KPMG

FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements

June 30, 2019 and 2018

(With Independent Auditors’ Report Thereon)

FLORIDA HURRICANE CATASTROPHE FUND

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
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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, which comprise the combined statements of net position as of June 30, 2019 and 2018, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined 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 combined 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 statement 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the combined 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 combined 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 combined 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 financial position of the Fund as of June 30, 2019 and 2018, and the changes in their financial position and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of 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, 2019 and 2018, 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

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The management's discussion and analysis on pages 3-6, the Schedule of Fund's Proportionate Share of Net Pension Liability and Related Ratios on page 61, the Schedule of Fund Contributions on page 62, the Schedule of Fund's Proportionate Share of the Total Other Postemployment Benefits Liability on page 63, and the Schedule of Changes in the Fund's Total OPEB Liability and Related Ratios on page 64 are presented for purposes of additional analysis and are not a required part of 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 December 19, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's 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
December 19, 2019

Introduction

The information contained in the Management's Discussion and Analysis (MD&A) introduces the basic financial statements and provides an analytical overview of the Florida Hurricane Catastrophe Fund's (the Fund) financial activities and performance for the fiscal years ended June 30, 2019 and 2018. 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 is a tax-exempt trust fund (further described in Note 1), that provides a stable and ongoing source of timely reimbursement to residential property insurers for a portion of their catastrophic hurricane losses. The State Board of Administration 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 recognized 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.

(Continued)

Financial Summary

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

		June 30	
	2019	**2018**	**2017**
Current assets	$ 7,271,074	10,009,408	13,102,878
Long-term assets	9,535,621	8,389,345	3,733,086
Total assets	16,806,695	18,398,753	16,835,964
Deferred outflows related to pensions and OPEB	811	743	534
Current liabilities	4,867,061	3,497,015	154,568
Long-term liabilities	1,651,990	2,201,846	2,701,324
Total liabilities	6,519,051	5,698,861	2,855,892
Deferred inflows related to pensions and OPEB	217	132	14
Net position:			
Net investment in capital assets	58	57	8
Unrestricted	10,288,180	12,700,446	13,980,584
Total net position	$ 10,288,238	12,700,503	13,980,592

(Continued)

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	
	2019	2018	2017
Net premium revenue (net of reinsurance premium)	$ 1,052,053	1,066,689	1,068,212
Net interest on premium adjustments	(53)	(63)	(35)
Net interest on loss disbursements and adjustments	27	219	—
Other	43	42	41
Total operating revenues	1,052,070	1,066,887	1,068,218
Nonoperating revenue net of nonoperating expenses	505,445	167,923	62,441
Total revenues	1,557,515	1,234,810	1,130,659
Hurricane losses	3,950,000	2,499,000	1,000
Operating expenses	6,266	5,567	5,677
Depreciation	14	5	4
Total expenses	3,956,280	2,504,572	6,681
Net income (loss) before transfers	(2,398,765)	(1,269,762)	1,123,978
Transfers to other state agencies	(13,500)	(10,000)	(10,000)
Change in net position	(2,412,265)	(1,279,762)	1,113,978
Net position at beginning of year	12,700,503	13,980,592	12,866,614
Adjustments to net position	—	(327)	—
Net position at beginning of year	12,700,503	13,980,265	12,866,614
Net position at end of year	$ 10,288,238	12,700,503	13,980,592

Financial Analysis

Total assets at the end of the fiscal years 2017, 2018, and 2019 were $16.8 billion, $18.4 billion, and $16.8 billion, respectively. The decrease from 2018 to 2019 was largely due to the payment of claims on hurricane losses which will be discussed later in this analysis. Current assets at the end of fiscal years 2017, 2018, and 2019 were $13.1 billion, $10.0 billion and $7.3 billion, respectively. The decrease in current assets and increase in long-term assets between 2017 and 2019 is primarily a result of the changes to the Fund’s Investment Policy Guidelines (Guidelines) allowing for longer maturities by using two separate portfolios; a liquidity fund and a claims-paying fund.

(Continued)

Total liabilities at the end of fiscal years 2017, 2018, and 2019 were $2.9 billion, $5.7 billion, and $6.5 billion, respectively. The increases are due to the recent hurricane losses from Hurricanes Irma and Michael. Hurricane Irma, which occurred during the 2017 hurricane season, had an ultimate total incurred loss estimate at June 30, 2018 of $2.5 billion. Due to increased loss development in fiscal year 2018-2019, the Fund projects at June 30, 2019, an ultimate total incurred loss to the Fund of $5.0 billion, a 100% increase. During the 2018 hurricane season, the State of Florida experienced Hurricane Michael, a destructive Category 5 storm that hit Florida's panhandle. At June 30, 2019, the Fund's ultimate total incurred loss estimate for Hurricane Michael is $1.45 billion. Currently, the Fund's ultimate total incurred loss estimate for both events is $6.45 billion. The Fund's total net position has decreased approximately $3.7 billion since June 30, 2017, with decreases of $1.3 billion and $2.4 billion in fiscal years 2017-2018 and 2018-2019, respectively. The decrease in total net position is primarily a result of the increase in liabilities for unpaid hurricane losses.

The net operating revenues, which is primarily made up of the premiums received annually from participating companies, have remained consistent at just over $1 billion each year. The net non-operating revenues increased $443 million from 2017 to 2019 due primarily to an increase in investment income on the accumulated reimbursement premiums earned during non-hurricane years along with the changes made to the Fund's Guidelines allowing for longer maturities. To add further stability to the Fund and to transfer a portion of the Fund's risk to global markets, aggregate excess catastrophe reinsurance has been purchased since 2015. At June 30, 2019, the financial statements include transactions for purchases for the 2018 and 2019 hurricane seasons. For 2018, the coverage was $1.0 billion in excess of $10.5 billion and for 2019, the coverage was 92% of $1 billion in excess of $10.5 billion. Reinsurance premiums and broker commission are reported as operating activities, net of the reimbursement premium received on the Combined Statement of Cash Flows.

