

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

State Board of Administration of Florida
Florida Retirement System (FRS) Investment Plan Trust Fund
Fiscal Years Ended June 30, 2014 and 2013
With Report of Independent Certified Public Accountants

Ernst & Young LLP



Building a better
working world

State Board of Administration
FRS Investment Plan Trust Fund

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

Fiscal Years Ended June 30, 2014 and 2013

Contents

Report of Independent Certified Public Accountants1

Management’s Discussion and Analysis3

Financial Statements

Statements of Net Position.....13

Statements of Changes in Net Position.....14

Notes to Financial Statements.....15

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.....28



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

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

Report of Independent Certified Public Accountants.

The Board of Trustees
State Board of Administration of Florida

Report on the Financial Statements

We have audited the accompanying financial statements of the Florida Retirement System Investment Plan Trust Fund (the Trust) administered by the State Board of Administration (SBA) of Florida as trustee, as of and for the years ended June 30, 2014 and 2013, 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 opinion.

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, 2014 and 2013, 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, 2014 and 2013, 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 11 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, 2014 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.

Ernst & Young LLP

November 7, 2014

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis

Fiscal Years Ended June 30, 2014 and 2013

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, 2014 and 2013. Please read it in conjunction with the basic financial statements and the accompanying notes, which follow this section.

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

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

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

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Financial Statements

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

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

Statements of Net Position

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

	As of June 30		
	2014	2013	2012
	<i>(In Millions)</i>		
Assets:			
Investments	\$ 9,041	\$ 7,884	\$ 7,137
Receivables	33	32	54
Total assets	9,074	7,916	7,191
Liabilities:			
Accounts payable and accrued liabilities	2	2	1
Net position held in trust	\$ 9,072	\$ 7,914	\$ 7,190

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

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.

	Fiscal Years Ended June 30		
	2014	2013	2012
	<i>(In Millions)</i>		
Additions:			
Net investment income	\$ 1,206	\$ 720	\$ 70
Contributions and other additions:			
Employer/employee contributions received from DMS	352	338	467
Member-directed benefits received from the FRS Trust Fund	808	794	967
Member-directed rollover deposits	69	57	46
Subtotal contributions and other additions	<u>1,229</u>	<u>1,189</u>	<u>1,480</u>
Total additions	<u>2,435</u>	<u>1,909</u>	<u>1,550</u>
Deductions:			
Benefit payments to members	1,217	1,128	1,104
Member-directed benefits sent to the FRS Trust Fund	50	44	34
Administrative expenses	10	13	10
Total deductions	<u>1,277</u>	<u>1,185</u>	<u>1,148</u>
Changes in net position	<u>\$ 1,158</u>	<u>\$ 724</u>	<u>\$ 402</u>
Net position held in trust:			
Beginning of year	\$ 7,914	\$ 7,190	\$ 6,788
End of year	<u>\$ 9,072</u>	<u>\$ 7,914</u>	<u>\$ 7,190</u>

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Analysis

The Trust's net position increased by \$1.16 billion (14.6%) and \$724 million (10.1%) during fiscal years 2014 and 2013, respectively. For fiscal year 2014, the growth in net position was due primarily to positive investment returns across the asset classes, led by strong equity market performance. Net investment income for fiscal year 2014 was approximately \$1.21 billion. Fiscal year 2014 contributions to the Trust posted a slight increase over the prior year, due in part to the number of new employees joining the Plan and an overall increase in member payroll. Deductions from the Trust consist mainly of benefit payments to members. Benefit payments increased by \$89 million (7.9%) during fiscal year 2014, as the number of members requesting benefits continued to climb.

For fiscal year 2013, the growth in net position was due mainly to the rebound of the equity markets, with net investment income reaching \$720 million by fiscal year-end.

Additional Plan highlights and trends follow.

Plan Participation and Membership

The number of employers participating in the Plan increased marginally, while overall Plan membership increased by 4%-4.5% during each of the most recent fiscal years.

	As of June 30		
	2014	2013	2012
Participating employers	1,015	1,008	992
Plan membership:			
Active members ¹	113,216	110,465	109,005
Inactive members ²	44,011	40,256	35,294
Total Plan membership	157,227	150,721	144,299

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

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

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Active Plan Membership by Class

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

	As of June 30						Total
	Regular	Senior Management	Special Risk Admin	Elected Officers	Special Risk	Other	
2014	96,329	2,252	19	505	11,364	2,747	113,216
2013	93,948	2,199	17	507	11,463	2,331	110,465
2012	92,529	2,183	16	484	12,500	1,293	109,005

Plan Choice

The number of new employees eligible to make an initial retirement plan choice has increased over the last three fiscal years. The percentage of those employees choosing the Plan has declined from 29% in fiscal year 2012 to 25% in fiscal year 2014. The number of employees joining the Plan through a Second Election has declined in each of the last three fiscal years.

