FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements

June 30, 2015 and 2014

(With Independent Auditors' Report Thereon)

FLORIDA HURRICANE CATASTROPHE FUND

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KPMG LLP
4200 Wells Fargo Center
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Independent Auditors' Report

The Trustees of the State Board of Administration of Florida
Florida Hurricane Catastrophe Fund:

Report on the Financial Statements

We have audited the accompanying combined financial statements of the Florida Hurricane Catastrophe Fund of the State of Florida (the Fund), a proprietary fund of the State of Florida, as of and for the years ended June 30, 2015 and 2014, and the related notes to the combined financial statements, which collectively comprise the Fund'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 accordance 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 from material misstatement, whether due to fraud or error.

Auditors' 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 of America 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 from 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 auditors' 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 Fund'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 Fund'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 combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund as of June 30, 2015 and 2014, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Emphasis of Matter Regarding Adoption of a New Accounting Pronouncement

As discussed in note 1 to the combined financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, in 2015. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Fund Financial Statements

As discussed in note 1, the combined financial statements present only the Fund and do not purport to, and do not, present the financial position of the State of Florida as of June 30, 2015 and 2014, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–7, the schedule of Fund's proportionate share of net pension liability on page 47, and the schedule of Fund's contributions on page 48, 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 who 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 of America, 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 audits 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 have also issued our report dated January 28, 2016 on our consideration of the Fund'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 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 Fund's internal control over financial reporting and compliance.

KPMG LLP

Minneapolis, Minnesota
January 28, 2016

Our discussion and analysis of the financial performance of the Florida Hurricane Catastrophe Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2015 and 2014. Please read this information in conjunction with the Fund's combined financial statements and notes to the combined financial statements.

Overview of the Financial Statements

The statements presented are the *combined statements of net position, the combined statements of revenues, expenses, and changes in net position, and the combined statements of cash flows*. These statements represent the financial position of the Fund, which includes the State Board of Administration Finance Corporation (the Corporation), formerly known as the Florida Hurricane Catastrophe Fund Finance Corporation. The Corporation was created to provide a mechanism for the cost-effective and efficient issuance of bonds necessary to enable the Fund to carry out its purposes. The Corporation is included as a blended component unit of the Fund because it provides services exclusively for the benefit of the Fund. Separate stand-alone audited financial statements of the blended component unit are not available. Combining statements can be found in the notes to the combined financial statements.

The *combined statements of net position* present the ending balances of all assets and liabilities of the Fund using the economic resources measurement focus and the accrual basis of accounting. The difference between assets and liabilities is reported as net position of the Fund.

The *combined statements of revenues, expenses, and changes in net position* present all revenues and expenses of the Fund occurring during the year resulting from operations and the effect of this activity on net position. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The *combined statements of cash flows* provide information about how the Fund finances and meets the cash flow needs of its activities.

The *notes to the combined financial statements* provide additional information related to the data provided in the combined financial statements.

Financial Summary

A summary of the *combined statements of net position* for the Fund and the Corporation is presented below (in thousands):

		June 30		
		2015	**2014**	**2013 (As restated)**
Current assets	$	6,140,297	11,957,961	10,218,231
Long-term assets		7,524,464	1,412,556	1,834,026
Total assets		13,664,761	13,370,517	12,052,257
Deferred outflows related to pensions		137	—	—
Current liabilities		31,340	523,902	748,387
Long-term liabilities		2,000,656	2,686,394	3,018,906
Total liabilities		2,031,996	3,210,296	3,767,293
Deferred inflows related to pensions		262	—	—
Net position:				
Net investment in capital assets		4	4	5
Unrestricted		11,632,636	10,160,217	8,284,937
Restricted for hurricane mitigation		—	—	22
Total net position	$	11,632,640	10,160,221	8,284,964

A summary of the *combined statements of revenues, expenses, and changes in net position* for the Fund and the Corporation is presented below (in thousands):

	Year ended June 30		
	2015	**2014**	**2013 (As restated)**
Net premium revenue (net of reinsurance premium)	$ 1,276,738	1,269,709	1,254,198
Net interest on premium adjustments	27	36	7
Net interest on loss disbursement adjustments/advances	—	—	8
Other	41	41	1,667
Total operating revenues	1,276,806	1,269,786	1,255,880
Total nonoperating revenue net of nonoperating expenses	211,920	434,479	445,012
Total revenues	1,488,726	1,704,265	1,700,892
Hurricane losses (reduction in losses)	—	(186,004)	(178,500)
Other operating expenses	5,709	5,010	4,963
Depreciation	3	2	3
Total expenses	5,712	(180,992)	(173,534)
Income before transfers	1,483,014	1,885,257	1,874,426
Transfers to other state agencies	(10,000)	(10,000)	(10,000)
Change in net position	1,473,014	1,875,257	1,864,426
Net position at beginning of year	10,160,221	8,284,964	6,420,538
Adjustments to net position related to pensions	(595)	—	—
Net position at beginning of year, restated	10,159,626	8,284,964	6,420,538
Net position at end of year	$ 11,632,640	10,160,221	8,284,964

Financial Highlights

- The Corporation had $372.85 million on June 30, 2014 in cash on deposit with its Master Trustee, a financial institution, pursuant to the Master Trust Indenture between the Corporation and the Trustee that was used to pay the debt service on the Revenue Bonds on the following day, July 1, 2014.
- The decrease in current assets and corresponding increase in long-term assets between 2014 and 2015 is primarily a result of the changes to the Investment Policy Statement (Policy) allowing for longer maturities. The Policy was amended effective September 1, 2014 and again on January 1, 2015.

- The emergency assessment funds receivable is significantly decreased from 2014 to 2015 because the collection of emergency assessments has ended for all new or renewal policies issued on or after January 1, 2015.
- The increase in deferred outflows of resources in fiscal year 2015 is related to the adoption of the new Governmental Accounting Standards Board (GASB) Statements No. 68. These standards require that contributions made by employers to defined benefit pension plans subsequent to the measurement date be recorded as deferred outflows of resources. These contributions made after the measurement date of June 30, 2014, along with the Fund's recognition of the effect of changes in assumptions related to pensions, and the Fund's increase in the change in proportion in regards to its share of the net pension liability in one pension plan, make up the balance in deferred outflows of resources.
- From 2013 to 2015, the decrease in current liabilities and long-term liabilities is primarily the result of the maturity of the Series 2008A Revenue Bonds, which became due and were paid on July 1, 2014; and the defeasance of the Series 2010A Revenue Bonds on July 11, 2014. The defeasance resulted in the Corporation recognizing a loss on the early extinguishment of the debt in the amount of $34.7 million in 2015.
- The increase in deferred inflows of resources in fiscal year 2015 is related to the adoption of the new GASB Statements No. 68. Most of the deferred inflows were the result of one of the defined benefit pension plan's earnings exceeding expected earnings during the fiscal year ended June 30, 2014, which is the measurement date for the two defined benefit plan's net pension liability.
- The decrease in restricted for hurricane mitigation from 2013 to 2014 is the result of the transfer of $22.4 thousand from a prior year appropriation to unrestricted. Based on a review of the Florida Legislature's appropriations process, it was determined that it was not necessary to carry a restricted item reflecting past appropriations activity.
- Aggregate excess catastrophe reinsurance providing coverage for $1.0 billion in excess of $12.5 billion was purchased effective June 1, 2015 through May 31, 2016. Reinsurance deposit premiums and broker commissions are due in three equal installments on August 1, October 1 and December 1 of 2015 and an accrual of $5,650,000 as of June 30, 2015 was established for one month's pro-rata portion of the aggregate reinsurance deposit premium and broker commission. The reinsurance premium ceded and broker commission expenses are reported as operating activities net of the reimbursement premium received.
- For losses from hurricanes occurring in 2004 and 2005, the Fund reimbursed participating insurers $9.40 billion with $3.86 billion for 2004 losses and $5.54 billion for 2005 losses. "Hurricane losses" expense includes a reduction in hurricane loss expenses of $178.50 million in 2013 and $186.00 million in 2014 for the prior years' storms due to estimates revised downward as a result of favorable loss development, actuarial analysis, and loss settlement. There were no hurricane losses outstanding as of June 30, 2015 and 2014.
- Other operating revenue in 2013 is higher than in 2014 and 2015 primarily due to $1.59 million of revenue received from several participating insurers in the form of an administrative charge pursuant to an agreement related to the selection of an optional coverage.
- The increase in settlement income in 2015 is the result of a settlement of a claim in the Lehman Brothers, Inc., Securities Investor Protection Act of 1970 (SIPA) insolvency proceeding.