At June 30, 2019, the Fund's financial statements include a short-term liability for a principal payment of $550 million for the Series 2016A Revenue Bonds due July 1, 2019. The Fund also has $1.65 billion in outstanding pre-event bonds with a final principal payment of $1 billion for the Series 2013A Revenue Bonds due July 1, 2020 and a final principal payment of $650 million for the Series 2016A Revenue Bonds due July 1, 2021. The existing pre-event bonds serve as an additional source of liquidity in the event of large losses from a hurricane.

At June 30, 2019, the Fund had the following credit ratings: Moody's, Aa3; Standard and Poor's, AA; and Fitch, AA.

Contacting the Fund's Financial Management

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

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Net Position

June 30, 2019 and 2018

(In thousands)

		2019	2018
Assets:			
Current assets:			
Cash and cash equivalents	$	—	4,009
Short-term investments		6,274,667	8,825,994
Investment sales receivable		831,335	1,042,271
Premium receivable		102,567	93,035
Accrued interest		62,499	44,095
Prepaid expenses		6	4
Total current assets		7,271,074	10,009,408
Long-term assets:			
Long-term investments		9,535,563	8,389,288
Capital assets:			
Capital assets, net of accumulated depreciation of $48 and $41 for June 30, 2019 and 2018, respectively		58	57
Total long-term assets		9,535,621	8,389,345
Total assets		16,806,695	18,398,753
Deferred outflows of resources:			
Deferred outflows related to pensions and OPEB (note 13)		811	743
Liabilities:			
Current liabilities:			
Unpaid hurricane losses		3,407,710	1,821,527
Reimbursed losses payable		42,422	75,136
Premium refunds payable		—	400
Accrued expenses		6,465	6,538
Compensated absences		83	77
Bonds payable		550,000	500,000
Pending investment purchases		830,868	1,058,554
Accrued bond interest expense		29,497	34,764
Net pension and OPEB liability (note 13)		16	19
Total current liabilities		4,867,061	3,497,015
Long-term liabilities, net of current portion:			
Bonds payable		1,650,000	2,200,000
Net pension and OPEB liability (note 13)		1,815	1,695
Compensated absences		175	151
Total long-term liabilities		1,651,990	2,201,846
Total liabilities		6,519,051	5,698,861
Deferred inflows of resources:			
Deferred inflows related to pensions and OPEB (note 13)		217	132
Net position:			
Net investment in capital assets		58	57
Unrestricted		10,288,180	12,700,446
Total net position	$	10,288,238	12,700,503

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, 2019 and 2018

(In thousands)

		2019	2018
Operating revenues:			
Net premium revenue (net of reinsurance premium)	$	1,052,053	1,066,689
Net interest on premium adjustments		(53)	(63)
Net interest on loss disbursements and adjustments		27	219
Other		43	42
Total operating revenues		1,052,070	1,066,887
Operating expenses:			
Hurricane losses		3,950,000	2,499,000
Administrative and actuarial fees		2,872	2,381
Other professional fees		1,342	1,315
Personnel expenses		1,782	1,670
Depreciation		14	5
Other		270	201
Total operating expenses		3,956,280	2,504,572
Operating loss		(2,904,210)	(1,437,685)
Nonoperating revenue (expense):			
Investment income		566,712	239,988
Investment advisor fees		(3,702)	(3,878)
Settlement proceeds		1,460	1,315
Emergency assessment revenue		81	192
Custodian fees		(112)	(165)
Bond interest expense		(58,994)	(69,529)
Nonoperating revenue, net		505,445	167,923
Net loss before transfers		(2,398,765)	(1,269,762)
Transfers to other state agencies		(13,500)	(10,000)
Change in net position		(2,412,265)	(1,279,762)
Net position at the beginning of the year		12,700,503	13,980,592
Adjustments to net position (note 1.c.)		—	(327)
Net position at beginning of year (restated)		12,700,503	13,980,265
Net position at end of year	$	10,288,238	12,700,503

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Cash flows from operating activities:			
Net premium received	$	1,042,107	1,068,012
Hurricane losses paid		(2,396,531)	(603,337)
Loss reimbursement advances and related interest		28	219
Other cash received from customers		43	42
Administrative and actuarial fees		(2,851)	(2,544)
Other professional fees		(1,307)	(1,202)
Personnel expenses		(1,617)	(1,531)
Other cash paid to vendors		(261)	(198)
Net cash provided (used) by operating activities		(1,360,389)	459,461
Cash flows from investing activities:			
Purchases of investments		(82,210,482)	(159,115,661)
Sales and maturities of investments		83,859,425	158,630,724
Interest received		287,666	111,586
Settlement Proceeds		1,460	1,315
Investment advisor fees		(3,727)	(3,876)
Investment custodian fees		(107)	(212)
Net cash provided (used) by investing activities		1,934,235	(376,124)
Cash flows from noncapital financing activities:			
Transfers to other state agencies		(13,500)	(10,000)
Emergency assessment funds received (paid)		(27)	195
Bond principal paid		(500,000)	—
Bond interest paid		(64,261)	(69,529)
Net cash used by noncapital financing activities		(577,788)	(79,334)
Cash flows from capital and related financing activities:			
Purchases of capital assets		(67)	(5)
Net increase (decrease) in cash and cash equivalents		(4,009)	3,998
Cash and cash equivalents at beginning of year		4,009	11
Cash and cash equivalents at end of year	$	—	4,009

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2019 and 2018

(In thousands)

		2019	2018
Operating loss	$	(2,904,210)	(1,437,685)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense		14	5
(Increase) decrease in premium receivable		(10,095)	821
Increase (decrease) in allowance for uncollectibles		562	—
(Increase) decrease in deposits and prepaid expenses		(1)	—
Increase (decrease) in premium refunds payable		(400)	398
Increase (decrease) in compensated absences		31	22
Increase (decrease) in unpaid hurricane losses		1,586,183	1,820,527
Increase (decrease) in losses payable		(32,714)	75,136
Increase (decrease) in accrued expenses		107	121
Increase (decrease) in OPEB liability and deferrals		20	21
Increase (decrease) in pension liability and deferrals		114	95
Net cash provided (used) by operating activities	$	(1,360,389)	459,461
Noncash investing activities:			
Change in fair value of investments		153,700	(6,669)

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 State legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to most authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. All authorized insurers in Florida, which write policies covered by the Fund, are required to pay an annual premium to the Fund. The annual contract period for coverage is June 1 through May 31. Insurers are required by law to enter into a reimbursement contract and neither the insurer nor the Fund has the ability to modify or cancel the contract during the contract year. In order to calculate the premium due, each insurer must submit its total covered property exposure by September 1 for insured values under covered policies as of June 30.