	Fiscal Years Ended June 30		
	2014	2013	2012
New employees making initial plan choice	51,924	45,345	37,977
Number of new employees joining FRS Investment Plan	13,024	11,895	10,935
% Electing FRS Investment Plan	25%	26%	29%
Employee Second Elections ¹ :			
To the FRS Investment Plan	5,718	5,741	6,443
To the FRS Pension Plan	583	547	351

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

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Benefit Payments

Benefit payments reflect withdrawals from the Trust in the form of lump sum distributions, partial distributions, rollovers to other qualified retirement plans, and periodic payments to members. The number of members requesting benefit payments during the year increased by 6,178 (14.1%) and 5,744 (15.1%) for fiscal years 2014 and 2013, respectively. The annual amount of benefits disbursed to plan members has increased over that same time period. Benefit payments increased by \$89 million (7.9%) in fiscal year 2014, compared to \$24 million (2.2%) in fiscal year 2013.

	Fiscal Years Ended June 30		
	2014	2013	2012
Members requesting benefits	49,937	43,759	38,015
Benefit payments (<i>In Millions</i>):			
Rollovers	\$ 722	\$ 666	\$ 656
All other	495	462	448
Total	\$ 1,217	\$ 1,128	\$ 1,104

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Contribution Rates

Employer contribution rates, which are established by the Legislature and reflected in Section 121.72, *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.

Membership Class	Employee Rate	Employer Rate ¹		
	FYs 2012-14	FY 2014	FY 2013	FY 2012
Regular	3.00%	3.30%	3.30%	6.00%
Special risk	3.00	11.00	11.00	17.00
Special risk: administrative support	3.00	4.95	4.95	8.35
Legislators	3.00	6.38	6.38	10.40
Governor, Lt. Governor, cabinet officers	3.00	6.38	6.38	10.40
State Attorney, public defenders	3.00	6.38	6.38	10.40
Justices, judges	3.00	10.23	10.23	15.90
County and local elected officers	3.00	8.34	8.34	13.20
Senior management service	3.00	4.67	4.67	7.95

¹ Employer rates presented in this table do not include employer contributions for the Health Insurance Subsidy (1.2% FY 2014, 1.11% FY 2013 and 2012), plan administrative/educational expense (.03%) or the disability program (varies by membership class) as these amounts are not deposited into the FRS Investment Plan Trust Fund.

State Board of Administration
FRS Investment Plan Trust Fund

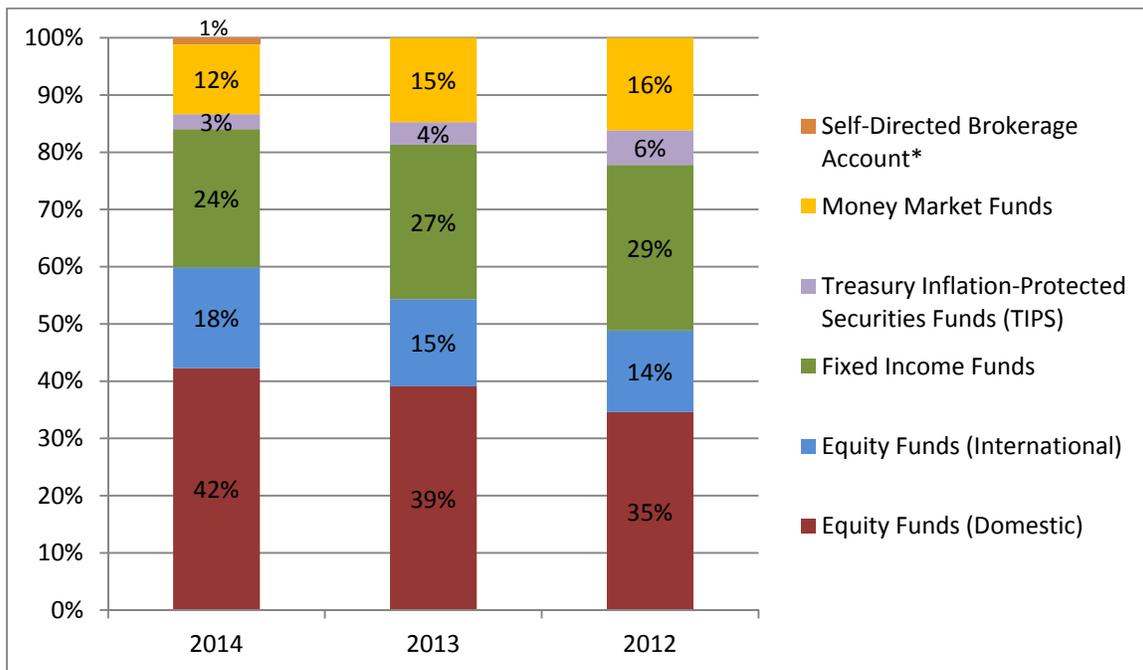
Management’s Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Asset Allocation

