

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

State Board of Administration of Florida  
Florida Retirement System (FRS) Investment Plan Trust Fund  
Year Ended June 30, 2013 and 2012  
With Report of Independent Certified Public Accountants

Ernst & Young LLP

 **ERNST & YOUNG**

State Board of Administration  
FRS Investment Plan Trust Fund

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

Years Ended June 30, 2013 and 2012

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## Report of Independent Certified Public Accountants

The Board of Trustees  
State Board of Administration of Florida

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Florida Retirement System Investment Plan Trust Fund (the Trust) administered by the State Board of Administration (SBA) of Florida as trustee, as of and for the years ended June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Trust's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express 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.

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Trust managed by the SBA as of June 30, 2013 and 2012, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

### ***Basis of Presentation***

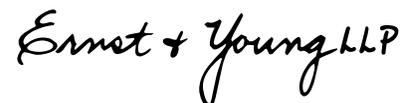
As discussed in Note 1 to the financial statements, the financial statements present only the Trust and do not purport to, and do not, present fairly the financial position of the State of Florida, the State Board of Administration of Florida or the Florida Retirement System as of June 30, 2013 and 2012, or their changes in financial position for the years then ended, in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3 through 12 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we also have issued our report dated November 7, 2013 on our consideration of the Trust's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Trust's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads 'Ernst & Young LLP'.

November 7, 2013

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis

June 30, 2013 and 2012

**Introduction**

This section of the financial statements of the Florida Retirement System (FRS) Investment Plan Trust Fund (the Trust) presents management's discussion and analysis of the Trust's financial position for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

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

The Plan is administered by the State Board of Administration of Florida (the SBA), 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 Florida Legislature is responsible for setting contribution rates and providing statutory authority to the SBA for the administration of the Plan.

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

The Trust's basic financial statements include two-year comparative statements of net position and statements of changes in net position. The statements of net position provide information on the financial position of the Trust at the end of each fiscal year. The statements of changes in net position present the results of investing activities during the fiscal years presented in this report.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

June 30, 2013 and 2012

The notes to the financial statements offer additional discussion that is essential to the full understanding of the data presented in the financial statements. The notes provide more detail about accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

**Statements of Net Position**

The statements of net position present the assets, liabilities, and net position (total assets plus deferred outflows in excess of total liabilities plus deferred inflows) of the Trust as of the end of the fiscal year and are point-in-time financial statements.

The statements of net position 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 members' investment accounts.

**Net Position**

	<b>2013</b>	<b>June 30 2012</b>	<b>2011</b>
	<i>(In Millions)</i>		
Assets:			
Investments	\$ 7,884	\$ 7,137	\$ 6,737
Receivables	32	54	53
Total assets	7,916	7,191	6,790
Liabilities:			
Accounts payable and accrued liabilities	2	1	3
Net position held in trust	\$ 7,914	\$ 7,190	\$ 6,787

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

June 30, 2013 and 2012

**Statements of Changes in Net Position**

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

**Changes in Net Position**

	2013	June 30 2012	2011
	<i>(In Millions)</i>		
Additions			
Net investment income	\$ 720	\$ 70	\$ 932
Contributions:			
Transfers from DMS – employer/ employee contributions <sup>1</sup>	338	467	456
Member-directed transfers from FRS Pension Plan	794	967	1,183
Member-directed rollover deposits	57	46	42
Subtotal contributions	1,189	1,480	1,681
Total additions	1,909	1,550	2,613
Deductions:			
Benefit payments to members	1,128	1,104	874
Member-directed transfers to FRS Pension Plan	44	34	34
Administrative expenses	13	10	9
Total deductions	1,185	1,148	917
Changes in net position	\$ 724	\$ 402	\$ 1,696

<sup>1</sup>Employee Contributions to the Plan were mandated, effective July 1, 2011.

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Management's Discussion and Analysis (continued)

June 30, 2013 and 2012

**Analysis**

The Trust's net position increased by \$724 million (10%) and \$402 million (6%) during fiscal years 2013 and 2012, respectively. For fiscal year 2013, the growth in net position was due primarily to the rebound of the equity markets, with net investment income reaching \$720 million by fiscal year-end. For fiscal year 2012, net investment income provided a \$70 million increase to the Trust's net position and contributions. In addition, contributions into the Trust exceeded deductions by \$332 million.