Premiums are calculated for each of the 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 2018, GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The statement became effective in fiscal year 2019 and resulted in additional information being presented in the notes to the combined financial statements about assets pledged as collateral and terms specified in the Fund’s existing debt agreements.

In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. This statement addressed a variety of issues including blending of component units in certain circumstances, classifying real estate held by insurance entities, measuring certain money market investments and participating interest-earning investment contracts at amortized cost, presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB, and others. Adoption of this statement had no impact on the Fund's combined financial statements.

In November 2016, GASB issued Statement No. 83, Certain Asset Retirement Obligations, which became effective in fiscal year 2019. The statement addressed accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Adoption of this statement had no impact on the Fund's combined financial statements.

In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement improves accounting and reporting for postemployment benefits other than pensions (OPEB). This statement became effective for employers providing OPEB to employees in the fiscal year ending June 30, 2018. Adoption of this statement resulted in a $327 thousand reduction of beginning net position at July 1, 2017. Because information was not available relative to prior fiscal years, GASB 75 was adopted effective July 1, 2017 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. 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.

(b) Cash and Cash Equivalents

The Fund generally considers all cash on hand and on deposit in banks, including demand deposits, time deposits, and non-negotiable certificates of deposit to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

(c) Investments

The Fund's cash is invested according to Investment Policy Guidelines (Guidelines), which set forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The Fund's cash is invested in three separate portfolios: (1) liquidity fund, (2) claims-paying fund, and (3) the Corporation's pre-event fund. The liquidity fund is generally the first source of funds to pay claims after a hurricane and can also be used to pay the operating expenses of the Fund. The claims-paying fund is the next source of liquidity to pay claims. The Corporation's pre-event fund holds any bond proceeds, which can also be used to pay claims and to make debt service payments. The Corporation's pre-event transition account was closed during fiscal year 2019 as all future bond principal payments will be made directly from the respective pre-event funds account. A number of factors such as the FHCF's cash balance, hurricane activity, expected claims, and investment market conditions will determine the funding amount and timing of the use of the funds in each portfolio. The primary goal of the Guidelines is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. Investments are recorded at fair value and the fair values are primarily obtained from independent quoted market prices; certain investments, such as repurchase agreements and money market funds that meet the Security and Exchange Commission's (SEC) requirements to maintain a stable net asset value, are carried at cost, which approximates fair value. 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 management and advisory services are provided by the SBA. The Guidelines were last amended effective April 18, 2019.

(d) 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 remits 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 returns of erroneously paid emergency assessments formerly paid out of the Corporation's account are now being paid out of the Fund's corpus account.

The bank account associated with the admitted carriers' emergency assessments was closed as of May 2017. The bank account associated with the collection of emergency assessment funds by the Florida Surplus Lines Office was closed as of May 30, 2019.

(e) Premium Receivable

Premiums receivable represent the amount of estimated premium revenue for one month of the contract year, which began on June 1. The one month premium receivable is $102.6 million as of June 30, 2019 and $93.0 million as of June 30, 2018. Premium receivable also represents amounts from previous billings that have not yet been collected and are net of any allowances management has established to anticipate uncollectible billings.

(f) 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 paid and reported outstanding losses). Loss reimbursement advances receivable represent amounts currently outstanding on these advances, including accrued interest. As of June 30, 2019 and 2018, there are no outstanding loss reimbursement advances.

(g) Capital Assets

Capital assets, primarily electronic data processing equipment or furniture, 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.

(h) 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.

(i) 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.

(j) Bonds Payable

Under authorization of Section 215.555(6) of the Florida Statutes, the Fund can issue post-event revenue bonds and pre-event revenue bonds, as necessary, 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.

(k) 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 sick leave indefinitely. The short-term portion of this liability,

$83 thousand in 2019 and $77 thousand in 2018, is included in the current liabilities reported on the combined statements of net position. The remaining liability estimated to be payable in more than one year is included as compensated absences within long-term liabilities on the combined statements of net position.

(l) 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.

(m) Current Contract Year Premium Revenue

Premium revenue is recognized over the annual contract period for coverage from June 1 through May 31 in proportion to the amount of risk protection provided. The Fund provides coverage to the participating insurers on a contract-year basis, effective in full as of the first day of the contract year. Premiums are billed in three installments, with provisional payments due August 1 and October 1, and a final payment due December 1. Due to the timing of the exposure reporting and final premium calculation, the first two installments are provisional billings, each based on one third of the company's prior contract year premium. The third and final installment in December is the actual actuarially indicated premium based on exposure reported September 1 for insured values under covered policies as of June 30 of the current contract year less payments received under the first two provisional installments.

(n) 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.

(o) Reinsurance

The reinsurance premium and broker commission expenses are reported as operating activities net of the reimbursement premium received. As of June 30, 2019 and 2018, an accrual was established for one month's pro-rata portion of the aggregate reinsurance deposit premium and broker commission expense.

(p) 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.

(q) 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 after the December installment. Likewise, if estimated premiums are underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2019, the interest rate was 2.05% for overpayments of premium and 7.05% for underpayments. For the contract year ended May 31, 2018, the interest rate was 1.16% for overpayments of premium and 6.16% for underpayments.