(Continued)

- Total nonoperating revenue includes investment income, which was $39.62 million for the year ended June 30, 2013, $26.76 million for the year ended June 30, 2014, and $37.70 million for the year ended June 30, 2015. The decrease in 2014 was due to the decline in interest rates. The increase in 2015 was primarily a result of changes made to our Policy allowing for longer maturities. The primary goal of the Fund is defined in the Policy by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. The Fund's objective is to invest in securities that are highly liquid, relatively short term, and have a credit quality in accordance with the Policy.
- Total nonoperating revenue also includes emergency assessment revenue. In order to reimburse participating insurers for losses occurring in 2005, the Fund, through the Corporation, issued tax-exempt revenue bonds in 2006 in the amount of $1.35 billion, which matured on July 1, 2012, an additional $625.00 million in 2008, which matured on July 1, 2014, and an additional $675.92 million in 2010. The funding source for the repayment of these bonds was from an emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. The assessment was initially 1.0% on all policies issued or renewed on or after January 1, 2007 and was increased to 1.3% on January 1, 2011. A defeasance of the Series 2010A Revenue Bonds was executed on July 11, 2014; as a result, the Florida Office of Insurance Regulation issued orders on July 21, 2014 making the emergency assessment 0.0% for all policies issued or renewed on or after January 1, 2015.
- With the implementation of GASB Statement No. 65, Items Previously Reported as Assets and Liabilities in 2014, the 2013 financials were restated.
- GASB Statement No. 68, Accounting and Financial Reporting for Pensions was implemented for fiscal year ended June 30, 2015. This resulted in a reduction to the net position as of June 30, 2014, of $595 thousand dollars.
- At June 30, 2015, the Fund had the following credit ratings: Moody's, Aa3; Standard and Poor's, AA-; and Fitch, AA.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Net Position

June 30, 2015 and 2014

(In thousands)

	2015	2014
Assets:		
Current assets:		
Cash and cash equivalents	$ 9	374,748
Short-term investments	6,131,572	11,443,010
Emergency assessment funds receivable	3,057	138,285
Accrued interest	5,648	1,918
Prepaid expenses	11	—
Total current assets	6,140,297	11,957,961
Long-term assets:		
Long-term investments	7,524,460	1,412,552
Capital assets, net of accumulated depreciation of $32 and $48 for June 30, 2015 and 2014, respectively	4	4
Total long-term assets	7,524,464	1,412,556
Total assets	13,664,761	13,370,517
Deferred outflows of resources:		
Deferred outflows related to pensions (note 13)	137	—
Liabilities:		
Current liabilities:		
Premium refunds payable	—	145
Accrued expenses	7,842	921
Bonds payable	—	325,000
Payable for securities purchased	—	149,985
Accrued bond interest expense	23,488	47,851
Net pension liability (note 13)	10	—
Total current liabilities	31,340	523,902
Long-term liabilities:		
Bonds payable	2,000,000	2,686,249
Net pension liability (note 13)	420	—
Compensated absences, net of current portion	181	145
Other post-employment benefits payable	55	—
Total long-term liabilities	2,000,656	2,686,394
Total liabilities	2,031,996	3,210,296
Deferred inflows of resources:		
Deferred inflows related to pensions (note 13)	262	—
Net position:		
Net investment in capital assets	4	4
Unrestricted	11,632,636	10,160,217
Total net position	$ 11,632,640	10,160,221

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Revenues, Expenses, and Changes in Net Position

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Operating revenues:			
Net premium revenue (net of reinsurance premium)	$	1,276,738	1,269,709
Net interest on premium adjustments		27	36
Other		41	41
Total operating revenues		1,276,806	1,269,786
Operating expenses:			
Hurricane losses (reduction in losses)		—	(186,004)
Administrative and actuarial fees		2,772	2,420
Other professional fees		1,249	1,130
Personnel expenses		1,432	1,277
Depreciation		3	2
Other		256	183
Total operating expenses		5,712	(180,992)
Operating income		1,271,094	1,450,778
Nonoperating revenue (expense):			
Investment income		37,699	26,764
Investment advisor fees		(2,863)	(2,574)
Settlement income		2,798	—
Emergency assessment revenue		256,880	498,556
Emergency assessment interest revenue		3	6
Custodian fees		(171)	(107)
Bond interest expense		(47,703)	(88,166)
Bond early extinguishment of debt expense		(34,723)	—
Total nonoperating revenue		211,920	434,479
Income before transfers		1,483,014	1,885,257
Transfers to other state agencies		(10,000)	(10,000)
Change in net position		1,473,014	1,875,257
Net position at beginning of year		10,160,221	8,284,964
Adjustments to net position related to pensions (note 13)		(595)	—
Net position at beginning of year, restated		10,159,626	8,284,964
Net position at end of year	$	11,632,640	10,160,221

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Operating activities:			
Premium received	$	1,282,270	1,270,342
Hurricane losses paid		—	(20,941)
Other cash received from customers		41	41
Administrative and actuarial fees		(2,745)	(2,513)
Other professional fees		(1,067)	(1,116)
Personnel expenses		(1,370)	(1,243)
Other cash paid to vendors		(246)	(224)
Net cash provided by operating activities		1,276,883	1,244,346
Investing activities:			
Purchases of investments		(113,089,071)	(224,030,751)
Sales and maturities of investments		112,143,527	223,048,555
Interest received		29,058	18,110
Settlement income received		2,798	—
Investment advisor fees		(2,829)	(2,551)
Custodian fees		(167)	(68)
Net cash (used) by investing activities		(916,684)	(966,705)
Financing from noncapital activities:			
Transfers to other state agencies		(10,000)	(10,000)
Emergency assessment funds received		393,102	495,269
Emergency assessment interest received		3	6
Bond principal paid		(1,000,920)	(300,000)
Bond interest paid		(82,396)	(88,296)
Bond early extinguishment of debt		(34,723)	—
Bond cost of issuance		—	(10)
Net cash (used) provided by financing from noncapital activities		(734,934)	96,969
Financing from capital activity:			
Purchases of capital assets		(4)	—
Net (decrease) increase in cash and cash equivalents		(374,739)	374,610
Cash and cash equivalents at beginning of year		374,748	138
Cash and cash equivalents at end of year	$	9	374,748

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2015 and 2014

(In thousands)

		2015	2014
Operating income	$	1,271,094	1,450,778
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		3	2
(Increase) decrease in premiums receivable		9,438	453
Increase (decrease) in allowance for uncollectables		(9,438)	—
(Increase) decrease in deposits and prepaid expenses		(11)	—
Increase (decrease) in premium refunds payable		(145)	145
Increase (decrease) in compensated absences		45	32
Increase (decrease) in unpaid hurricane losses		—	(204,891)
Increase (decrease) in losses payable		—	(2,054)
Increase (decrease) in accrued expenses		5,882	(119)
Increase (decrease) in other post-employment benefits payable		55	—
Increase (decrease) in pension liability and deferrals		(40)	—
Net cash provided by operating activities	$	1,276,883	1,244,346

See accompanying notes to combined financial statements.

(1) Organization

(a) Business

The Florida Hurricane Catastrophe Fund (the Fund), a trust fund created in November 1993 during a special Florida Congressional legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to all authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Premiums are calculated for each of the approximately 160 insurers using rates developed based on hurricane modeling of the trended data from the prior year. The modeling takes into consideration factors such as historical records of hurricane strength and landfall patterns, geographic location, type of business, construction, coverage selected, deductible, and mitigation features. The Fund is administered by the State Board of Administration of Florida (SBA), which has contracted for administrative and actuarial services.

The Fund also includes the accounts of its blended component unit, the State Board of Administration Finance Corporation (the Corporation). The Corporation, a public benefits corporation and an instrumentality of the State of Florida, was created to provide a mechanism for the cost-effective and efficient issuance of bonds necessary to enable the Fund to carry out its purposes. The Corporation is included as a blended component unit because it provides services exclusively for the benefit of the Fund. Separate stand-alone audited financial statements of the component unit are not available.

(b) Basis of Presentation

The Fund is classified as an enterprise fund, which is a type of proprietary fund. The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of the Fund are included in the combined statements of net position. The combined statements of revenues, expenses, and changes in net position present increases (revenues) and decreases (expenses) in net total assets. The combined statements of cash flows provide information about how the Fund finances and meets the cash flow needs of its activities.

The combined financial statements presented herein relate solely to the financial position and changes in financial position of the Fund, and are not intended to present the financial position of the SBA or the results of its operations and cash flows. The Fund follows Governmental Accounting Standards Board (GASB) pronouncements.

(c) Adoption of New Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassified 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. The requirements of this statement were effective for the Fund for the year ended June 30, 2014. GASB 65 requires debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred. Previously, these costs were amortized over the life of the related debt issuance. The Fund implemented GASB 65 in fiscal year 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Fund implemented GASB's 68 in fiscal year 2015. This resulted in a $595,000 reduction of beginning net position at July 1, 2014. The Fund also implemented the requirements of GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Because information was not available relative to prior fiscal years, GASB 68 was adopted effective July 1, 2014 and prior year financial statements have not been restated.

(d) Limited Liability of the Fund

The Fund's obligation to participating insurers, in the event of a hurricane(s) that causes reimbursable losses, is limited to the claims-paying capacity of the Fund. For the purpose of defining claims-paying capacity, the SBA shall use the unrestricted net position as of December 31 of the applicable contract year, to which is added reported fund losses (including loss adjustment expense) for the then-current contract year, whether paid or unpaid by the Fund, as of December 31; any reinsurance purchased by the Fund; and the amount the SBA is able to raise through the issuance of revenue bonds up to the statutory annual aggregate fund limit; and from which is subtracted any reinsurance recovered prior to, or recoverable as of, December 31; any obligations paid or expected to be paid with bonding proceeds or receipts from emergency assessments; amounts needed for administration for the then-current State of Florida fiscal year, which have not been spent and, which are not reflected on the combined statements of net position; and the amount of undisbursed mitigation funds appropriated for the then-current State of Florida fiscal year.

The Fund has no risk that it will be unable to meet its contractual obligations to participating insurers because its obligation is limited to its ability to pay. Although revenue bonds were issued on behalf of the Fund under authorization of Section 215.555(6) of the Florida Statutes, the State of Florida assumes no liability for the repayment of the bonds. Additionally, the State of Florida has no legal responsibility to make any contribution to the Fund should its obligations exceed available resources.

