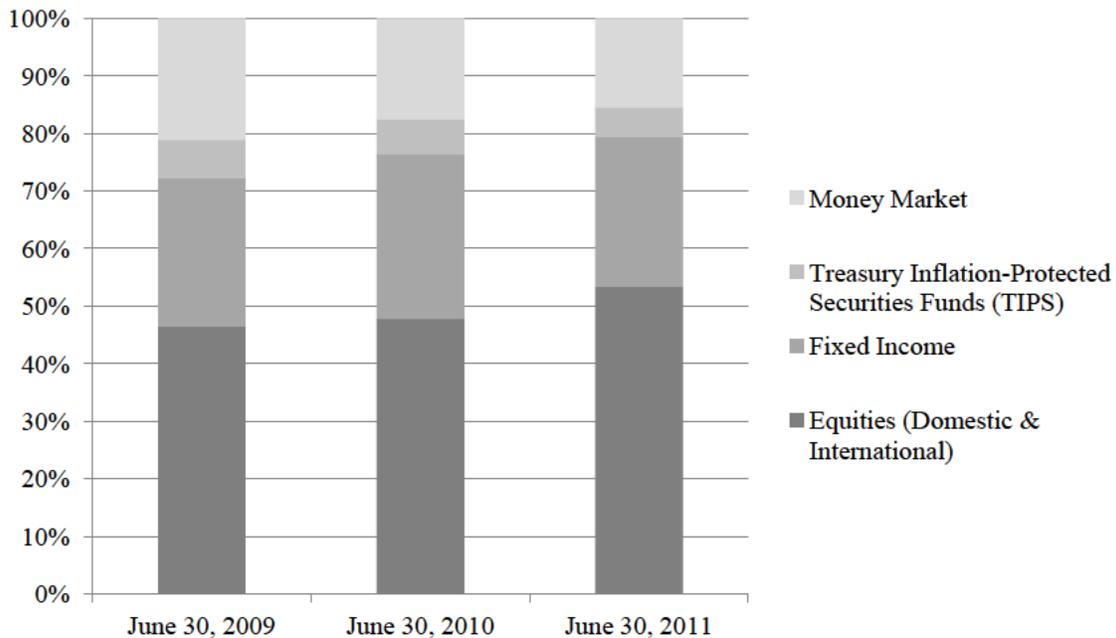
June 30, 2011 and 2010

The year-over-year increase in investment income in both the 2011 and 2010 fiscal years was driven by performance of the equity funds and the increased allocations participants made to equity funds, as discussed in the following sections.

Asset Allocation

The following chart indicates the Trust's asset allocation at the end of each of the past three fiscal years. The asset allocation of the Trust is a function of the participants' investment decisions across the various investment options offered. Reflecting the equity market recovery, combined equity assets have increased to approximately 53% of the overall allocation as of June 2011 from 47% as of June 2009. Note 3 to the financial statements describes the Plan's Investment Policy Statement and oversight of the Trust's investments.

Asset Allocation
(By Percentage of Invested Assets)



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

June 30, 2011 and 2010

Investment Performance

Over the past fiscal year, improved financial markets helped all asset categories perform well. The Trust's total return for fiscal year 2011 was 18.1%, a record high since the Trust's inception in fiscal year 2002-03. The total return for fiscal year 2010 was 11.1%.

Investment Returns by Asset Class

	2011	June 30 2010	2009
Money Market	0.3%	0.2%	1.1%
TIPS	7.8	9.6	(0.9)
Fixed income	5.0	12.3	5.2
Domestic equity	36.1	18.6	(26.5)
Foreign equity	31.2	8.4	(28.5)
Total plan return	18.1%	11.1%	(15.2)%

The Trust has outperformed its aggregate benchmark over the trailing one-, three-, and five-year periods, suggesting strong relative performance for the underlying fund options in which participants are investing. More detailed information and analysis of the Trust's performance can be obtained from the SBA's Annual Investment Report, which can be found at www.sbafla.com.