The Florida Legislature reduced employer contribution rates for all Plan members in fiscal years 2013 and 2012 (see the employer contribution rate table further down in this analysis). As a result, transfers from DMS for employer/employee contributions to the Plan decreased by \$129 million (28%) in fiscal year 2013. The net increase of \$11 million (2%) in transfers from DMS for employer/employee contributions in fiscal year 2012, was due to the legislatively mandated employee contributions to the plan that went into effect that year. Member-directed transfers into the Trust from the FRS Pension Plan continued, although at lower levels than experienced in fiscal years 2011 and 2012. For fiscal year 2013, member-directed transfers from the FRS Pension Plan totaled \$794 million, a decrease of 18% compared to the \$967 million in fiscal year 2012, and a decrease of 33% compared to the \$1.2 billion in fiscal year 2011.

With a growing number of retired members, total benefit payments have continued to climb.

Additional Plan highlights and trends follow.

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

June 30, 2013 and 2012

The following table reflects employer and employee participation in the Plan as of the end of each of the past three fiscal years.

**Plan Participation**

	<b>As of June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Participating employers	\$ <b>1,008</b>	\$ 992	\$ 980
New employees making initial plan choice	<b>45,345</b>	37,977	40,051
Number of new employees joining			
FRS Investment Plan	<b>11,895</b>	10,935	9,959
% Electing FRS Investment Plan	<b>26%</b>	29%	25%
Employee second elections <sup>1</sup>	<b>5,741</b>	6,443	8,312
Investment Plan retirees	<b>70,156</b>	58,700	47,737

<sup>1</sup> State of Florida Employees are granted a one-time option to transfer from one retirement plan (Pension or Investment) to the other during their tenure.

The number of new employees eligible to make an initial retirement plan choice has varied over the last three fiscal years as has the percentage of employees choosing the Plan (25–29%).

As previously noted, the number of members choosing to withdraw funds from the Plan (retirees) has continued to climb. The number of Investment Plan retirees increased by 11,456 (20%) and 10,963 (23%) for fiscal years 2013 and 2012, respectively.

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FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

June 30, 2013 and 2012

The table below breaks out the active Plan membership by class at the end of each of the past three fiscal years. Active Plan members are those employees currently receiving contributions into their retirement account.

**Active Plan Membership by Class**

	As of June 30						
	Regular	Senior Management	Special Risk Admin	Elected Officers	Special Risk	Other	Total
2013	<b>93,948</b>	<b>2,199</b>	<b>17</b>	<b>507</b>	<b>11,463</b>	<b>2,331</b>	<b>110,465</b>
2012	92,529	2,183	16	484	12,500	1,293	109,005
2011	90,353	2,131	21	466	12,279	932	106,182

Over the last three fiscal years, active Plan membership has continued to increase in almost every membership class.

The following table shows the breakdown of the number of Plan members' accounts and any related benefit payments at the end of each of the past three fiscal years.

**Plan Accounts and Benefit Payments**

	As of June 30		
	2013	2012	2011
Number of member accounts:			
Active	<b>110,465</b>	109,005	106,182
Inactive <sup>1</sup>	<b>40,256</b>	35,294	30,479
Total	<b>150,721</b>	144,299	136,661
Members requesting benefits	<b>43,759</b>	38,015	29,054
Benefit payments ( <i>in millions</i> ):			
Rollovers	\$ <b>666</b>	\$ 656	\$ 528
All other	<b>462</b>	448	346
Total	<b>\$ 1,128</b>	\$ 1,104	\$ 874

<sup>1</sup> Inactive accounts are held on behalf of members that are not receiving contributions at this time. This often occurs when a member leaves State employment but retains a Plan balance pending payment of benefits.

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Management's Discussion and Analysis (continued)

June 30, 2013 and 2012

As the number of employees electing to participate in the Plan continues to increase, so does the number of member accounts. The number of accounts has increased by 4.5% to 5.5% each fiscal year from 2011 through 2013.

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The total number of members requesting benefit payments has increased by 15% and 31% for fiscal years 2013 and 2012, respectively. The total amount of benefits disbursed to plan members has increased over the last couple of fiscal years. However, in 2013, the disbursement growth rate slowed. The total benefits disbursed increased by \$24 million (2.2%) in fiscal year 2013, compared to \$230 million (26%) in fiscal year 2012.