(e) Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and others; and natural disasters. Cash and investments held in the Fund's unrestricted funds are available to pay for hurricane losses for the current year and subsequent years. However, the use of reimbursement premiums and the investment earnings thereon to pay for prior year hurricane losses may jeopardize the tax-exempt status of the bonds currently issued and future bonds to be issued under the private letter rulings issued to the Corporation by the Internal Revenue Service (IRS).

(2) Significant Accounting Policies

(a) Measurement Focus

As mentioned in note 1, the Fund uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, premium revenues are recognized when billed. Expenses are recorded at the time they are incurred.

(b) Investments

The Fund's cash is invested according to an Investment Policy Statement, which sets forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The primary goal of the policy is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. These investments are recorded at fair value and, the fair values are primarily obtained from independent quoted market prices. No investments were recorded at amortized cost as of June 30, 2015 and 2014. The Fund considers all investments with maturity dates of less than one year to be short-term investments. Investments with maturity dates in excess of one year are included in long-term investments. Investment advisory services are provided by the SBA. The Investment Policy Statement was amended on September 1, 2014 and again on January 1, 2015. Significant changes to the Investment Policy Statement are further outlined in Footnote 3(a) and (c).

(c) Emergency Assessment Receivable

Emergency assessments are remitted as a percentage of quarterly direct written premium and are due 45 days following the end of each quarter. Insureds procuring coverage and filing under Section 626.938 of the Florida Statutes report such coverage 30 days after the insurance is procured and remit emergency assessments within 45 days following the quarter after the insurance is procured. The collection of emergency assessments has ended for all new or renewal policies issued on or after January 1, 2015 and refunds or return of erroneously paid emergency assessments formerly paid out of the Corporation's account are now being paid out of the Fund's corpus account.

(d) Premiums Receivable

Premiums receivable represent amounts from previous billings that have not yet been collected and are net of any allowances management has established to anticipate uncollectible billings. As of June 30, 2015 and 2014, an allowance exists equal to the premium receivable of $10,537,971 for two insurers and $19,976,652 for three insurers, respectively, that have entered into receivership and the collectibility of this amount is uncertain.

(e) Loss Reimbursement Advances Receivable

Certain companies may qualify for advances from the Fund, which are in essence loans based on a company's potential recoveries from the Fund (i.e., based on incurred losses rather than paid losses). Loss reimbursement advances receivable represent amounts currently outstanding on these advances, including accrued interest. As of June 30, 2015 and 2014, there are no outstanding loss reimbursement advances.

(f) Capital Assets

Capital assets, primarily electronic data processing equipment, are stated at cost, less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives, ranging from three to seven years.

(g) Deferred Outflows of Resources

A consumption of net assets by the Fund that is applicable to a future reporting period is presented as a deferred outflow of resources.

(h) Premium Refunds Payable

Premium refunds payable represent amounts due to participating insurers where provisional or estimated premium payments are in excess of amounts actually owed based upon the current exposure data. Also included are premium amounts received from companies pending exemption. These amounts are returned once an exemption is granted.

(i) Bonds Payable

Under authorization of Section 215.555(6) of the Florida Statutes, the Fund has issued post-event revenue bonds and pre-event revenue bonds in order to meet current and future obligations. The Fund classifies amounts expected to be paid within the next year as current liabilities, with remaining amounts classified as long-term liabilities. Bond issuance costs are recognized as an expense in the period incurred.

(j) Compensated Absences

Compensated absences represent the Fund's obligation to accrue a liability for employees' rights to receive compensation for future absences, such as vacation and sick leave. The Fund allows vested employees to carry forward any unpaid leave indefinitely. The short-term portion of this liability, $61,908 in 2015 and $53,154 in 2014, is included in accrued expenses on the combined statements of net position. The remaining liability is included as compensated absences with long-term liabilities on the combined statements of net position.

(k) Deferred Inflows of Resources

A deferred inflow of resources is an acquisition of net assets by the Fund that is applicable to a future reporting period.

(l) Current Contract Year Premium Revenue

Premium revenue is recognized when billed. Coverage is provided to the participating insurers on a contract-year basis, which runs from June 1 to May 31. Premiums are billed in three installments, with provisional payments due August 1 and October 1 and a final payment due December 1.

(m) Reinsurance

The reinsurance premium ceded and commission expenses are reported as operating activities net of the reimbursement premium received. As of June 30, 2015, an accrual was established for one month's pro-rata portion of the aggregate reinsurance deposit premium.

(n) Prior Contract Year Adjustments

Participating insurers remit premium to the Fund based upon current policyholder exposure information. When insurers provide updated or corrected exposure information, the Fund may bill and receive additional premium relating to a prior contract year which is recorded as premium revenue in the year billed; the Fund may also be required to refund amounts to insurers relating to a prior contract year which is recorded as a reduction to premium revenue in the year refunded.

(o) Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Fund, these revenues are primarily the premiums charged to all participating insurers. Operating expenses include incurred losses and necessary costs incurred to administer the Fund and to provide loss reimbursements to its participants.

(p) Net Interest on Premium Adjustments

Participating insurers have the option of paying the billed provisional premium or estimating premium for the August and October installments. If the provisional or estimated payments are too high, interest is returned to the insurer on the overpayment. Likewise, if estimated premiums are underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2015, the interest rate was 0.00% for overpayments of premium and 5.00% for underestimated payments. For the contract year ended May 31, 2014, the interest rate was 0.20% for overpayments of premium and 5.20% for underestimated payments.

(q) Hurricane Losses

Hurricane losses represent the estimated ultimate cost of all reported and incurred but not reported claims (IBNR) during the year that exceed the participating insurers' individual company retention levels. The reserves for unpaid claims are estimated primarily by management's review of reported loss information obtained from the participating insurers. Although considerable variability is inherent in such estimates, management believes that the reserves for hurricane losses are adequate. The estimates are continually reviewed and adjusted as experience develops or new information becomes known, and such adjustments are included in current operations.

(r) Emergency Assessment

Section 215.555(6)(b) of the Florida Statutes provides for an emergency assessment on all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2016) medical malpractice premiums. A maximum annual assessment of 6% is allowed for losses attributable to any one contract year and a maximum aggregate annual assessment of 10% for all contract years. For policies issued or renewed on or after January 1, 2007, a 1% emergency assessment has been levied; except for policies issued or renewed on or after January 1, 2011, where a 1.3% emergency assessment has been levied. For policies issued or renewed on or after January 1, 2015, the emergency assessment is 0.0%. The emergency assessment revenue was the funding source for repayment of the Series 2006A, 2008A, and 2010A Revenue Bonds.

(s) Transfers

Pursuant to Section 215.555(7)(c) of the Florida Statutes, the Florida Legislature will appropriate from the Fund an amount no less than $10,000,000 and no more than 35% of the investment income from the prior fiscal year, providing that the actuarial soundness of the Fund is not jeopardized, for the purpose of providing funding for governments, agencies, and educational institutions to support programs intended to improve hurricane preparedness or reduce potential losses in the event of a hurricane. For these purposes, in each of fiscal years 2015 and 2014, $10,000,000 was appropriated from the Fund.

(t) Income Taxes

The Fund and the Corporation are exempt from federal and state income taxes. The Fund's tax-exempt status was affirmed by a private letter ruling obtained from the IRS in November 1994. The Corporation received its initial private letter ruling to issue tax-exempt debt in March 1998, and a permanent ruling was received in June 2008.

(u) Cash and Cash Equivalents

The Fund generally considers all highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

On June 30, 2014, the Corporation had cash on deposit with its Master Trustee, a financial institution, for the purpose of funding debt service on the Corporation's outstanding Revenue Bonds. The cash was on deposit with the Master Trustee pursuant to the Master Trust Indenture between the Corporation and the Trustee and was used to pay the debt service on the Revenue Bonds on July 1, 2014, which was the following day.

(v) Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of net position available and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of changes in net position during the reporting period. Actual amounts could differ from those estimates.

(3) Investments

Funds are invested in accordance with Section 215.47 of the Florida Statutes, and the Fund's Investment Policy Statement, which includes, but is not limited to, corporate debt securities such as variable rate notes, certificates of deposit, bonds, commercial paper, U.S. government agency notes, U.S. government Treasury bills, state and local government series (SLGS), shares of money market funds, and repurchase agreements that enhance the Fund's investment income while maintaining liquidity and safety of principal.