The asset allocation of the Trust is a function of the members’ investment decisions across the various investment options offered. With the continuing recovery of the equities market and low fixed income earnings, members continued to transfer out of fixed income and Treasury Inflation-Protected Securities (TIPS). Transfer activity also increased due to the January 1, 2014, addition of the Self-Directed Brokerage Account (SDBA) and the fund lineup changes scheduled for the first of the next fiscal year. Note 3 to the financial statements describes the Plan’s Investment Policy Statement (IPS) and oversight of the Trust’s investments.

(By Percentage of Invested Assets)



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

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Investment Returns

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

The Trust's total return for fiscal year 2014 was 15.5%. Investment income was driven by the strong performance of both domestic and international equity funds as well as overall positive returns across the fixed income funds. The Trust's total return for fiscal year 2013 was 10.1% due to a rebound in the equity markets from the prior fiscal year.

As of June 30, 2014, 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. The investment performance information as of each fiscal year end is the official investment return data supplied by the SBA's master custodian and performance measurement service provider, BNY Mellon Performance Reporting and Analytics Services. Performance for the SDBA is not included since there is no comparable benchmark. The member assumes the full risk and responsibility for the investments selected in the SDBA and for monitoring the performance of these investments.

	As of June 30		
	2014	2013	2012
Balanced Funds ¹	14.3%	8.7%	1.5%
Money Market	0.2	0.3	0.3
TIPS	4.6	(4.8)	11.8
Fixed Income	4.9	0.6	7.1
Domestic Equity	26.1	22.5	1.8
International Equity	23.6	17.6	(11.8)
Total Trust return	15.5%	10.1%	1.1%
Total Trust aggregate benchmark	15.1	9.7	1.2
Over (under) benchmark	0.4%	0.4%	(0.1)%

¹ Balanced funds consist of Plan fund investments in different proportions within the other asset classes shown in the table.

State Board of Administration
FRS Investment Plan Trust Fund

Management's Discussion and Analysis (continued)

Fiscal Years Ended June 30, 2014 and 2013

Contacting the Trust's Financial Management

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

State Board of Administration
FRS Investment Plan Trust Fund

Statements of Net Position

	As of June 30	
	2014	2013
	<i>(In Thousands)</i>	
Assets		
Investments:		
Money market funds	\$ 1,102,335	\$ 1,161,954
Commingled funds, at fair value:		
Treasury inflation-protected securities	234,290	310,240
Fixed income	2,187,760	2,128,755
Domestic equity	3,821,196	3,082,810
International equity	1,572,063	1,199,979
Self-Directed brokerage account	123,082	—
Total investments, at fair value	<u>9,040,726</u>	<u>7,883,738</u>
Receivables:		
Accounts receivable	474	492
Due from DMS	32,563	30,956
Interest and dividends	568	731
Total receivables	<u>33,605</u>	<u>32,179</u>
Total assets	<u>9,074,331</u>	<u>7,915,917</u>
Liabilities		
Accounts payable and accrued liabilities	2,450	2,397
Net position held in trust	<u>\$ 9,071,881</u>	<u>\$ 7,913,520</u>

See accompanying notes to the financial statements.

State Board of Administration
FRS Investment Plan Trust Fund

Statements of Changes in Net Position

	Fiscal Years Ended June 30	
	2014	2013
	<i>(In Thousands)</i>	
Additions		
Investment income:		
Dividend income	\$ 20,002	\$ 61,052
Interest and other investment income	44	89
Net increase in fair value of investments	1,188,048	661,150
	1,208,094	722,291
Investment expenses:		
Bank fees	(474)	(659)
Investment management fees	(1,651)	(2,133)
Total investment expense	(2,125)	(2,792)
Net investment income	1,205,969	719,499
Contributions and other additions:		
Employer/employee contributions received from DMS	351,928	338,240
Member-directed benefits received from the FRS Trust Fund	807,672	794,361
Member-directed rollover deposits	69,110	56,874
Other additions	241	-
Total contributions and other additions	1,228,951	1,189,475
Total additions	2,434,920	1,908,974
Deductions		
Benefit payments to members	1,216,535	1,128,436
Member-directed benefits sent to the FRS Trust Fund	50,024	43,771
Administrative expenses	10,000	12,824
Total deductions	1,276,559	1,185,031
Changes in net position	1,158,361	723,943
Net position held in trust:		
Beginning of year	7,913,520	7,189,577
End of year	\$ 9,071,881	\$ 7,913,520