Employer contribution rates, which are established by the Legislature and reflected in Section 121.72(4), *Florida Statutes*, vary by membership class. In 2011, legislation was passed that mandated employee contributions to the Plan, equal to 3% of gross compensation, and employer contribution rates were reduced effective July 1, 2011. In 2012, employer contribution rates were reduced further.

The contribution rates presented in the following table were in effect for fiscal years 2013, 2012, and 2011.

**FRS Investment Plan Contribution Rates**

Membership Class	FY 2012-13		FY 2011-12		FY 2010-11
	Employee Rate				
Regular	3.00%	3.30%	3.00%	6.00%	9.00%
Special risk	3.00	11.00	3.00	17.00	10.00
Special risk administrative support	3.00	4.95	3.00	8.35	11.35
Legislators	3.00	6.38	3.00	10.40	13.40
Governor, Lt. Governor, cabinet officers	3.00	6.38	3.00	10.40	13.40
State Attorney, public defenders	3.00	6.38	3.00	10.40	13.40
Justices, judges	3.00	10.23	3.00	15.90	18.90
County elected officers	3.00	8.34	3.00	13.20	16.20
Senior management service	3.00	4.67	3.00	7.95	10.95

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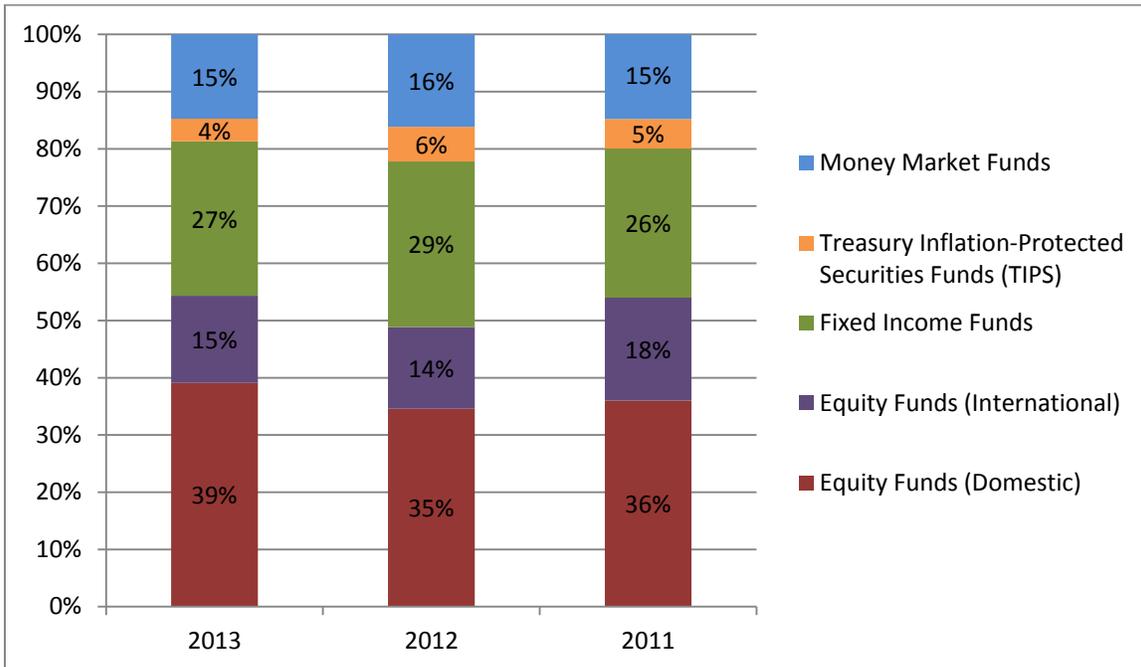
Management’s Discussion and Analysis (continued)

June 30, 2013 and 2012

**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 members’ investment decisions across the various investment options offered. Reflecting the FY 2011 growth and FY 2012 sell-off in international equity markets and the FY 2013 growth in domestic equity markets, the overall allocation as of June 2013, was similar to the June 2011, composition. 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  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

June 30, 2013 and 2012

**Investment Performance**

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

For the fiscal year 2013, strong equity markets helped to overcome rising interest rates and lower than expected inflation to keep the Trust's overall total return in 2013, a positive 10.1%. The total return for fiscal year 2012, was 1.1%. Investment income was driven by the positive performance of domestic and international equity funds offsetting low returns from money markets and fixed income funds and the losses in TIPS.