The fair value of the Fund's investments is as follows (in thousands):

		June 30	
		2015	**2014**
Short-term investments:			
Certificates of deposit	$	274,975	—
Commercial paper		1,978,733	5,275,541
Money market funds		54,805	787
Repurchase agreements		894,726	2,514,866
U.S. Treasury bills		—	49,948
U.S. Treasury bonds, notes and SLGS		39,173	919,523
Federal agencies – discount notes		911,554	482,228
Federal agencies – unsecured		570,527	1,789,102
Domestic corporate bonds and notes		1,276,869	261,024
International corporate bonds and notes		80,200	149,991
International bonds – government agency		50,010	—
Total short-term investments		6,131,572	11,443,010
Long-term investments:			
Certificates of deposit		2,232,208	—
U.S. Treasury bonds, notes and SLGS		—	34,824
Federal agencies – unsecured		4,429,204	1,371,789
Domestic corporate bonds and notes		432,978	—
Domestic nongovernment mortgage-backed securities		—	5,939
International corporate bonds and notes		230,100	—
International bonds – government agency		199,970	—
Total long-term investments		7,524,460	1,412,552
Total	$	13,656,032	12,855,562

As of June 30, 2015, the weighted average maturity of the Fund's investments is as follows (in thousands):

Investment type		Fair value	Weighted average maturity (days)
Certificates of deposit	$	2,507,183	32
Commercial paper		1,978,733	55
Money market funds		54,805	1
Repurchase agreements		894,726	15
U.S. Treasury bonds, notes and SLGS		39,173	184
Federal agencies – discount notes		911,554	117
Federal agencies – unsecured		4,999,731	90
Domestic corporate bonds and notes		1,709,847	37
International corporate bonds and notes		310,300	64
International bonds – government agency		249,980	59
Total fair value	$	13,656,032	
Portfolio weighted average maturity			63

As of June 30, 2014, the weighted average maturity of the Fund's investments is as follows (in thousands):

Investment type		Fair value	Weighted average maturity (days)
Commercial paper	$	5,275,541	52
Money market funds		787	1
Repurchase agreements		2,514,866	7
U.S. Treasury bills		49,948	360
U.S. Treasury bonds, notes and SLGS		954,347	34
Federal agencies – discount notes		482,228	114
Federal agencies – unsecured		3,160,891	130
Domestic corporate bonds and notes		261,024	70
Domestic nongovernment mortgage-backed securities*		5,939	*
International corporate bonds and notes		149,991	38
Total fair value	$	12,855,562	
Portfolio weighted average maturity			65

* Due to the nature of certain mortgage-backed securities that have been restricted after default, the weighted average maturity is not available. When the original liquidity notes defaulted, the SBA (on behalf of certain funds) elected for a distribution of the underlying collateral in lieu of a cash payment (the Collateral Securities). The SBA-issued notes were issued to the participatory funds that had an interest in the original liquidity notes, and these notes hold the Collateral Securities as security for repayment of the notes. The Collateral Securities consist of domestic nongovernment

mortgage-backed securities. The note payouts were set to pay interest at one-month LIBOR + 35 basis points. Any additional amount collected as principal or interest on the underlying mortgages is used to first pay the note holders the interest (calculated at one-month LIBOR + 35 basis points), and anything collected over that is used to pay down the note principal for each note holder. These segregated securities are subject to the Investment Management Guidelines of the Investment Management Agreement for the sale, exchange, or disposition of the collateral and are no longer under the Fund's Investment Policy Statement.

(a) Interest Rate Risk

Liquidity being a primary concern, the Fund's objective as defined in the Investment Policy Statement is to invest in high quality, highly liquid, relatively short-term investment strategies, which are reviewed on an annual basis to ensure the appropriateness of the strategic goal. The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk. In accordance with the Investment Policy Statement, no individual security shall have a final maturity date longer than 545 days, with the exception of those for government securities and agency securities, which shall not exceed 1,188 days. No more than 30% of total portfolio amortized cost may be invested in fixed rate securities with remaining time to maturity exceeding 545 days. The dollar weighted average maturity to reset (DWAM) of the portfolio shall not exceed 270 days. For purposes of the DWAM calculation, the maturity date is assumed to be the next reset date rather than the stated maturity except in the case of the nongovernment mortgage-backed securities. The dollar weighted average final maturity of the portfolio shall not exceed 540 days.

(b) Credit Risk

Funds are invested in accordance with Section 215.47 of the Florida Statutes and the Fund's Investment Policy Statement, which includes, but is not limited to, corporate debt securities such as variable rate notes, certificates of deposit, bonds, commercial paper, U.S. government agency notes, U.S. government Treasury bills, state and local government series (SLGS), shares of money market mutual funds, and repurchase agreements that enhance the Fund's investment income while maintaining liquidity and safety of principal.

The Investment Policy Statement further states that all securities must be investment grade at time of purchase. For short-term ratings, this has been defined as being in the highest applicable rating categories by at least two of Moody's, S&P, and/or Fitch and must be a minimum of P-1 by Moody's, A-1 by S&P, and/or F1 by Fitch. For long-term ratings, this has been defined as being obtained from at least two of Moody's, S&P, and/or Fitch and must be a minimum of A2 by Moody's, A by S&P, and/or A by Fitch.

The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2015 (in thousands):

Investment type		Fair value	Credit quality ratings S & P	Credit quality ratings Moody's
Certificates of deposit	$	348,894	A	Aa
Certificates of deposit		473,663	Not Rated	Aa
Certificates of deposit*		1,684,626	Not Rated	Not Rated
Commercial paper		1,978,733	A-1	P-1
Money market funds		54,805	AAAm	Aaa-mf
Repurchase agreements (Collateralized by U.S. guaranteed obligations)		114,289	Not Rated	Not Rated
Repurchase agreements		668	AA	Aaa
Repurchase agreements		779,769	Not Rated	Not Rated
U.S. Treasuries		39,173	Not Rated	Not Rated
Federal agencies – discount notes		911,554	Not Rated	Not Rated
Federal agencies		3,541,994	AA	Aaa
Federal agencies		275,057	AA	Not Rated
Federal agencies		1,182,680	Not Rated	Not Rated
Domestic corporate bonds and notes		437,212	AA	Aa
Domestic corporate bonds and notes		199,810	AA	A
Domestic corporate bonds and notes		1,072,825	A	A
International corporate bonds and notes		225,033	AA	Aa
International corporate bonds and notes		5,067	A	Aa
International corporate bonds and notes		80,200	A	A
International bonds – government agency		50,010	AAA	Aaa
International bonds – government agency		199,970	A	Aa
	$	13,656,032		

* All certificates of deposit, including the $1,684,626 "not rated" certificates of deposit had short-term issuer ratings of A-1 for S&P and P-1 for Moody's.

(Continued)

The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2014 (in thousands):

Investment type		Fair value	Credit quality ratings S & P	Credit quality ratings Moody's
Commercial paper	$	5,200,541	A-1	P-1
Commercial paper*		75,000	Not Rated	Not Rated
Money market funds		787	AAAm	Aaa-mf
Repurchase agreements (Collateralized by U.S. guaranteed obligations)		644,955	Not Rated	Not Rated
Repurchase agreements		63,481	AA	Aaa
Repurchase agreements		1,806,430	Not Rated	Not Rated
U.S. Treasuries		1,004,295	Not Rated	Not Rated
Federal agencies – discount notes		482,228	Not Rated	Not Rated
Federal agencies – unsecured		1,911,232	AA	Aaa
Federal agencies – unsecured		125,030	AA	Not Rated
Federal agencies – unsecured		1,124,629	Not Rated	Not Rated
Domestic corporate bonds and notes		179,973	AA	A
Domestic corporate bonds and notes		81,051	A	A
Domestic nongovernment mortgage-backed securities		5,939	Not Rated	Not Rated
International corporate bonds and notes		149,991	A-1	P-1
	$	12,855,562		

* The $75,000 "not rated" commercial paper had issuer ratings of A-1 for S&P and P-1 for Moody's.

(c) Concentration of Credit Risk

Pursuant to the Investment Policy Statement, securities of a single issuer shall not represent more than 3% of total portfolio amortized cost (excluding government securities, repurchase agreements, money market mutual funds and custodian cash sweep vehicles). For fiscal year-end 2014, single issuer was interpreted to be each separate issuer and not the aggregate of all affiliated issuers; and where total holdings by affiliated issuers represented more than 3% of the total portfolio amortized cost the amounts are provided in these notes for informational purposes. With the changes to the Investment Policy Statement in fiscal year 2015, single issuer is interpreted to be the aggregate of all affiliated issuers. The maximum single issuer limit can be 5% if timing issues related to delayed delivery transactions are the sole cause of the discrepancy, so long as the percentage is reduced back to 3% within five business days. Repurchase agreements, which are collateralized at least 102% with U.S. government, agency, or agency mortgage-backed securities, are excluded by the SBA in determining compliance with the guidelines. No more than 10% of the portfolios may be invested in an individual money market fund (including any one treasury or agency money market mutual fund). No more than 25% of total portfolio amortized cost may be in a single industry sector. For fiscal year-end 2014, that limit did not apply to the financial services industry sector.

At June 30, 2015, securities issued by Bank of Nova Scotia were in compliance with the Investment Policy Statement and represented 9.11% of the portfolio's total fair value. The fair value of Bank of Nova Scotia holdings at June 30, 2015 was $1,244,468,788, of which, $869,726,000 was held in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2015.

At June 30, 2015, the Fund also held $5,911,285,311 in federal agency bonds and notes, which was in compliance with the Investment Policy Statement and represented 43.29% of the portfolio's fair value. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2015 are as follows (in thousands):

Investment type	Fair value	Percentage of portfolio
Federal Farm Credit Bank	$ 1,707,981,365	12.51%
Federal Home Loan Mortgage Corp	1,519,275,828	11.13
Federal Home Loan Banks	1,428,856,478	10.46
Federal Agricultural Mortgage Corp	1,182,679,970	8.66
Federal National Mortgage Association	72,491,670	0.53

At June 30, 2014, securities issued by Bank of America were in compliance with the Investment Policy Statement and represented 3.30% of the portfolio's total amortized cost. The fair value of Bank of America holdings at June 30, 2014 was $424,998,000, held in repurchase agreements issued by Bank of America. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

At June 30, 2014, securities issued by RBC Capital were in compliance with the Investment Policy Statement and represented 7.88% of the portfolio's total amortized cost. The fair value of RBC Capital holdings at June 30, 2014 was $1,015,000,000, held in repurchase agreements issued by RBC Capital. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

At June 30, 2014, securities issued by Bank of Nova Scotia were in compliance with the Investment Policy Statement and represented 6.99% of the portfolio's total amortized cost. The fair value of Bank of Nova Scotia holdings at June 30, 2014 was $900,000,000, held in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

At June 30, 2014, holdings directly in Commonwealth Bank of Australia were in compliance with the Investment Policy Statement and represented 1.94% of the portfolio's amortized cost. Holdings in ASB Finance Ltd, a subsidiary of Commonwealth Bank of Australia, were in compliance with the Investment Policy Statement and represented 1.67% of the portfolio's amortized cost. The combined holdings of Commonwealth Bank of Australia and its subsidiary totaled 3.61% of the portfolio's amortized cost. The fair value of these holdings at June 30, 2014 was $464,995,500, held in commercial paper issued by National Australia Bank and its subsidiary.