Contacting the Trust's Financial Management

This financial report is designed to provide citizens, taxpayers, plan participants, and other interested parties with an overview of the Trust's finances and the prudent exercise of the SBA's oversight. If you have any questions regarding this report or need additional information, please contact the Senior DC Program Officer, State Board of Administration of Florida, P.O. Box 13300, Tallahassee, FL 32317-3300.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Statements of Net Assets

	June 30	
	2011	2010
	<i>(In thousands)</i>	
Assets		
Investments:		
Money market funds	\$ 1,041,048	\$ 883,848
Commingled funds, at fair value:		
Treasury inflation-protected securities funds	348,750	310,913
Domestic fixed income	1,754,489	1,443,801
Domestic equity	2,379,757	1,593,761
International equity	1,212,870	817,389
Total investments, at fair value	<u>6,736,914</u>	<u>5,049,712</u>
Receivables:		
Accounts receivable	378	313
Transfers due from Department of Management Services	51,851	41,261
Interest and dividends	904	798
Total receivables	<u>53,133</u>	<u>42,372</u>
Total assets	<u>6,790,047</u>	<u>5,092,084</u>
Liabilities		
Accounts payable and accrued liabilities	2,549	1,065
Net assets held in trust	<u>\$ 6,787,498</u>	<u>\$ 5,091,019</u>

See accompanying notes.

State Board of Administration
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Statements of Changes in Net Assets

	Year Ended June 30	
	2011	2010
	<i>(In thousands)</i>	
Additions		
Investment income:		
Dividend income	\$ 27,719	\$ 25,673
Interest and other investment income	87	56
Net increase in fair value of investments	906,142	422,917
	933,948	448,646
Investment expenses:		
Bank fees	(628)	(590)
Investment management fees	(1,654)	(1,044)
Total investment expenses	(2,282)	(1,634)
Net investment income	931,666	447,012
Contributions:		
Transfers from Department of Management Services (DMS)	456,393	425,468
Participant-directed rollover deposits	42,102	34,238
Participant-directed transfers from FRS defined benefit plan	1,183,161	674,731
Total contributions	1,681,656	1,134,437
Total additions	2,613,322	1,581,449
Deductions		
Administrative expenses	9,487	8,784
Transfers to DMS for benefit payments to participants	873,862	576,231
Participant-directed transfers to FRS defined benefit plan	33,494	21,002
Total deductions	916,843	606,017
Net increase in net assets	1,696,479	975,432
Net assets held in trust:		
Beginning of year	5,091,019	4,115,587
End of year	\$ 6,787,498	\$ 5,091,019

See accompanying notes.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements

June 30, 2011 and 2010

1. Financial Reporting Entity

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

The Public Employee Optional Retirement Program Trust Fund (the Trust) was established pursuant to Section 121.4502, Florida Statutes, to hold the assets of the Plan in trust for the exclusive benefit of the Plan's participants and beneficiaries and for the payment of reasonable administrative expenses of the Plan.

The Trust is not a separate legal entity within the State of Florida. These financial statements and notes thereto include only the net assets and changes in net assets of the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the SBA or the Plan as of June 30, 2011 and 2010, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

2. Summary of Significant Accounting Policies

Basis of Presentation

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

State Board of Administration
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Notes to Financial Statements (continued)

June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

(GASB 31), and GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34). As such, the Trust’s financial statements present statements of net assets and statements of changes in net assets.

Measurement Focus and Basis of Accounting

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

Investment Valuation

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

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

Income Recognition

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

Administrative Expenses

Pursuant to Section 121.4502, Florida Statutes, reasonable administrative expenses are paid from the Trust’s assets.

State Board of Administration
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Notes to Financial Statements (continued)

June 30, 2011 and 2010

2. Summary of Significant Accounting Policies (continued)

Use of Estimates

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

New Accounting Standards Adopted

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus* (GASB 59), which updated and improved existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. GASB 59 became effective for financial statements for reporting periods beginning after June 15, 2010. The Trust's adoption of this standard did not have a material impact on the statements of net assets or the statements of changes in net assets.

3. Deposits and Investments

Deposits

At June 30, 2011 and 2010, the Trust did not have any deposits on hand. All contributions and transfers are invested immediately according to participant directions.