See accompanying notes to the financial statements.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements

Fiscal Years Ended June 30, 2014 and 2013

1. Financial Reporting Entity

The Florida Retirement System (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 a number of diverse investment options selected and monitored by the State Board of Administration of Florida (SBA). The Plan was first offered to public sector employees in fiscal year 2003, and was modeled after private sector 401(k) plans. The Plan's and SBA's financial activities are reported in the Comprehensive Annual Financial Report (CAFR) of the State of Florida. The SBA is governed by a Board of Trustees, comprised of the Governor, as Chairman, the Attorney General, and the Chief Financial Officer of the State of Florida.

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

The Trust is a separate legal entity within the State of Florida. These financial statements and notes include only the net position and changes in net position of the Trust and do not purport to, and do not, present fairly the net financial position of the State of Florida, the SBA or the Plan as of June 30, 2014 and 2013, 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 GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools* (GASB 31), GASB

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

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

Measurement Focus and Basis of Accounting

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

Investment Valuation

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

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

Income Recognition

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

Other Additions

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

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

Administrative Expenses

Pursuant to Section 121.4502(3), *Florida Statutes*, reasonable administrative expenses of the Plan may be paid from the Trust. These expenses may include the activities of the Plan administrator, Plan custodian, investment and administrative consulting and other services rendered for the benefit of Plan members.

Use of Estimates

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

New Accounting Standards

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). This statement reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows. GASB 65 became effective for financial statement for reporting periods beginning after December 15, 2012. The adoption of this standard did not have any impact on the statements of net position or the statements of changes in net position.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections-2012, an amendment of GASB Statements No. 10 and No. 62* (GASB 66). This statement improves accounting and financial reporting by state and local government entities by resolving conflicting guidance that resulted from the issuance of Statement No. 54, *Fund balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 66 became effective for financial statement for reporting periods beginning after December 15, 2012. The adoption of this standard did not have any impact on the statements of net position or the statements of changes in net position.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

2. Summary of Significant Accounting Policies (continued)

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans, an amendment of GASB Statement No. 25* (GASB 67). This statement establishes standards of financial reporting for separately issued financial reports of pension plans and specifies the required approach to measuring the pension liability of employer and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. GASB 67 became effective for financial statement for reporting periods beginning after June 15, 2013. The FRS Investment Trust is not a Pension Plan and so the statements of net position or the statements of changes in net position are not affected by this standard.

3. Deposits and Investments

Deposits

At June 30, 2014 and 2013, the Trust did not have any deposits on hand. All contributions and accumulated benefits received from the FRS Trust Fund are invested immediately according to member directions.

Investments

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

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

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits and Investments (continued)

The SBA's Executive Director and CIO is responsible for selecting, evaluating, and monitoring performance of the investment options, with a focus on maximizing return within appropriate risk constraints outlined in the Plan's IPS. The Trust offered a number of low-cost institutional comingled trusts and mutual fund investment options investing in cash, bonds, and stocks. During fiscal years 2013 and 2014, the Trust fund offered three risk-targeted balanced funds that consisted of mixtures of various asset classes. At fiscal year-end 2014, more than 79% of the Plan's members had allocated at least some of their assets to one or more of the three available balanced funds. Approximately 45% of total Trust assets were in the balanced funds.