At June 30, 2014, holdings directly in Mitsubishi UFJ Trust & Banking Corporation were in compliance with the Investment Policy Statement and represented 2.62% of the portfolio's amortized cost. Holdings in Bank of Tokyo-Mitsubishi UFJ Ltd were in compliance with the Investment Policy Statement and represented 2.53% of the portfolio's amortized cost. The combined holdings in Mitsubishi UFJ Financial group totaled 5.15% of the portfolio's amortized cost. The fair value of these holdings at June 30, 2014 was $663,805,100, all in commercial paper. $318,965,000 of these holdings matured in July 2014.

At June 30, 2014, the Fund held $1,004,295,444 in U.S. Treasuries, which was in compliance with the Investment Policy Statement and represented 7.82% of the portfolio's amortized cost. Specifically, the Fund held $49,947,500 in US Treasury bills, $70,304,599 in US Treasury notes, and $884,043,345 in US Treasury State and Local Government Series Securities (SLGS). SLGS are nonmarketable securities that are only available for purchase by state and local governments and other issuers of tax-exempt securities. SLGS are direct obligations of the U.S. government, backed by the full faith and credit of the U.S. government.

At June 30, 2014, the Fund also held $3,643,119,162 in federal agency bonds and notes, which was in compliance with the Investment Policy Statement and represented 28.34% of the portfolio's holdings. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2014 are as follows (in thousands):

Investment type	Fair value	Percentage of portfolio
Federal Home Loan Banks	$ 1,304,515,599	10.15%
Federal Agricultural Mortgage Corp	998,633,428	7.77
Federal Farm Credit Bank	900,344,168	7.00
Federal National Mortgage Association	251,091,133	1.95
Federal Home Loan Mortgage Corp	188,534,834	1.47

(d) Custodial Credit Risk

Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. The Fund does not have a formal investment policy for custodial credit risk. At June 30, 2015 and 2014, all investments held were either insured or registered and held by the Fund or its agent in the Fund's name.

(e) Foreign Currency Risk

There was no exposure to foreign currency risk during the fiscal years ended June 30, 2015 and 2014.

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2015 and 2014 is as follows (in thousands):

		Equipment	Accumulated depreciation	Net
Balance as of June 30, 2013	$	66	(61)	5
Additions and depreciation expense		1	(2)	(1)
Sales or disposals		(15)	15	—
Balance as of June 30, 2014		52	(48)	4
Additions and depreciation expense		3	(3)	—
Sales or disposals		(19)	19	—
Balance as of June 30, 2015	$	36	(32)	4

(5) Hurricane Losses

The State of Florida was not hit by any hurricanes during the 2006 to 2014 hurricane seasons.

The State of Florida was hit by four hurricanes during July through October of 2005 (fiscal year 2006). As of June 30, 2015 and 2014, no hurricane losses remain unpaid.

The State of Florida was hit by four hurricanes during August and September 2004 (fiscal year 2005). As of June 30, 2015 and 2014, no hurricane losses remain unpaid.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2015 and 2014 (in thousands):

		Year ended June 30	
		2015	2014
Reserve for unpaid hurricane losses at beginning of year	$	—	204,891
Provision for hurricane losses occurring in:			
Current year		—	—
Prior years		—	(186,004)
Net incurred losses during the current year		—	(186,004)
Payments for claims occurring in:			
Current year		—	—
Prior years		—	18,887
Net claim payments during the current year		—	18,887
Reserve for unpaid hurricane losses at end of year	$	—	—

The Fund's reserve for prior years' unpaid hurricane losses was zero at June 30, 2015. At June 30, 2014, the Fund's reserve for prior years' unpaid hurricane losses was reduced by $186.0 million to zero as a result of ongoing loss development, actuarial analyses, and loss settlement. The final commutation of losses with participating insurers was concluded in May 2014.

(6) Bonds Payable

Long-term liability activity for the years ended June 30, 2015 and 2014 was as follows (in thousands):

Long-term liabilities as of June 30, 2015		Beginning balance	Additions	Reductions	Ending balance
Long-term bonds	$	2,675,920	—	(675,920)	2,000,000

Long-term liabilities as of June 30, 2015		Beginning balance	Additions	Reductions	Ending balance
Long-term bonds	$	3,000,920	—	(325,000)	2,675,920

Post-event Bonds – The Fund paid loss reimbursements of $3.86 billion to participating insurers for the calendar year 2004 hurricanes and paid $5.54 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net position as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of $1,350,025,000 during the year ended June 30, 2006. The funding for these bonds came from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. At June 30, 2015, none of these bonds were outstanding as they matured on July 1, 2012.

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of $625 million. The Series 2008A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds came from the same 1% emergency assessment mentioned above. At June 30, 2015, none of these bonds were outstanding as they matured on July 1, 2014.

In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of $675.9 million. The Series 2010A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds came from the same emergency assessment mentioned above. An Order was issued by the Florida Office of Insurance Regulation concurrently with the issuance of the Series 2010A Revenue Bonds to supersede the 1% emergency assessment with a 1.3% emergency assessment. The increased emergency assessment was effective for all policies issued or renewed on or after January 1, 2011. A legal defeasance of the bonds was executed on July 11, 2014 in accordance with the Master Trust Indenture. See note 10 for additional discussion.

Pre-event Notes and Bonds – In April 2013, the Corporation issued pre-event Series 2013A Revenue Bonds in the amount of $2.0 billion to maximize the ability of the Fund to meet future obligations. The proceeds from these bonds will be used to pay for losses incurred from future covered events. Investment earnings on these funds, as well as reimbursement premiums, if necessary, are used to pay the debt service requirements of these bonds. The bonds are stated to mature, notwithstanding a prior right of redemption, on July 1 of the following years and bear interest at rates ranging from 1.298% to 2.995% as follows (in thousands):

		Par outstanding	Interest rates
Year:			
2016	$	500,000	1.298%
2018		500,000	2.107
2020		1,000,000	2.995
	$	2,000,000	

(7) Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2013	$	166
Increases		125
Decreases		(93)
Balance as of June 30, 2014		198*
Increases		146
Decreases		(101)
Balance as of June 30, 2015	$	243*

* Includes long-term and current balances, of which $61,908 and $53,154 is estimated due within one year of June 30, 2015 and 2014, respectively.

(8) Premium Revenue

Fiscal year premiums, net of prior contract year adjustments, as reported in the combined statements of revenues, expenses, and changes in net position, relate to contract years as follows (in thousands):

	Year ended June 30	
	2015	**2014**
Contract year 2015	$ (5,650) *	—
Contract year 2014	1,284,837	—
Contract year 2013	(3,397)	1,270,240
Contract year 2012	(424)	(411)
Contract year 2011	—	(120)
Contract year 2010	—	—
Contract year 2009	1,372	—
	$ 1,276,738	1,269,709

* As of June 30, 2015, which is in contract year 2015 running June 1, 2015 through May 31, 2016, an accrual was established for one month's pro-rata portion of the aggregate reinsurance deposit premium.

(9) Related Parties

The Fund paid the SBA $2,412,609 for the Fund and $450,646 for the Corporation in the fiscal year ended June 30, 2015, and $2,116,795 for the Fund and $456,830 for the Corporation in the fiscal year ended June 30, 2014, for investment advisory services.

(10) Legal Defeasance

A legal defeasance of the Series 2010A Revenue Bonds was executed on July 11, 2014 in accordance with the Master Trust Indenture; therefore, the bonds are no longer outstanding as of that date. At the time of defeasance, outstanding debt service on the bonds was as follows:

Payment date	Rate	Payment for principal	Payment for interest
January 1, 2015	3.50%–5.00%	$ —	16,638,425
July 1, 2015	3.50%–5.00%	342,455,000	16,638,425
January 1, 2016	3.75%–5.00%	—	8,224,188
July 1 2016	3.75%–5.00%	333,465,000	8,224,188
		$ 675,920,000	49,725,226

To provide for the payment of principal and interest on the bonds, and all fees of the escrow agent, $721.7 million was placed in an irrevocable trust, along with interest earnings thereon. The defeasance resulted in the Corporation recognizing a $34.7 million loss on the early extinguishment of debt in fiscal year ended June 30, 2015.

With the defeasance of the Series 2010A Revenue Bonds and no outstanding hurricane losses, the Florida Office of Insurance Regulation issued Orders on July 21, 2014 establishing that for all policies issued or renewed on or after January 1, 2015 the emergency assessment is 0.0%.

(11) Lehman Settlement

In 2009, the SBA filed a claim on behalf of the Fund, along with two other funds, in the Lehman Brothers, Inc. (LBI) Securities Investor Protection Act of 1970 (SIPA) insolvency proceeding in connection with the defaults of the KKR Atlantic, KKR Pacific and Ottimo securities. In this claim, the SBA alleged that LBI sold the SBA unregistered securities without proper reliance on any exemption under the Securities Act.

After several months of discussions and exchanging of formal motions and objections in the litigation, the parties participated in mediation on August 20, 2014, which resulted in a settlement and stipulation by the parties. The court approved this stipulation on September 30, 2014.