(r) Hurricane Losses

Hurricane losses represent the estimated ultimate cost of all reported and incurred but not reported (IBNR) claims during the year which includes increases to reserves during the fiscal year for hurricanes occurring in prior fiscal years plus any new reserves for hurricanes occurring in the current fiscal 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.

(s) 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 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.

(t) Transfers to Other State Agencies

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 the fiscal years 2019 and 2018, $13,500,000 and $10,000,000, respectively, was appropriated from the Fund.

(u) 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.

(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.

(Continued)

(3) Deposits and Investments

(a) Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits that are in the possession of an outside party. The Fund mitigates custodial credit risk by generally requiring, when possible, that public funds be deposited in a bank or savings association that is designated by the State of Florida Chief Financial Officer (CFO) as authorized to receive deposits in the state and meets the collateral requirements as set forth in Chapter 280, Florida Statutes (F.S.).

The CFO determines the collateral requirements and collateral pledging level for each Qualified Public Depository (QPD) following guidelines outlined in Section 280.04, F.S., and Department of Financial Services Rules, Chapter 69C-2, Florida Administrative Code. Collateral pledging levels include 25, 50, 110, and 150 percent of a QPD's average daily deposit balance or, if needed, an amount as prescribed by the CFO. Section 280.13, F.S., outlines eligible types of collateral including direct obligations of the United States (U.S.) Government, federal agency obligations fully guaranteed by the U.S. Government, certain federal agency obligations, state and local government obligations, corporate bonds, and letters of credit issued by a Federal Home Loan Bank. Also, with the CFO's permission, eligible collateral includes collateralized mortgage obligations, real estate mortgage investment conduits, and securities or other interests in any open-end management investment company registered under the Investment Company Act of 1940. However, the portfolio of the investment company must be limited to direct obligations of the U.S. Government and to repurchase agreements fully collateralized by such direct obligations of the U.S. Government, and the investment company must take delivery of such collateral either directly or through an authorized custodian.

In accordance with Section 280.08, F.S., if a QPD defaults, losses to public depositors are first satisfied with any applicable depository insurance, followed by demands of payment under any letters of credit or sale of the defaulting QPD's collateral. If necessary, any remaining losses are to be satisfied by assessments against the other participating QPDs according to a statutory based ratio.

In cases where deposits are not held in a QPD, the Fund follows the SBA's custodial credit policy, which states that custodial credit risk will be minimized through the use of trust accounts maintained at top tier third party custodian banks of sufficient financial strength to custody securities and collateral, to the extent possible, in order to protect the assets entrusted to the SBA. To the extent possible, negotiated trust and custody contracts will require that all deposits, investments and collateral be held in segregated accounts in the SBA's name, separate and apart from the assets of the custodian banks.

At June 30, 2019 and 2018, the Fund had $0 and $4,008,568 in bank deposits, respectively. Of the June 30, 2018, amount $3,749,243 was exposed to custodial credit risk. The remaining bank deposits were held at QPDs or were FDIC insured.

(b) Investments

Funds are invested in accordance with Section 215.47 of the Florida Statutes, and the Fund's Guidelines, 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, international financial institutions and sovereigns, and repurchase agreements.

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

	June 30	
	2019	**2018**
Short-term investments:		
Certificates of deposit	$ 300,060	2,009,603
Commercial paper	26,989	388,573
Money market funds	589,203	543,618
U.S. Treasury bills	4,135,187	4,369,630
U.S. Treasury notes	586,053	160,915
Federal agencies – discount notes	101,304	109,563
Federal agencies – unsecured	274,793	1,016,466
Domestic corporate bonds and notes	156,431	205,212
International government agency discount notes	9,955	—
International corporate bonds and notes	94,692	22,414
Total short-term investments	6,274,667	8,825,994
Long-term investments:		
U.S. Treasury notes	6,109,694	4,655,507
Federal agencies – unsecured	65,383	864,545
Domestic corporate bonds and notes	1,742,089	1,782,206
International government agency bonds and notes	—	19,601
International government bonds and notes	30,589	124,946
International corporate bonds and notes	1,587,808	942,483
Total long-term investments	9,535,563	8,389,288
Total	$ 15,810,230	17,215,282

As of June 30, 2019, 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	$	300,060	7
Commercial paper		26,989	5
Money market funds		589,203	1
U.S. Treasury bills		4,135,187	148
U.S. Treasury notes		6,695,747	730
Federal agencies – discount notes		101,304	20
Federal agencies – unsecured		340,176	255
Domestic corporate bonds and notes		1,898,520	655
International government agency discount notes		9,955	150
International government bonds and notes		30,589	617
International corporate bonds and notes		1,682,500	640
Total fair value	$	15,810,230	
Portfolio weighted average maturity			502

As of June 30, 2018, 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	$	2,009,603	14
Commercial paper		388,573	9
Money market funds		543,618	2
U.S. Treasury bills		4,369,630	119
U.S. Treasury notes		4,816,422	781
Federal agencies – discount notes		109,563	2
Federal agencies – unsecured		1,881,011	87
Domestic corporate bonds and notes		1,987,418	571
International government agency discount notes		19,601	515
International government bonds and notes		124,946	68
International corporate bonds and notes		964,897	694
Total fair value	$	17,215,282	
Portfolio weighted average maturity			366

(c) Interest Rate Risk

The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk. In accordance with the Guidelines, funds held shall have a maximum dollar weighted average maturity (DWAM) of 730 days, with the exception of those for government securities and agency securities, which shall not exceed 1,278 days. No more than 75% of the total portfolio market value may be invested in fixed rate securities with remaining time to maturity exceeding 730 days. For purposes of the DWAM calculation, the maturity date is assumed to be the next reset date rather than the stated maturity.