The table below reflects the investment returns by broad asset class types. The Balanced Funds invest in various FRS investment funds in different proportions within the other asset classes shown in the table.

**Investment Returns by Asset Class Type<sup>1</sup>**

	<b>June 30</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Balanced funds	<b>8.7%</b>	1.5%	15.6%
Money market	<b>0.3</b>	0.3	0.3
TIPS	<b>(4.8)</b>	11.8	7.8
Fixed income	<b>0.6</b>	7.1	5.0
Domestic equity	<b>22.5</b>	1.8	36.1
International equity	<b>17.6</b>	(11.8)	31.2
Total plan return	<b>10.1%</b>	1.1%	18.1%
Total Plan aggregate benchmark	<b>9.7%</b>	1.2%	17.2%
Over (under) benchmark	<b>0.4%</b>	(0.1)%	0.9%

<sup>1</sup>The above investment performance information as of each fiscal year end is the official investment return data as of that date supplied by the SBA's master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services.

State Board of Administration  
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

June 30, 2013 and 2012

The Trust has outperformed its aggregate benchmark over the trailing one-, three-, five- and ten-year periods. The Trust's overall performance compared with its benchmark reflects the relative performance for the underlying fund options in which members are investing. More detailed information and analysis of the Trust's performance can be obtained from the SBA's Annual Investment Report, which can be found at [www.sbafla.com](http://www.sbafla.com).

**Contacting the Trust's Financial Management**

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

State Board of Administration  
FRS Investment Plan Trust Fund

Statements of Net Position

	<b>June 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Investments:		
Money market funds	\$ 1,161,954	\$ 1,153,469
Commingled funds, at fair value:		
Treasury inflation-protected securities funds	310,240	432,888
Domestic fixed income	2,128,755	2,063,986
Domestic equity	3,082,810	2,469,281
International equity	1,199,979	1,017,835
Total investments, at fair value	7,883,738	7,137,459
Receivables:		
Accounts receivable	492	361
Transfers due from DMS	30,956	52,031
Interest and dividends	731	1,085
Total receivables	32,179	53,477
Total assets	7,915,917	7,190,936
<b>Liabilities</b>		
Accounts payable and accrued liabilities	2,397	1,359
Net position held in trust	\$ 7,913,520	\$ 7,189,577

*See accompanying notes to the financial statements.*

State Board of Administration  
FRS Investment Plan Trust Fund

Statements of Changes in Net Position

	<b>Year Ended June 30</b>	
	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
<b>Additions</b>		
Investment income:		
Dividend income	\$ 61,052	\$ 51,657
Interest and other investment income	89	17
Net increase in fair value of investments	661,150	20,563
	722,291	72,237
Investment expenses:		
Bank fees	(659)	(621)
Investment management fees	(2,133)	(1,366)
Total investment expense	(2,792)	(1,987)
Net investment income	719,499	70,250
Contributions:		
Transfers from Department of Management Services (DMS) employer and employee contributions	338,240	466,735
Member-directed transfers from FRS Pension Plan	794,361	967,164
Member-directed rollover deposits	56,874	45,869
Total contributions	1,189,475	1,479,768
Total additions	1,908,974	1,550,018
<b>Deductions</b>		
Benefit payments to members	1,128,436	1,104,216
Member-directed transfers to FRS Pension Plan	43,771	33,681
Administrative expenses	12,824	10,042
Total deductions	1,185,031	1,147,939
Changes in net position	723,943	402,079
Net position held in trust:		
Beginning of year	7,189,577	6,787,498
End of year	\$ 7,913,520	\$ 7,189,577

*See accompanying notes to the financial statements.*

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements

June 30, 2013 and 2012

**1. Financial Reporting Entity**

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 FRS Pension Plan or other optional retirement plans. Under the Plan, employers and employees make contributions to an account set up in the member's name and the member directs the investments in the account, choosing from twenty diverse investment options selected and monitored by the State Board of Administration of Florida (SBA). The Plan was first offered to public sector employees in fiscal year 2003, and was modeled after private sector 401(k) plans. The Plan's and SBA's financial activities are 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 FRS Investment Plan Trust Fund (the Trust) was established pursuant to Section 121.4502, *Florida Statutes*, to hold the assets of the Plan in trust for the exclusive benefit of the Plan's members 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 position and changes in net position of the Trust and do not purport to, and do not, present fairly the net financial position of the State of Florida, the SBA or the Plan as of June 30, 2013 and 2012, and the changes in its net financial position for the years then ended, in conformity with accounting principles generally accepted in the United States (GAAP).