After the court approved the stipulation, the SBA had an allowed claim that could be sold, and began seeking quotes from the market. The SBA received a portion of the settlement directly from an LBI trustee, and sold the remainder of the claim to Banc of America Credit Products, Inc. (BACP). The funds from LBI and BACP related to the settlement were received by the SBA on November 26, 2014 and December 3, 2014, respectively, and immediately made distributions to the holders of the defaulted securities. The Fund's share of the proceeds received on November 26, 2014 and December 3, 2014 was $1,043,060 and $1,754,688, respectively.

(12) Reinsurance

Aggregate excess catastrophe reinsurance providing coverage for $1.0 billion in excess of $12.5 billion was purchased effective June 1, 2015 through May 31, 2016. The deposit premium including commission is $67.8 million. The final premium may be adjusted down, but not adjusted up, and will be determined based on the actual reimbursement contract aggregate reimbursement premium as of December 31, 2015. Reinsurance deposit premium and commission are due in three equal installments on August 1, October 1 and December 1 of 2015. The effect of reinsurance on premiums for the years ended June 30 was as follows:

	Year ended June 30	
	2015	**2014**
Direct premiums	$ 1,282,388,000	1,269,709,000
Reinsurance	(5,650,000)	—
Net premiums	$ 1,276,738,000	1,269,709,000

(13) Pension and Other Postemployment Benefits

All permanent Fund employees are eligible to participate in the following cost-sharing multiple-employer defined benefit pension plans (Plans):

- Florida Retirement System Pension Plan
- Health Insurance Subsidy Program Pension Plan

As an alternative to the Florida Retirement System Pension Plan, employees may elect to participate in the Florida Retirement System Investment Plan (a defined contribution plan).

The Florida Department of Management Services (Department) is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems. Beginning with the fiscal year ended June 30, 2014, the Department issued a publicly available, audited comprehensive annual financial report (CAFR) that includes financial statements, notes and required supplementary information for each of the pension plans which it administers. Detailed information about the plans is provided in the CAFR which is available online or by contacting the Department.

Copies of this report, as well as the plans' actuarial valuations, can be obtained from the Department of Management Services, Division of Retirement (Division), Bureau of Research and Member Communications, P.O. Box 9000, Tallahassee, Florida 32315-9000; by telephone toll free at 877-377-1737 or 850-488-5706; by email at rep@dms.myflorida.com; or at the Division's website (www.frs.myflorida.com).

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the Florida Department of Management Services. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

1. Defined Benefit Plans

The Florida Retirement System Pension Plan

The Florida Retirement System (FRS) Pension Plan was created in Chapter 121, Florida Statutes (F.S.), effective December 1, 1970, by consolidating and closing these existing plans to new members: the Teachers' Retirement System (Chapter 238, F.S.), the State and County Officers and Employees' Retirement System (Chapter 122, F.S.), and the Highway Patrol Pension Trust Fund (Chapter 321, F.S.). In 1972, the Judicial Retirement System (Chapter 123, F.S.) was closed and consolidated into the FRS. The FRS was created to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution plan is the FRS Investment Plan, which is administered by the State Board of Administration.

Membership

FRS membership is compulsory for employees filling a regularly established position in a state agency, county agency, state university, state college, or district school board, unless restricted from FRS membership under Section 121.053 or Section 121.122, F.S., or allowed to participate in a nonintegrated defined contribution plan in lieu of FRS membership.

There are five general classes of membership, as follows. Fund employees are all included in one of the first two classes:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions in state and local governments as well as assistant state attorneys, assistant statewide prosecutors, assistant public defenders, assistant attorneys general, deputy court administrators, and assistant capital collateral representatives. Members of the Elected Officers' Class may elect to withdraw from the FRS or participate in the SMSC in lieu of the Elected Officers' Class.
- *Special Risk Class* – Members who are employed as law enforcement officers, firefighters, firefighter trainers, fire prevention officers, state fixed-wing pilots for aerial firefighting surveillance, correctional officers, emergency medical technicians, paramedics, community-based correctional probation officers, youth custody officers (from July 1, 2001 through June 30, 2014), certain health-care related positions within state forensic or correctional facilities, or specified forensic employees of a medical examiner's office or a law enforcement agency, and meet the criteria to qualify for this class.
- *Special Risk Administrative Support Class* – Former Special Risk Class members who are transferred or reassigned to nonspecial risk law enforcement, firefighting, emergency medical care, or correctional administrative support positions within an FRS special risk-employing agency.
- *Elected Officers' Class (EOC)* – Members who are elected state and county officers and the elected officers of cities and special districts that choose to place their elected officials in this class.

Beginning July 1, 2001, through June 30, 2011, the FRS Pension Plan provided for vesting of benefits after six years of creditable service for members initially enrolled during this period. Members not actively working in a position covered by the FRS on July 1, 2001, must return to covered employment for up to one work year to be eligible to vest with less service than was required under the law in effect before July 1, 2001. Members initially enrolled on or after July 1, 2011, vest after eight years of creditable service. Regular Class and Senior Management Service Class members are eligible for normal retirement when they have met the requirements listed below. Early retirement may be taken any time after vesting within 20 years of normal retirement age; however, there is a 5% benefit reduction for each year prior to the normal retirement age.

Regular Class Senior Management Service Class eligibility requirements for normal retirement:

- For members initially enrolled in the FRS before July 1, 2011, six or more years of creditable service and age 62, or the age after completing six years of creditable service if after age 62. Thirty years of creditable service regardless of age before age 62.
- For members initially enrolled in the FRS on or after July 1, 2011, eight or more years of creditable service and age 65, or the age after completing eight years of creditable service if after age 65. Thirty-three years of creditable service regardless of age before age 65.

Benefits

Benefit terms under the FRS Pension Plan are established in Chapter 121, F.S. and may only be amended by the Florida Legislature. Benefits under the FRS Pension Plan are computed on the basis of age, average final compensation, creditable years of service, and accrual value per year by membership class. Members are also provided in-line-of-duty or regular disability and survivors' benefits. Pension benefits of retirees and annuitants are increased each July 1 by a cost-of-living adjustment. If the member is initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3% per year. If the member is initially enrolled before July 1, 2011, and has service credit on or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3% determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3%. FRS Pension Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

The Deferred Retirement Option Program (DROP) became effective July 1, 1998, subject to provisions of Section 121.091(13), F.S. FRS Pension Plan members who reach normal retirement are eligible to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a maximum of 60 months. Authorized instructional personnel may participate in the DROP for up to 36 additional months beyond their initial 60-month participation period. Monthly retirement benefits remain in the FRS Trust Fund during DROP participation and accrue interest.

Administration

The FRS is a cost-sharing multiple-employer public-employee retirement system with two primary plans. The Department of Management Services, Division of Retirement administers the FRS Pension Plan. The State Board of Administration invests the assets of the Pension Plan held in the FRS Trust Fund. Costs of administering the FRS Pension Plan are funded from earnings on investments of the FRS Trust Fund. Reporting of the FRS is on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Contributions

All participating employers must comply with statutory contribution requirements. Section 121.031(3), F.S., requires an annual actuarial valuation of the FRS Pension Plan, which is provided to the Legislature as guidance for funding decisions. Employer and employee contribution rates are established in Section 121.71, F.S. Employer contribution rates under the uniform rate structure (a blending of both the FRS Pension Plan and Investment Plan rates) are recommended by the actuary but set by the Legislature. Statutes require that any unfunded actuarial liability (UAL) be amortized within 30 plan years. Pursuant to Section 121.031(3) (f), F.S., any surplus amounts available to offset total retirement system costs are to be amortized over a 10-year rolling period on a level-dollar basis. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

The table below presents FRS retirement employer contribution rates. Rates indicated are uniform rates for all FRS members and include UAL contribution rates. These rates do not include a 1.26%

Retiree Health Insurance Subsidy (HIS) contribution rate and a 0.04% assessment for the administration of the FRS Investment Plan and the educational program available to all FRS members. In addition, the July 1, 2014, statutory employer rates do not include the 3.00% mandatory employee contribution for all membership classes except for members in the Deferred Retirement Option Program.

Membership class	Uniform employer rates recommended by actuarial valuation as of July 1, 2013 for fiscal year 2014–2015*	July 1, 2014 Statutory rates* (Ch. 121, F.S.)
Regular	6.07%	6.07%
Senior Management Service	19.84	19.84
Special Risk	18.52	18.52
Special Risk Administrative Support	40.77	40.77
Elected Officers – Judges	31.87	31.87
Elected Officers – Legislators/Attorneys/Cabinet	44.96	44.96
Elected Officers – County	41.94	41.94
Deferred Retirement Option Program – applicable to members from all of the above classes or plans	11.02	11.02

* Rates indicated are uniform rates for all FRS members created by blending the FRS Investment Plan and FRS Pension Plan rates and including UAL contribution rates. These rates do not include a 0.04% contribution for the FRS Investment Plan administration and educational program fee. In addition, the July 1, 2014 statutory employer rates do not include 3.00% mandatory employee contributions required for all membership classes except for members in the Deferred Retirement Option Program.

Employee eligibility, benefits, and contributions by class are as previously described. Employees not filling regular established positions and working under the other personal services (OPS) or temporary status are not covered by the FRS.

The amount of contributions recognized by the plan from the Fund during the reporting period (i.e., July 1, 2013 to June 30, 2014) was $52,457.