(d) Credit Risk

The Guidelines 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, 2019 (in thousands):

		Credit quality ratings	
Investment type	**Fair value**	**S & P**	**Moody's**
Certificates of deposit*	$ 300,060	Not Rated	Not Rated
Commercial paper	26,989	A-1	P-1
Money market funds	589,203	AAAm	Aaa-mf
U.S. Treasuries	10,830,934	Not Rated	Not Rated
Federal agencies – discount notes	101,304	Not Rated	Not Rated
Federal agencies	233,084	AA	Aaa
Federal agencies	67,023	Not Rated	Aaa
Federal agencies	40,069	Not Rated	Not Rated
Domestic corporate bonds and notes	17,900	AAA	Aaa
Domestic corporate bonds and notes	68,840	AA	Aaa
Domestic corporate bonds and notes	850,814	AA	Aa
Domestic corporate bonds and notes	421,008	AA	A
Domestic corporate bonds and notes	197,151	A	Aa
Domestic corporate bonds and notes	342,807	A	A
International corporate bonds and notes	1,173,401	AA	Aa
International corporate bonds and notes	422,128	A	Aa
International corporate bonds and notes	86,971	A	A
International government agency discount notes	9,955	AAA	Aaa
International government bonds and notes	30,589	AA	Aa
	$ 15,810,230		

* All certificates of deposit, including the $300,060 "not rated" certificates of deposit, had short-term issuer ratings of A-1 for S&P and P-1 for Moody's.

The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2018 (in thousands):

Investment type		Fair value	Credit quality ratings S & P	Credit quality ratings Moody's
Certificates of deposit*	$	2,009,603	Not Rated	Not Rated
Commercial paper		388,573	A-1	P-1
Money market funds		543,618	AAAm	Aaa-mf
U.S. Treasuries		9,186,052	Not Rated	Not Rated
Federal agencies - discount notes		109,563	Not Rated	Not Rated
Federal agencies		1,580,855	AA	Aaa
Federal agencies		275,174	Not Rated	Aaa
Federal agencies		24,982	Not Rated	Not Rated
Domestic corporate bonds and notes		17,709	AAA	Aaa
Domestic corporate bonds and notes		83,504	AA	Aaa
Domestic corporate bonds and notes		895,206	AA	Aa
Domestic corporate bonds and notes		272,892	AA	A
Domestic corporate bonds and notes		62,412	A	Aa
Domestic corporate bonds and notes		655,695	A	A
International corporate bonds and notes		453,602	AA	Aa
International corporate bonds and notes		152,142	AA	A
International corporate bonds and notes		227,445	A	Aa
International corporate bonds and notes		131,708	A	A
International government agency discount notes		19,601	AAA	Aaa
International government bonds and notes		124,946	AA	Aa
	$	17,215,282		

* $1,734,557 of the "not rated" certificates of deposit had short-term issuer ratings of A-1 for S&P. All certificates of deposit had short-term issuer ratings of P-1 for Moody's.

(e) Concentration of Credit Risk

Pursuant to the Guidelines, securities of a single issuer shall not represent more than 3% of total portfolio market value (excluding government securities, repurchase agreements, money market mutual funds and custodian cash sweep vehicles). According to the Guidelines, a 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 20% of the portfolio's market value may be invested in a single federal agency or other government-sponsored enterprise acting under federal authority. No more than 25% of total portfolio market value may be invested in a single industry sector.

At June 30, 2019, there were no securities with any one issuer representing 5% or more of the Fund's total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

At June 30, 2018, the Fund held $1,990.8 million in federal agency bonds and notes, which was in compliance with the Guidelines and represented 11.56% 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, 2018 are as follows (in thousands):

Investment type		Fair value	Percentage of portfolio
Federal Farm Credit Bank	$	1,645,707	9.56%
Federal Home Loan Bank Discount Note		109,563	0.64
Federal Home Loan Mortgage Corp		79,049	0.46
Tennessee Valley Authority		64,605	0.37
Federal Home Loan Banks		56,657	0.33
Federal Agricultural Mortgage Corp		24,982	0.14
Federal National Mortgage Association		10,011	0.06

(f) Foreign Currency Risk

There was no exposure to foreign currency risk during the fiscal years ended June 30, 2019 and 2018.

(g) Fair Value Hierarchy

The Fund categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The Fund's investments are measured and reported at fair value and classified according to the following hierarchy:

Level 1 – Investments reflect unadjusted quoted prices in active markets for identical assets.

Level 2 – Investments reflect prices that are based on inputs that are either directly or indirectly observable for an asset (including quoted prices for similar assets), which may include inputs in markets that are not considered to be active.

Level 3 – Investments reflect prices based upon unobservable inputs for an asset.

The categorization of investments within the hierarchy is based upon the pricing transparency of this instrument and should not be perceived as the particular investment's risk.

Debt securities classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets from the custodian bank's primary external pricing vendors.

Debt securities classified in Level 2 are evaluated prices from the custodian bank's primary external pricing vendors. The pricing methodology involves the use of evaluation models such as matrix pricing, which is based on the securities' relationship to benchmark quoted prices. Other evaluation models use actual trade data, collateral attributes, broker bids, new issue pricings and other observable market information.

Debt securities classified as Level 3 are prices from the custodian bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, and broker bids. Cost or book value may be used as an estimate of fair value when there is a lack of an independent pricing source.

Certain investments, such as money market funds and repurchase agreements are not included in the tables below because they are carried at cost, and not measured at fair value.