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

Self-Directed Brokerage Account

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

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

The SDBA provides access to the following investment instruments:

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

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits and Investments (continued)

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

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

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

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

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits and Investments (continued)

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

Fund Lineup Changes

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

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

Investment Performance

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

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits and Investments (continued)

Trust Investments¹

	As of June 30			
	2014		2013	
	Fair Value	% of Total Investments	Fair Value	% of Total Investments
	<i>(In Thousands)</i>			
Money Market Funds:				
EB Temporary Investment FD II	\$ 2,010	–%	\$ 2,774	–%
FRS Select Yield Plus MM Active Fund	1,100,325	12.1	1,159,180	14.7
Total Money Market Funds	1,102,335	12.1	1,161,954	14.7
Treasury Inflation-Protected Securities (TIPS) Funds:				
FRS Select U.S. TIPS Index Fund	234,290	2.6	310,240	3.9
Total Treasury Inflation-Protected Securities Funds	234,290	2.6	310,240	3.9
Fixed Income Funds:				
PIMCO Total Return Fund	235,554	2.6	290,790	3.7
Fidelity Intermediate Duration Pool Fund	432,920	4.8	487,626	6.2
FRS Select U.S. Bond Enhanced Index Fund	1,342,572	14.8	1,187,513	15.0
FRS Select High Yield Fund	176,714	2.0	162,827	2.1
Total Fixed Income Funds	2,187,760	24.2	2,128,756	27.0
Domestic Equity Funds:				
American Beacon Small-Cap Value Fund	178,201	2.0	152,983	1.9
Fidelity Growth Company Fund	445,293	4.9	346,963	4.4
Fidelity Low Priced Stock Fund ²	25,370	0.3	24,288	0.3
Pioneer Fund ³	–	–	120,234	1.5
T Rowe Price Small-Cap Stock Fund	329,357	3.6	281,258	3.6
Prudential Mid-Cap Quantitative Core Equity Fund	460,278	5.1	365,932	4.6
FRS Select U.S. Large Growth Stock Active Fund	153,328	1.7	110,136	1.4
FRS Select U.S. Stock Market Index Fund	1,767,739	19.6	1,345,251	17.1
FRS Select U.S. Large Value Stock Active Fund	461,630	5.1	335,765	4.3
Total Domestic Equity Funds	3,821,196	42.3	3,082,810	39.1
International Equity Funds:				
American Funds Euro-Pacific Growth Fund	194,379	2.2	163,998	2.1
American Funds New Perspective Fund	246,741	2.7	209,166	2.7
FRS Select Foreign Stock Index Fund	1,130,943	12.5	826,814	10.5
Total International Equity Funds	1,572,063	17.4	1,199,978	15.3
Self-Directed Brokerage Account ³	123,082	1.4	–	–
Total Investments	\$ 9,040,726	100.0%	\$ 7,883,738	100.0%

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

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

³ Investment option changes: During fiscal year 2014, the Pioneer Fund was removed and a Self-Directed Brokerage Account was added to the Plan.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits and Investments (continued)

Investment Risks

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

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

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

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

Credit Risk 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)

Fiscal Years Ended June 30, 2014 and 2013

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.

Units or shares of the commingled trusts or mutual funds 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.

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

Interest Rate Risk

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

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

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

3. Deposits and Investments (continued)

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

Investment Type	Fair Value <i>(In Thousands)</i>	Effective Weighted Duration <i>(In Years)</i>
As of June 30, 2014		
Money Market Funds	\$ 1,102,335	0.09
TIPS	234,290	7.71
Fixed Income	2,187,760	5.04
Total	<u>\$ 3,524,385</u>	
As of June 30, 2013		
Money Market Funds	\$ 1,161,954	0.12
TIPS	310,240	7.74
Fixed Income	2,128,755	5.04
Total	<u>\$ 3,600,949</u>	

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, 2014 and 2013, was \$1.57 billion and \$1.20 billion, respectively.

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

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 a member's accumulated benefit obligation (ABO) when a member in the FRS Pension Plan elects to join the FRS Investment Plan. The FRS Trust Fund is also a recipient of certain benefits returned to the Trust.

Significant transactions between the Trust and the DMS and the FRS Trust Fund for fiscal years 2014 and 2013, were as follows:

	2014	2013
	<i>(In Thousands)</i>	
<u>Receivables:</u>		
Due from DMS	\$ 32,563	\$ 30,956
<u>Additions:</u>		
Employer/employee contributions received from DMS	\$ 351,928	\$ 338,240
Member-directed benefits received from the FRS Trust Fund	<u>807,672</u>	<u>794,361</u>
Total additions	\$ 1,159,600	\$ 1,132,601
<u>Deductions:</u>		
Member-directed benefits sent to the FRS Trust Fund	\$ 50,024	\$ 43,771

State Board of Administration
FRS Investment Plan Trust Fund

Notes to Financial Statements (continued)

Fiscal Years Ended June 30, 2014 and 2013

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.

Other Report



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

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

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

The Board of Trustees
State Board of Administration of Florida

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of 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, 2014, 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, 2014.

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, 2014

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2013 Ernst & Young LLP.
All Rights Reserved.

ey.com