Investments

The Plan has an Investment Policy Statement (IPS) that includes, among other items, the investment objectives of the Plan, manager selection and monitoring guidelines, and performance measurement criteria. The IPS is revisited periodically to ensure the structure and guidelines are appropriate, taking into consideration the Plan's goals and objectives.

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2011 and 2010

3. Deposits and Investments (continued)

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

The SBA's Executive Director & Chief Investment Officer is responsible for selecting, evaluating and monitoring performance of the investment options, with a focus on maximizing return within appropriate risk constraints outlined in the Plan's IPS. The Trust currently offers twenty low-cost institutional commingled trusts and mutual fund investment options investing in cash, bonds, and stocks. Three risk-targeted balanced funds are available, consisting of mixtures of various assets classes. At fiscal 2011 year-end, more than 78% of the Plan's participants had allocated at least some of their assets to one or more of the three available balanced funds. Almost 42% of total Trust assets were in the balanced funds. For financial reporting purposes, all assets are presented in five asset classes.

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

The SBA staff, consultants and Trustees review the Trust's performance quarterly. During fiscal year 2010 and 2011, the IAC reviewed performance every six months; beginning in fiscal year 2012, it will review performance quarterly. The long-term performance of each actively managed investment option is expected to exceed the returns on its performance benchmark, net of all fees and charges while avoiding large year-to-year deviations from the returns of the performance benchmark. The long-term performance of each passively managed investment option is expected to closely approximate returns of the performance benchmark, net of all fees and charges. At the total Trust level, performance is evaluated by asset class and is measured on an absolute basis and relative to appropriate market benchmarks for each investment option. Performance data is aggregated for the total Trust and for each product type or asset class, using participant allocations as the weighting factors.

State Board of Administration
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Notes to Financial Statements (continued)

June 30, 2011 and 2010

3. Deposits and Investments (continued)

The Trust's investments consist of the following as of June 30, 2011 and 2010:

Investment Portfolio Characteristics*

	2011		2010	
	Fair Value <i>(In thousands)</i>	% of Portfolio	Fair Value <i>(In thousands)</i>	% of Portfolio
Money Market Funds:				
EB Temporary Investment FD II	\$ 1,725	0.0%	\$ 1,923	0.0%
FRS Select Yield Plus MM Active Fund	1,039,323	15.5	881,925	17.5
Total Money Market Funds	1,041,048	15.5	883,848	17.5
Treasury Inflation-Protected Securities (TIPS) Funds:				
FRS Select US TIPS Index Fund	348,750	5.2	310,913	6.2
Total Treasury Inflation-Protected Securities Funds	348,750	5.2	310,913	6.2
Domestic Fixed Income Funds:				
PIMCO Total Return Fund	284,685	4.2	256,428	5.1
Pyramis Intermediate Duration Pool Fund	354,385	5.3	319,098	6.3
FRS Select US Bond Enhanced Index Fund	980,173	14.5	761,128	15.1
FRS Select High Yield Fund	135,246	2.0	107,147	2.1
Total Fixed Income Funds	1,754,489	26.0	1,443,801	28.6
Domestic Equity Funds:				
American Beacon Small-Cap Value Fund	137,920	2.0	100,785	2.0
Fidelity Growth Company Fund	310,485	4.6	215,525	4.3
Fidelity Low Priced Stock Fund**	27,072	0.4	22,961	0.5
Pioneer Fund	146,285	2.2	101,842	2.0
T Rowe Price Small-Cap Stock Fund	251,098	3.7	159,459	3.2
Prudential Mid-Cap Quantitative Core Equity Fund	291,537	4.3	175,621	3.5
FRS Select US Large Growth Stock Active Fund	78,884	1.2	53,969	1.0
FRS Select US Stock Market Index Fund	901,484	13.4	530,864	10.4
FRS Select US Large Value Stock Active Fund	234,992	3.5	232,735	4.6
Total Domestic Equity Funds	2,379,757	35.3	1,593,761	31.5
International Equity Funds:				
American Funds Euro-Pacific Growth Fund	195,219	2.9	155,378	3.1
American Funds New Perspective Fund	201,572	3.0	156,134	3.1
FRS Select Foreign Stock Index Fund	816,079	12.1	505,877	10.0
Total International Equity Funds	1,212,870	18.0	817,389	16.2
Total Investments	\$ 6,736,914	100.0%	\$ 5,049,712	100.0%

* The FRS Balanced Funds invest in various FRS investment funds in different proportions and are accounted for in the individual investment options in this table.