The Fund has the following fair value measurements as of June 30, 2019 and 2018 (in thousands):

		Fair value measurements using		
	June 30, 2019	Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments by fair value level:				
Debt securities:				
Certificates of deposit	$ 300,060	—	300,060	—
Commercial paper	26,989	—	26,989	—
U.S. Treasuries	10,830,934	—	10,830,934	—
Federal agencies – discount notes	101,304	—	101,304	—
Federal agencies – unsecured	340,176	—	340,176	—
Domestic corporate bonds and notes	1,898,520	—	1,898,520	—
International government agency discount notes	9,955	—	9,955	—
International government bonds and notes	30,589	—	30,589	—
International corporate bonds and notes	1,682,500	—	1,682,500	—
Total debt securities measured at fair value	$ 15,221,027	—	15,221,027	—

		Fair value measurements using		
	June 30, 2018	Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments by fair value level:				
Debt securities:				
Certificates of deposit	$ 2,009,603	—	2,009,603	—
Commercial paper	388,573	—	388,573	—
U.S. Treasuries	9,186,052	—	9,186,052	—
Federal agencies – discount notes	109,563	—	109,563	—
Federal agencies – unsecured	1,881,011	—	1,881,011	—
Domestic corporate bonds and notes	1,987,418	—	1,987,418	—
International government agency discount notes	19,601	—	19,601	—
International government bonds and notes	124,946	—	124,946	—
International corporate bonds and notes	964,897	—	964,897	—
Total debt securities measured at fair value	$ 16,671,664	—	16,671,664	—

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2019 and 2018 is as follows (in thousands):

	Equipment	Accumulated depreciation	Net
Balance as of June 30, 2017	$ 46	(38)	8
Additions and depreciation expense	54	(5)	49
Sales or disposals	(2)	2	—
Balance as of June 30, 2018	98	(41)	57
Additions and depreciation expense	15	(14)	1
Sales or disposals	(7)	7	—
Balance as of June 30, 2019	$ 106	(48)	58

(Continued)

(5) Unpaid Hurricane Losses

The State of Florida was impacted by three hurricanes during the 2017 and 2018 hurricane seasons.

On September 10, 2017, Hurricane Irma made landfall in the Florida Keys as a Category 4 hurricane and made a second Florida landfall as a Category 3 hurricane at Marco Island later that day. Irma's path through Florida was largely inland along the western side of the peninsula. As of June 30, 2018, the estimated ultimate loss to the FHCF for this hurricane was $2.50 billion. Due to increased loss development, the FHCF increased its estimated ultimate loss for this hurricane an additional $2.50 billion as of June 30, 2019.

On October 7, 2017, Hurricane Nate made landfall in southeast Louisiana, near the Florida Panhandle, as a Category 1 hurricane. As of June 30, 2019 and 2018, the loss reserve for this hurricane was $0.

On October 10, 2018, Hurricane Michael made landfall near Mexico Beach, Florida as a Category 5 hurricane. As of June 30, 2019, the estimated ultimate loss to the FHCF for this hurricane is $1.45 billion.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2019 and 2018 (in thousands):

		Year ended June 30	
		2019	**2018**
Reserve for unpaid hurricane losses at beginning of year	$	1,821,527	1,000
Provision for hurricane losses occurring in:			
Current year		1,450,000	2,500,000
Prior years		2,500,000	(1,000)
Net incurred losses during the current year		3,950,000	2,499,000
Payments for claims occurring in:			
Current year		532,218	678,473
Prior years		1,831,599	—
Net claim payments during the current year		2,363,817	678,473
Reserve for unpaid hurricane losses at end of year	$	3,407,710	1,821,527

The Fund's reserve for prior years' unpaid hurricane losses as of June 30, 2018 was reduced $1 million due to a lack of development from Hurricane Matthew losses. As of June 30, 2019, the Fund's reserve for prior years' unpaid hurricane losses was increased $2.5 billion as a result of ongoing loss development from Hurricane Irma. This reserve is periodically adjusted based on actual results and actuarial analyses.

(Continued)

(6) Changes in Long-term Liabilities

The following table provides the long-term liability activity for the years ended June 30, 2019 and 2018 as follows (in thousands):

Long-term liabilities as of June 30, 2019		Beginning balance[1]	Additions	Reductions	Ending balance[1]	Amount Due within 1 year
Bonds payable	$	2,700,000	—	(500,000)	2,200,000	550,000
Net pension liability		1,314	302	(195)	1,421	9
Compensated absences		228	160	(130)	258	83
Other postemployment benefits payable		400	43	(33)	410	7

1 Long-term liabilities include any related current liability balance. Amounts due in one year are classified as current liabilities on the combined statements of net position.

Long-term liabilities as of June 30, 2018		Beginning balance[1]	Additions[2]	Reductions	Ending balance[1]	Amount Due within 1 year
Bonds payable	$	2,700,000	—	—	2,700,000	500,000
Net pension liability		1,107	572	(365)	1,314	10
Compensated absences		206	154	(132)	228	77
Other postemployment benefits payable		73	404	(77)	400	9

1 Long-term liabilities include any related current liability balance. Amounts due in one year are classified as current liabilities on the combined statements of net position.

2 For other postemployment benefits payable, $338 of the $404 additions was due to a prior period adjustment.

(7) Bonds Payable and Debt Service Requirements

Post-event Bonds – At June 30, 2019 and 2018, there were no post-event bonds outstanding.

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 may 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. On July 1, 2016 and again on July 1, 2018, $500 million of principal, bearing interest at 1.298% and 2.107%, respectively, matured. The remaining $1.0 billion is stated to mature, notwithstanding the Corporation's prior right of redemption, on July 1, 2020 and bears an interest rate of 2.995%.

In March 2016, the Corporation issued pre-event Series 2016A Revenue Bonds in the amount of $1.2 billion to maximize the ability of the Fund to meet future obligations. The proceeds from these bonds may 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 the Corporation's prior right of redemption, on July 1, 2019 and July 1, 2021 and bear interest at rates of 2.163% to 2.638%, respectively.

These bonds are parity obligations and are secured under the same Master Trust Indenture. They are solely obligations of the Corporation and neither the credit, the revenues nor the taxing power of the State of Florida is pledged to the payment of the bonds. As of June 30, 2019 and 2018, assets having a value of $1 billion were pledged as collateral for the Series 2013A Bonds and assets having a value of $650 million and $1.2 billion were pledged as collateral for the Series 2016A Bonds, respectively.

The Corporation's outstanding revenue bonds payable contain a provision that, in an event of default, the Master Trustee may, and upon written request of the holders of a majority of the aggregate principal amount of all outstanding parity obligations shall, declare the principal of all outstanding parity obligations to be due and payable immediately (the Master Trustee shall rescind acceleration once the Corporation cures a payment default).