Retiree Health Insurance Subsidy Program

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. by the authority of the Florida Legislature. Benefit terms are established in Chapter 112.363, F.S. and may only be amended by the Florida Legislature. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Department of Management Services, Division of Retirement. For the fiscal year ended June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by $5. The payments are at least $30 but not more than $150 per month, pursuant to Section 112.363, F.S. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2015, the contribution rate was 1.26% of payroll pursuant to Section 112.363, F.S. The Fund contributed 100% of its statutorily required contributions for the current and preceding two years. The amount of contributions recognized by the plan from the Fund during the reporting period (i.e., July 1, 2013 to June 30, 2014) was $10,388. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

Pension Amounts for Defined Benefit Pension Plans

Net Pension Liability

At June 30, 2015, the Fund reported a total liability of $429,649 for its proportionate share of the net pension liabilities of the defined benefit, multiple employer cost sharing pension plans. The table below presents the fiduciary net position for each plan as well as the Fund's proportion and proportionate share as of the measurement date of June 30, 2014:

	FRS	HIS	Total
Plan total pension liability (A)	$ 156,115,762,947	9,443,629,461	
Plan fiduciary net position (B)	(150,014,292,372)	(93,385,450)	
Plan net pension liability (A-B)	6,101,470,575	9,350,244,011	
Fund's proportion	0.002394824%	0.003032327%	
Fund's proportionate share*	$ 146,119	283,530	429,649

* The amount of the Fund's proportionate share due within one year is $0 for the FRS Pension and $10,116 for the HIS Pension.

The Fund's proportion of the net pension liability was based on contributions paid to the plans by the Fund relative to the contributions paid by all participating employers. The table below shows the change in proportion since the prior measurement date:

	FRS	HIS
Fund's proportion at prior measurement date, June 30, 2013	0.002230016 %	0.003151299 %
Fund's proportion at measurement date, June 30, 2014	0.002394824	0.003032327
Increase/(decrease) in proportion	0.000164808 %	(0.000118972)%

There are no known changes between the measurement date of the collective net pension liability and the Fund's reporting date that are expected to have a significant effect on the Fund's proportionate share of the collective net pension liability of either defined benefit pension plan.

Actuarial Methods and Assumptions

Actuarial assumptions for both defined benefit cost sharing plans are reviewed annually by the Florida Retirement System Actuarial Assumptions Conference. The most recent experience study for the FRS Pension Plan was completed in 2014 for the period July 1, 2008 through June 30, 2013. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for this program.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of the measurement date, of July 1, 2014, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth for both plans is assumed at 3.25%.

Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 7.65%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at the statutorily required rates. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return and was applied to all periods of projected benefit payments to determine the total pension liability.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 4.29% was used to determine the total pension liability for the program. The source of the municipal bond rate is the Bond Buyer General Obligation 20-Bond Municipal Bond Index rate in effect as of June 30, 2014. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

There were no changes in benefit terms for either FRS or HIS that affected the total pension liability since the prior measurement date. There were no changes between the measurement date and the reporting date which significantly impact the State's proportionate share of the net pension liability, deferred outflows, deferred inflows and pension expense for either FRS or HIS.

The following changes in actuarial assumptions occurred in 2014:

- FRS:As of June 30, 2014, the inflation rate assumption was decreased from 3.00% to 2.60%, the real payroll growth assumption was decreased from 1.00% to 0.65%, and the overall payroll growth rate assumption was decreased from 4.00% to 3.25%. The long-term expected rate of return decreased from 7.75% to 7.65%
- HIS:The municipal rate used to determine total pension liability decreased from 4.63% to 4.29%.

The long-term expected rate of return on FRS pension plan investments was determined using a forward-looking capital market economic model, which includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset class	Target allocation	Long-term expected real rate of return
Cash	1.00%	3.11%
Intermediate-term bonds	18.00	4.18
High yield bonds	3.00	6.79
Broad U.S. equities	26.50	8.51
Developed foreign equities	21.20	8.66
Emerging market equities	5.30	11.58
Private equity	6.00	11.80
Hedge funds/absolute return	7.00	5.81
Real estate (property)	12.00	7.11
	100.00%	

Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Fund's proportionate share of each plan's net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at June 30, 2014.

Florida Retirement System			Health Insurance Subsidy		
1% Decrease 6.65%	Current discount rate 7.65%	1% Increase 8.65%	1% Decrease 3.29%	Current discount rate 4.29%	1% Increase 5.29%
$ 624,972	146,119	(252,195)	322,492	283,530	251,008

Pension Expense and Deferred Outflows / (Inflows) of Resources

In accordance with GASB 68, paragraph 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

- Differences between expected and actual experience with regard to economic and demographic factors – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Changes of assumptions or other inputs – amortized over the average expected remaining service life of all employees that are provided with pensions through the pension plan (active and inactive employees)
- Differences between expected and actual earnings on pension plan investments – amortized over five years

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2014, was 6.3 years for FRS and 7.2 years for HIS. The Fund's proportionate share of the components of collective pension expense reported in the pension allocation schedules for the fiscal year ended June 30, 2014, are presented below for each plan.

Florida Retirement System

	Recognized in expense reporting period ending June 30, 2015	Recognition period	Deferred outflows of resources	Deferred inflows of resources
Service cost	$ 54,045	Current	—	—
Interest cost	275,163	Current	—	—
Effect of plan changes	—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	(1,706)	6.3 years	—	(9,042)
Effect of assumptions changes or inputs	4,775	6.3 years	25,305	—
Member contributions	(16,345)	Current	—	—
Projected investment earnings	(241,625)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	4,503	6.3 years	23,868	—
Net difference between projected and actual investment earnings	(60,938)	5 years	—	(243,752)
Contributions subsequent to the measurement date	—	1 years	64,650	—
Administrative expenses	440	Current	—	—
Total	$ 18,312		113,823	(252,794)

(Continued)

Health Insurance Subsidy					
		Recognized in expense reporting period ending June 30, 2015	**Recognition period**	**Deferred outflows of resources**	**Deferred inflows of resources**
Service cost	$	5,773	Current	—	—
Interest cost		12,430	Current	—	—
Effect of plan changes		—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)		—	7.2 years	—	—
Effect of assumptions changes or inputs		1,627	7.2 years	10,089	—
Member contributions		—	Current	—	—
Projected investment earnings		(177)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions		(1,439)	7.2 years	—	(8,919)
Net difference between projected and actual investment earnings		34	5 years	136	—
Contributions subsequent to the measurement date		—	1 years	12,394	—
Administrative expenses		2	Current	—	—
Total	$	18,250		22,619	(8,919)
Total for all defined benefit pension plans	$	36,562		136,442	(261,713)

Deferred outflows of resources related to contributions paid subsequent to the measurement date as shown in the tables above will be recognized as a reduction of the net pension liability in the reporting period ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred (inflows) of resources related to pension expense will be recognized as follows:

		FRS expense	**HIS expense**
Reporting period ending June 30:			
2016	$	(53,366)	223
2017		(53,366)	223
2018		(53,366)	223
2019		(53,366)	223
2020		7,572	189
Thereafter		2,271	225
Total	$	(203,621)	1,306

(Continued)

Payables to the Defined Benefit Pension Plans

The Fund reported payables of $5,894 to the FRS and $1,102 to the HIS Program as of June 30, 2015, for legally required contributions to the plans. The payables are included in accrued expenses as a current liability in the Combined Statements of Net Position.

Payable at June 30, 2015		FRS pension plan	HIS Program pension plan
Employer pension contribution payable for defined benefit plan participants Plus UAL employer contributions for FRS	$	5,356	1,102
Investment Plan participants		538	—
Total defined benefit pension expense payable at June 30, 2015	$	5,894	1,102

2. Defined Contribution Programs

FRS Investment Plan

The State Board of Administration administers the defined contribution plan officially titled the FRS Investment Plan. Retirement benefits are based upon the value of the member's account upon retirement. The FRS Investment Plan provides vesting after one year of service regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, six years of service (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings on the funds. The employer pays a contribution as a percentage of salary that is deposited into the individual member's account. The Investment Plan member directs the investment from the options offered under the plan. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.04% of payroll and by forfeited benefits of plan members. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Disability coverage is provided; the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the FRS Investment Plan and rely upon that account balance for retirement income.

Pension Amounts for the FRS Investment Plan

During the fiscal year ended June 30, 2015, the Fund recognized $8,006 in pension expense related to the FRS Investment Plan, and employee contributions totaled $7,278. As of June 30, 2015, the Fund reported a current liability of $705 for the June 2015 employer contributions to be paid to employee accounts in the following month. This liability is included in accrued expenses as a current liability on the Combined Statements of Net Position.

Blended rates paid by the employer for employees participating in the FRS Investment Plan include required contributions paid to the Health Insurance Subsidy (HIS) Program Pension Plan, the unfunded actuarial liability (UAL) contributions to the FRS Pension Plan, disability fees (also paid into the FRS Pension Plan), contributions to defined contribution participant accounts, and administrative fees.

Amounts paid into the two defined benefit pension plans are already included in the net pension liability for those plans. Forfeiture amounts for the Fund are not available, as forfeitures are used only to offset the overall administrative cost of the defined contribution plan and the amount attributable to reducing the Fund's administrative expenses is unknown. A schedule of employer contributions on behalf of employees in the FRS Investment Plan is presented below:

FRS Investment Plan expenses		**Reporting period ended June 30, 2015**	**Payable at June 30, 2015**
Gross pension employer contribution	$	17,880	1,574
Less contributions to HIS Pension Plan		(3,057)	(269)
Less UAL contributions to FRS Pension Plan		(6,114)	(538)
Less disability fees		(606)	(53)
Less administrative fees		(97)	(9)
Net pension expense/liability	$	8,006	705

3. Other Postemployment Benefits (OPEB)

The Fund participates in the State Employees's Health Insurance Program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State's group health insurance programs and assigns the authority to establish and amend benefit provisions to the Department of Management Services. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Fund's employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State of Florida's Comprehensive Annual Financial Report, which is available from the Department of Financial Services.