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

State Board of Administration
Public Employee Optional Retirement Program Trust Fund

Notes to Financial Statements (continued)

June 30, 2011 and 2010

3. Deposits and Investments (continued)

Risks

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

The Plan's Investment Policy Statement provides a statement of objectives for the Trust, general guidelines for each asset class and the balanced funds, and educational services to help participants manage the level of risk associated with the choices they make with their individual investment accounts.

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

Credit Risk and Concentration of Credit Risk of Debt Securities

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

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

State Board of Administration
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Notes to Financial Statements (continued)

June 30, 2011 and 2010

3. Deposits and Investments (continued)

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Trust will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. As of June 30, 2011 and 2010, the Trust had no securities in the possession of an outside party.

Interest Rate Risk

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

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

Presented in the following tables is the effective weighted duration of the money market and fixed income investments as a measure of interest rate risk for the Trust as of June 30, 2011 and 2010.

Investment Type	Fair Value	Effective Weighted Duration
	<i>(In thousands)</i>	<i>(In years)</i>
As of June 30, 2011		
Money Market Funds	\$ 1,041,048	0.050
Fixed income and TIPS	2,103,239	4.867
Total fixed income investments	<u>\$ 3,144,287</u>	
As of June 30, 2010		
Money Market Funds	\$ 883,848	0.055
Fixed income and TIPS	1,754,714	4.052
Total fixed income investments	<u>\$ 2,638,562</u>	

State Board of Administration
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Notes to Financial Statements (continued)

June 30, 2011 and 2010

3. Deposits and Investments (continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates between the U.S. dollar and foreign currencies could adversely affect an investment's fair value. The Trust's investments in international equity funds are reported in U.S. dollars by the investment fund managers. The underlying investments in these funds may be exposed to foreign currency risk in various currencies. The fair value of the international equity funds as of June 30, 2011 and 2010 was \$1,212,870,000 and \$817,389,000, respectively.

4. Related-Party Transactions

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

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

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Notes to Financial Statements (continued)

June 30, 2011 and 2010

4. Related-Party Transactions (continued)

Significant transactions between the Trust and the DMS and the FRS Trust Fund in fiscal years 2011 and 2010 were as follows:

	2011	2010
	<i>(In thousands)</i>	<i>(In thousands)</i>
Transfers from DMS for employer contributions	\$ 456,393	\$ 425,468
Transfers from FRS Trust Fund (ABO) related to participant-directed transfers	\$ 1,183,161	\$ 674,731
Transfers to FRS Trust Fund	\$ 33,494	\$ 21,002
Receivables:		
From DMS	\$ 51,851	\$ 41,261
Payments to DMS to pay participant benefits	\$ 873,862	\$ 576,231

5. Contingencies and Litigation

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

The Trustees of the SBA and the Secretary of the Department of Management Services have been served complaints challenging the constitutionality of Senate Bill 2100, codified as Chapter 2011-68, Laws of Florida, (the legislation mandating the deduction of 3% of employees' salaries for contribution into the Florida Retirement System), which became effective July 1, 2011. The Court has yet to issue an opinion on this matter. Because the law became effective on July 1, 2011, the Court's ruling will have no effect on the financial statements of the Trust for the fiscal year ended June 30, 2011. However, the SBA cannot speculate regarding whether the Florida courts (and ultimately the Florida Supreme Court) will find Senate Bill 2100 to be unconstitutional and whether such a conclusion will affect the financial statements of the Trust in future periods.

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 Public Employee Optional Retirement Program Trust Fund (the Trust) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 11, 2011. 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 Trust'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 the Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust'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 Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

November 11, 2011

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