The following tables breakout annual debt service requirements for the Corporation's revenue bonds by fiscal year as of June 30, 2019, and 2018 (in thousands):

Corporation Annual Debt Service Requirements as of June 30, 2019[1]

Fiscal year ending June 30:		Principal	Interest
2019	$	550,000	58,994
2020		1,000,000	47,097
2021		650,000	17,147
Total	$	2,200,000	123,238

[1] Principal and interest payments due July 1st are shown in the preceding fiscal year

Corporation Annual Debt Service Requirements as of June 30, 2018[1]

Fiscal year ending June 30:		Principal	Interest
2018	$	500,000	69,529
2019		550,000	58,994
2020		1,000,000	47,097
2021		650,000	17,147
Total	$	2,700,000	192,767

[1] Principal and interest payments due July 1st are shown in the preceding fiscal year

(8) Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2017	$	206*
Increases		154
Decreases		(132)
Balance as of June 30, 2018		228*
Increases		160
Decreases		(130)
Balance as of June 30, 2019	$	258

* Includes long-term and current balances, of which $83 thousand and $77 thousand is estimated due within one year of June 30, 2019 and 2018, respectively.

(9) 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):

	Fiscal year ended June 30	
	2019	2018
Contract year 2019	$ 97,277 *	—
Contract year 2018	954,585	86,933 *
Contract year 2017	176	982,029
Contract year 2016	(163)	(2,232)
Contract year 2015	62	—
Contract year 2014	116	(41)
Contract year 2013	—	—
	$ 1,052,053	1,066,689

* As of June 30, 2019 and 2018, which is in contract year 2019 and 2018, respectively, running June 1 through May 31, an accrual was established for one month's pro-rata portion of the reimbursement premium and one month's pro-rata portion of the aggregate reinsurance deposit premium is netted from the premium for each respective contract year.

(10) Related Parties

The Fund paid the SBA $3.2 million and $0.5 million for the Fund and the Corporation, respectively, in the fiscal year ended June 30, 2019 and $3.3 million and $0.6 million for the Fund and the Corporation, respectively, in the fiscal year ended June 30, 2018 for investment management and advisory services.

(Continued)

(11) LIBOR Settlements

On September 4, 2018, the Fund received $1.46 million as a share of the State's settlement involving Deutsche Bank Aktiengesellschaft related to the U.S. Dollar LIBOR benchmark interest rate index.

On August 24, 2017, the Fund received $1.3 million as a share of the State's settlement involving Barclays Bank PLC and Barclays Capital Inc. related to the U.S. Dollar LIBOR benchmark interest rate index.

(12) Reinsurance

Aggregate excess catastrophe reinsurance providing coverage for 92% of $1.0 billion in excess of $10.5 billion was purchased effective June 1, 2019 through May 31, 2020; and $1.0 billion in excess of $10.5 billion was purchased effective June 1, 2018 through May 31, 2019. The deposit premium including commission was $63.5 million and $63.0 million for contract years 2019 and 2018, respectively. The final premium may be adjusted down, but not adjusted up, and is determined based on the actual reimbursement contract aggregate reimbursement premium as of December 31. Reinsurance deposit premium and commission are due in three equal installments on August 1, October 1 and December 1. The effect of reinsurance on premiums for the years ended June 30 was as follows (in thousands):

	Year ended June 30	
	2019	2018
Direct premiums	$ 1,114,597	1,125,531
2017 Reinsurance	—	(53,592)
2018 Reinsurance	(57,254)	(5,250)
2019 Reinsurance	(5,290)	—
Net premiums	$ 1,052,053	1,066,689

(13) Pension and Other Postemployment Benefits

(a) Pension Plans

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
- Retiree 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. For each of the fiscal years ended June 30, 2018 and June 30, 2017, 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 CAFRs, which are 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.

(b) Defined Benefit Plans

The Florida Retirement System Pension Plan

The Florida Retirement System (FRS) is a cost-sharing multiple-employer public-employee retirement system with two primary plans – the FRS Defined Benefit Pension Plan (Pension Plan) and the FRS Investment 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 (DROP) under the defined benefit plan and amended in 2000 to provide the FRS Investment Plan as a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. The FRS Investment Plan is an integrated defined contribution plan administered by the State Board of Administration. Effective July 1, 2007, the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Program, established under Section 121.40, F.S., was consolidated under the FRS Pension Plan as a closed retirement plan. Participation in the IFAS Supplemental Retirement Program does not constitute membership in the FRS.

Chapter 121, F.S., also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class (SMSC) employed by the state, state elected officials who chose SMSC membership in lieu of Elected Officers' Class (EOC) membership, and faculty and specified employees in the State University System and Florida College System institutions. Provisions relating to the FRS are also contained in Chapter 112, F.S.

(c) 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. Participation by cities, municipalities, special districts, charter schools, and metropolitan planning organizations, although optional, is generally irrevocable after election to participate is made. Members hired into certain positions may be eligible to withdraw from the FRS altogether or elect to participate in the non-integrated retirement programs in lieu of the FRS except faculty of a medical college in a state university who must participate in the State University System Optional Retirement Program (SUSORP). Retirees initially reemployed in regularly established positions on or after July 1, 2010, may not participate in the FRS except for defined contribution plan retirees employed in a regularly established position on or after July 1, 2017. FRS Pension Plan retirees remain ineligible for renewed membership.

Retirees of the FRS Investment Plan, the SUSORP, the State Community College System Option Retirement Program (SCCSORP), and the Senior Management Service Optional Annuity Program who are initially reemployed on or after July 1, 2010, and who are employed in a regularly established position on or after July 1, 2017, will be enrolled in the FRS Investment Plan, SUSORP, or SCCSORP based upon the position held as renewed members on or after July 1, 2017.

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 EOC may elect to withdraw from the FRS or participate in the SMSC in lieu of the EOC.
- *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.
- *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 working on or after July 1, 2001, and initially enrolled before July 1, 2011. Members not actively working in a position covered by the FRS Pension Plan 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. 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, SMSC, and EOC Members:

- For members initially enrolled in the FRS Pension Plan 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 Pension Plan 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.