**2. Summary of Significant Accounting Policies**

**Basis of Presentation**

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

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

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

*Investment Pools* (GASB 31), GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments* (GASB 34) and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). As such, the Trust’s financial statements present statements of net position and statements of changes in net position.

**Measurement Focus and Basis of Accounting**

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

**Investment Valuation**

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

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

**Income Recognition**

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

**Administrative Expenses**

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

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

**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**

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). This statement specifically identifies and consolidates the private sector accounting and financial reporting provisions that apply to state and local governments. GASB 62 became effective for financial statements for reporting periods beginning after December 15, 2011 and was retroactively applied to the Trust's statements beginning in fiscal year 2013. The adoption of this standard did not have a material impact on the statement of net position or the statement of changes in net position.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. The provisions of GASB 63 require the replacement of the statement of net assets with the statement of net position. GASB 63 became effective for financial statements for reporting periods beginning after December 15, 2011 and was retroactively applied to the Trust's statements beginning in fiscal year 2013. The adoption of this standard did not have a material impact on the statement of net position or the statement of changes in net position.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

### 3. Deposits and Investments

#### Deposits

At June 30, 2013 and 2012, the Trust did not have any deposits on hand. All contributions and transfers are invested immediately according to member directions.

#### Investments

The Plan has an Investment Policy Statement (IPS) that includes, among other items, the investment objectives of the Plan, manager selection, 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.

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

The SBA's Executive Director and 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 offered twenty low-cost institutional comingled 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 2013 year-end, more than 75% of the Plan's members had allocated at least some of their assets to one or more of the three available balanced funds. Approximately 44% of total Trust assets were in the balanced funds. For financial statement 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.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

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

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

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

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

The Trust's investments consist of the following as of June 30, 2013 and 2012:

**Investment Portfolio Characteristics<sup>1</sup>**

	2013		2012	
	Fair Value	% of Portfolio	Fair Value	% of Portfolio
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
Money Market Funds:				
EB Temporary Investment FD II	\$ 2,774	-%	\$ 1,992	-%
FRS Select Yield Plus MM Active Fund	1,159,180	14.7	1,151,477	16.1
Total Money Market Funds	1,161,954	14.7	1,153,469	16.1
Treasury Inflation-Protected Securities (TIPS) Funds:				
FRS Select US TIPS Index Fund	310,240	3.9	432,888	6.1
Total Treasury Inflation-Protected Securities Funds	310,240	3.9	432,888	6.1
Domestic Fixed Income Funds:				
PIMCO Total Return Fund	290,790	3.7	310,775	4.4
Pyramis Intermediate Duration Pool Fund	487,626	6.2	488,727	6.8
FRS Select US Bond Enhanced Index Fund	1,187,513	15.0	1,119,200	15.7
FRS Select High Yield Fund	162,827	2.1	145,284	2.0
Total Fixed Income Funds	2,128,756	27.0	2,063,986	28.9
Domestic Equity Funds:				
American Beacon Small-Cap Value Fund	152,983	1.9	121,082	1.8
Fidelity Growth Company Fund	346,963	4.4	317,388	4.4
Fidelity Low Priced Stock Fund <sup>2</sup>	24,288	0.3	23,080	0.3
Pioneer Fund	120,234	1.5	130,356	1.8
T Rowe Price Small-Cap Stock Fund	281,258	3.6	235,164	3.3
Prudential Mid-Cap Quantitative Core Equity Fund	365,932	4.6	270,197	3.8
FRS Select US Large Growth Stock Active Fund	110,136	1.4	95,009	1.3
FRS Select US Stock Market Index Fund	1,345,251	17.1	1,035,920	14.5
FRS Select US Large Value Stock Active Fund	335,765	4.3	241,085	3.4
Total Domestic Equity Funds	3,082,810	39.1	2,469,281	34.6
International Equity Funds:				
American Funds Euro-Pacific Growth Fund	163,998	2.1	154,766	2.2
American Funds New Perspective Fund	209,166	2.7	180,167	2.5
FRS Select Foreign Stock Index Fund	826,814	10.5	682,902	9.6
Total International Equity Funds	1,199,978	15.3	1,017,835	14.3
Total Investments	\$ 7,883,738	100.0%	\$ 7,137,459	100.0%