In accordance with GASB Statement 45, the State of Florida has been reporting its portion of the implicit postemployment health benefit liability beginning in the fiscal year ended June 30, 2008. Since June 30, 2008, the State of Florida has included the Fund's portion of the implicit postemployment health benefit liability as part of the liability reported for all state employees in the State of Florida's Comprehensive Annual Financial Report. Beginning this fiscal year, the State of Florida requested that the Fund begin reporting its portion of the implicit postemployment health benefit liability separately. Due to the immateriality of the amount, the Fund has elected to record the entire liability as of June 30, 2015, as an expense for the fiscal year ending June 30, 2015. The Fund's postemployment health benefits payable at June 30, 2015, was $55,436.

(Continued)

(14) Subsequent Events

The Fund has reviewed and considered the events subsequent to the date of the consolidated financial statements through January 28, 2016, which is the date the consolidated financial statements were available to be issued, and is aware of only one significant event that would require disclosure. On April 14, 2015, the Trustees of the SBA approved a resolution that authorizes and directs the Corporation to negotiate, approve, execute and deliver a contract for the sale of the Series 2015A Bonds, up to but not exceeding, $2.2 billion in aggregate principal amount less the amount of any risk-transfer arrangements procured by the SBA. On the same day, the Board of Directors of the Corporation followed with a resolution that authorizes the issuance and sale of up to, but not exceeding, $2.2 billion in aggregate principal amount of Series 2015A Revenue Bonds taking into account any risk-transfer arrangements so that it shall not exceed $2.2 billion on a combined basis. As of this date, bonds have not been issued but are anticipated to be issued before the end of the first quarter of calendar 2016.

(15) Condensed Combining Information

The combined financial statements represent the financial position of the Fund, which includes the Corporation. The Corporation is included as a blended component unit of the Fund because it provides services exclusively for the benefit of the Fund.

The following table provides the condensed combining assets information of the Fund as of June 30, 2015 (in thousands):

Assets	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Current assets:			
Cash and cash equivalents	$ 9	—	9
Short-term investments	6,131,572	5,006,661	1,124,911
Emergency assessment funds receivable	3,057	—	3,057
Accrued interest	5,648	3,864	1,784
Prepaid expenses	11	11	—
Total current assets	6,140,297	5,010,536	1,129,761
Long-term assets:			
Long-term investments	7,524,460	6,591,783	932,677
Capital assets, net of accumulated depreciation	4	4	—
Total long-term assets	7,524,464	6,591,787	932,677
Total assets	$ 13,664,761	11,602,323	2,062,438
Deferred outflows of resources:			
Deferred outflows related to pensions (note 13)	$ 137	137	—

The following table provides the condensed combining liabilities and net position information of the Fund as of June 30, 2015 (in thousands):

Liabilities		Combined	Florida Hurricane Catastrophe	State Board of Administration Finance Corporation
Current liabilities:				
Accrued expenses	$	7,842	7,793	49
Accrued bond interest expense		23,488	—	23,488
Net pension liability (note 13)		10	10	—
Total current liabilities		31,340	7,803	23,537
Long-term liabilities:				
Bonds payable		2,000,000	—	2,000,000
Net pension liability (note 13)		420	420	—
Compensated absences, net of current portion		181	181	—
Other post-employment benefits payable		55	55	—
Total long-term liabilities		2,000,656	656	2,000,000
Total liabilities		2,031,996	8,459	2,023,537
Deferred inflows of resources:				
Deferred inflows related to pensions (note 13)		262	262	—
Net position:				
Net investment in capital assets		4	4	—
Unrestricted		11,632,636	11,593,735	38,901
Total net position	$	11,632,640	11,593,739	38,901

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the year ended June 30, 2015 (in thousands):

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating revenues:			
Net premium revenue (net of reinsurance premium)	$ 1,276,738	1,276,738	—
Net interest on premium adjustments	27	27	—
Other	41	41	—
Total operating revenues	1,276,806	1,276,806	—
Operating expenses:			
Hurricane losses (reduction in losses)	—	—	—
Administrative and actuarial fees	2,772	2,772	—
Other professional fees	1,249	1,223	26
Personnel expenses	1,432	1,432	—
Depreciation	3	3	—
Other	256	234	22
Total operating expenses	5,712	5,664	48
Operating income	1,271,094	1,271,142	(48)
Nonoperating revenue (expense):			
Investment income	37,699	31,564	6,135
Investment advisor fees	(2,863)	(2,412)	(451)
Settlement income	2,798	2,798	—
Emergency assessment revenue (expense)	256,880	(993)	257,873
Emergency assessment interest revenue	3	—	3
Custodian fees	(171)	(143)	(28)
Bond interest expense	(47,703)	—	(47,703)
Bond early extinguishment of debt expense	(34,723)	—	(34,723)
Total nonoperating revenue	211,920	30,814	181,106
Income before transfers	1,483,014	1,301,956	181,058
Transfers to (from) component units	—	582,466	(582,466)
Transfers to other state agencies	(10,000)	(10,000)	—
Change in net position	1,473,014	1,874,422	(401,408)
Net position at beginning of year	10,160,221	9,719,912	440,309
Adjustments to net position related to pensions (note 13)	(595)	(595)	—
Net position at beginning of year, restated	10,159,626	9,719,317	440,309
Net position at end of year	$ 11,632,640	11,593,739	38,901

The following table provides the condensed combining cash flows information of the Fund for the year ended June 30, 2015 (in thousands):

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating activities			
Premium received	$ 1,282,270	1,282,270	—
Hurricane losses paid	—	—	—
Other cash received from customers	41	41	—
Administrative and actuarial fees	(2,745)	(2,745)	—
Other professional fees	(1,067)	(1,046)	(21)
Personnel expenses	(1,370)	(1,370)	—
Other cash paid to vendors	(246)	(224)	(22)
Net cash provided (used) by operating activities	1,276,883	1,276,926	(43)
Investing activities			
Purchases of investments	(113,089,071)	(96,016,466)	(17,072,605)
Sales and maturities of investments	112,143,527	94,143,478	18,000,049
Interest received	29,058	23,318	5,740
Settlement income received	2,798	2,798	—
Investment advisor fees	(2,829)	(2,378)	(451)
Custodian fees	(167)	(139)	(28)
Net cash (used) provided by investing activities	(916,684)	(1,849,389)	932,705
Financing from noncapital activities			
Transfers to other state agencies	(10,000)	572,466	(582,466)
Emergency assessments funds received	393,102	—	393,102
Emergency assessments interest received	3	—	3
Bond principal paid	(1,000,920)	—	(1,000,920)
Bond interest paid	(82,396)	—	(82,396)
Bond early extinguishment of debt	(34,723)	—	(34,723)
Net cash (used) provided by financing from noncapital activities	(734,934)	572,466	(1,307,400)
Financing from capital activity			
Purchases of capital assets	(4)	(4)	—
Net (decrease) in cash and cash equivalents	(374,739)	(1)	(374,738)

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Cash and cash equivalents at beginning of year	$ —	—	—
Cash and cash equivalents at end of year	(374,739)	(1)	(374,738)
Cash and cash equivalents at beginning of year	374,748	1	374,747
Cash and cash equivalents at end of year	$ 9	—	9

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2015

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans – Last 10 Fiscal Years*
Schedule of Fund's Proportionate Share of Net Pension Liability and Related Ratios as of Measurement Date

		Florida Retirement System 2014	Health Insurance Subsidy Program 2014
Fund's proportion of the net pension liability (asset)		0.002394824%	0.003032327%
Fund's proportionate share of the net pension liability (asset)	$	146,119	283,530
Fund's covered-employee payroll		672,572	900,947
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		21.73%	31.47%
Plan fiduciary net position as a percentage of the total pension liability		96.09	0.99

* Fiscal year 2015 was the first year of implementation; therefore, only one year is shown. The amounts presented were determined using a measurement date of June 30, 2014.

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2015

Cost-Sharing Multiple-Employer Defined Benefit Pension Plans – Last 10 Fiscal Years*
Schedule of Fund's Contributions

		Florida Retirement System		Health Insurance Subsidy Program	
		FY 2014–2015	**FY 2013–2014**	**FY 2014–2015**	**FY 2013–2014**
Contractually required contributions	$	64,650	52,457	12,394	10,388
Fund's contributions in relation to the contractually required contributions		(64,650)	(52,457)	(12,394)	(10,388)
Contribution deficiency (excess)	$	—	—	—	—
Fund's covered-employee payroll	$	741,047	672,572	983,644	900,947
Contributions as a percentage of covered-employee payroll		8.72%	7.80%	1.26%	1.15%

* Fiscal year 2015 was the first year of implementation. Additional years' information will be included as it becomes available in future years.

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Independent Auditors' Report 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 Trustees of the State Board of Administration of Florida
Florida Hurricane Catastrophe Fund:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of the Florida Hurricane Catastrophe Fund (the Fund), which comprise the combined statements of net position as of June 30, 2015 and 2014, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated January 28, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Fund'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 combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 Fund's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 results of that testing, and not to provide an opinion on the effectiveness of the Fund'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 Fund's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Minneapolis, Minnesota
January 28, 2016