<sup>1</sup> 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.

<sup>2</sup> Fund closed to new money effective August 1, 2004.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

**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 members 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 & Poor's Corporation, Moody's Investors Service, Inc., or Fitch Ratings.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

**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 other than units or shares of the commingled trusts or mutual funds that are held at the SBA's custodian bank, BNY Mellon. The SBA's negotiated custody contract requires that deposits and investments be held in accounts in the SBA's name, separate and apart from the assets of the custodian bank. As of June 30, 2013 and 2012, 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, 2013 and 2012.

<b>Investment Type</b>	<b>Fair Value</b> <i>(In Thousands)</i>	<b>Effective Weighted Duration</b> <i>(In Years)</i>
<b>As of June 30, 2013</b>		
Money Market Funds	\$ 1,161,954	0.120
Fixed Income and TIPS	2,438,996	5.380
Total Fixed Income Investments	<u>\$ 3,600,950</u>	
<b>As of June 30, 2012</b>		
Money Market Funds	1,153,469	0.110
Fixed Income and TIPS	2,496,874	4.934
Total Fixed Income Investments	<u>\$ 3,650,343</u>	

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

**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 (which are commingled with other investors) are reported in U.S. dollars by the investment fund managers. The underlying investments in these (commingled) funds may be exposed to foreign currency risk in various currencies. The fair value of the international equity funds as of June 30, 2013 and 2012, was \$1.20 billion and \$1.02 billion, 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 and employee contributions and remitting those contributions to the SBA for deposit into the Trust for the benefit of the Plan members. The FRS Trust Fund is the source of funding for transfers of a member's accumulated benefit obligation (ABO) when a member in the FRS Pension Plan elects to join the FRS Investment Plan. The FRS Trust Fund also is a recipient of certain transfers.

State Board of Administration  
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

June 30, 2013 and 2012

**4. Related-Party Transactions (continued)**

Significant transactions between the Trust and the DMS and the FRS Trust Fund in fiscal years 2013 and 2012, were as follows:

	<b>2013</b>	<b>2012</b>
	<i>(In Thousands)</i>	
Transfers from DMS for employer and employee contributions <sup>1</sup>	<b>\$ 338,240</b>	\$ 466,735
Transfers from FRS Trust Fund (ABO) related to member-directed transfers	<b>794,361</b>	967,164
Transfers to FRS Trust Fund	<b>43,771</b>	33,681
Receivables from DMS	<b>30,956</b>	52,031

<sup>1</sup>Employee contributions to the Plan were mandated effective July 1, 2011.

**5. Contingencies and Litigation**

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

As reported in the financial statements for the fiscal year ended June 30, 2012, the Trustees of the SBA and the Secretary of the Department of Management Services previously were served complaints challenging the constitutionality of Senate Bill 2100 (SB2100), 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 (FRS)], which became effective July 1, 2011. On March 6, 2012, the trial court ruled the law unconstitutional as to its application to employees who were members of the FRS prior to July 1, 2011, and ordered return of the funds to employees (with interest). The Appellants appealed, and the case was certified to the Florida Supreme Court, which accepted the case and heard oral argument on September 7, 2012. On January 17, 2013, the Court overturned the trial court's order and held that the entirety of the law is constitutional. As a result, this litigation had no financial impact on the Trust.

# Other Report

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

Board of Trustees  
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Retirement System Investment Plan Trust Fund (the Trust) administered by the State Board of Administration (SBA) of Florida, which comprise the statement of net position as of June 30, 2013, and the related statement of changes in net position, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2013.

**Internal Control Over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **Purpose of this Report**

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

*Ernst + Young LLP*

November 7, 2013

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