Special Risk Class and Special Risk Administrative Support Class Members:

- For members initially enrolled in the FRS Pension Plan before July 1, 2011, six or more years of Special Risk Class service and age 55, or the age after completing six years of Special Risk Class service if after age 55. Twenty-five years of special risk service regardless of age before age 55. A total of 25 years of service including special risk service and up to four years of active duty wartime service and age 52. Without six years of Special Risk Class service, members of the Special Risk Administrative Support Class must meet the requirements of the Regular Class.
- For members initially enrolled in the FRS Pension Plan on or after July 1, 2011, eight or more years of Special Risk Class service and age 60, or the age after completing eight years of Special Risk Class service if after age 60. Thirty years of special risk service regardless of age before age 60. Without eight years of Special Risk Class service, members of the Special Risk Administrative Support Class must meet the requirements of the Regular Class.

(d) Benefits

The Florida Legislature establishes and amends the benefit terms of the FRS Pension Plan. Benefits under the FRS Pension Plan are computed based on 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 eligible retirees and annuitants are increased each July 1 by a cost-of-living adjustment. If the member is initially enrolled in the FRS Pension Plan 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. This individually calculated 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.

(Continued)

The 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 until the member terminates to finalize retirement. As of June 30, 2018 and 2017, the FRS Trust Fund held in trust $2,432,971,600 and $2,225,747,029 in accumulated benefits and interest for 36,001 and 34,810 current and prior participants in DROP, respectively.

(e) Administration

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 Pension Plan is on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

(f) 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. The balance of legally required reserves for the FRS Pension Plan at June 30, 2018 and 2017 was $161,196,880,609 and $154,053,262,968, respectively. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

The following tables present FRS retirement employer contribution rates for the fiscal years ending June 30, 2019 and 2018. Rates indicated are uniform rates for all FRS members created by blending the FRS Investment Plan and the FRS Pension Plan rates and including UAL contribution rates. These rates do not include a 1.66% contribution rate for the Retiree Health Insurance Subsidy (HIS) Program and a 0.06% assessment for the administration of the FRS Investment Plan and the educational program available to all FRS members. In addition, the July 1, 2018 and the July 1, 2017 statutory employer rates do not include the 3.00% mandatory employee contribution for all membership classes except for members in the DROP.

Membership class	Uniform employer rates recommended by actuarial valuation for fiscal year 2018-2019	July 1, 2018 Statutory rates (Ch. 121, F.S.)
Regular	6.54%	6.54%
Senior Management Service	22.34%	22.34%
Special Risk	22.78%	22.78%
Special Risk Administrative Support	33.26%	33.26%
Elected Officers – Judges	39.05%	39.05%
Elected Officers – Legislators/Attorneys/Cabinet	55.03%	55.03%
Elected Officers – County	46.98%	46.98%
DROP – applicable to members from all of the above classes or plans	12.37%	12.37%

Membership class	Uniform employer rates recommended by actuarial valuation for fiscal year 2017-2018	July 1, 2017 Statutory rates (Ch. 121, F.S.)
Regular	6.20%	6.20%
Senior Management Service	20.99%	20.99%
Special Risk	21.55%	21.55%
Special Risk Administrative Support	32.91%	32.91%
Elected Officers – Judges	37.92%	37.92%
Elected Officers – Legislators/Attorneys/Cabinet	49.14%	49.14%
Elected Officers – County	43.78%	43.78%
DROP – applicable to members from all of the above classes or plans	11.60%	11.60%

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.

(Continued)

(g) Retiree Health Insurance Subsidy Program

The HIS Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. The Florida Legislature establishes and amends the benefit terms of the HIS Program. 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 years ended June 30, 2019 and 2018, 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 years ended June 30, 2019 and 2018, the contribution rate was 1.66% 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. 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.

(h) Pension Amounts for Defined Benefit Pension Plans

Net Pension Liability

At June 30, 2019 and 2018, the Fund reported total liabilities of $1,420,908 and $1,314,046, respectively, for its proportionate share of the net pension liabilities of the defined benefit, multiple employer cost sharing pension plans. The tables below present the fiduciary net position for each plan as well as the Fund's proportion and proportionate share as of the measurement dates of June 30, 2018 and 2017:

	Measurement Date as of June 30, 2018		
	FRS Pension Plan	**HIS**	**Total**
Plan total pension liability (A)	$ 191,317,399,000	10,816,575,623	
Plan fiduciary net position (B)	(161,196,880,609)	(232,463,369)	
Plan net pension liability (A-B)	30,120,518,391	10,584,112,254	
Fund's proportion	0.003553773%	0.003311502%	
Fund's proportionate share*	$ 1,070,415	350,493	1,420,908

* The amount of the Fund's proportionate share due within one year is $0 for the FRS Pension and $9,158 for the HIS Pension.

	Measurement Date as of June 30, 2017		
	FRS Pension Plan	HIS	Total
Plan total pension liability (A)	$ 183,632,592,000	10,870,772,218	
Plan fiduciary net position (B)	(154,053,262,968)	(178,310,841)	
Plan net pension liability (A-B)	29,579,329,032	10,692,461,377	
Fund's proportion	0.003265072%	0.003257066%	
Fund's proportionate share*	$ 965,786	348,261	1,314,047

* The amount of the Fund's proportionate share due within one year is $0 for the FRS Pension and $9,794 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 tables below show the change in proportion since the prior measurement date:

	Change in Proportionate Share from Measurement Date of June 30, 2017 to June 30, 2018	
	FRS Pension Plan	HIS
Fund's proportion at prior measurement date, June 30, 2017	0.003265072%	0.003257066%
Fund's proportion at measurement date, June 30, 2018	0.003553773%	0.003311502%
Increase / (decrease) in proportion	0.000288701%	0.000054436%

	Change in Proportionate Share from Measurement Date of June 30, 2016 to June 30, 2017	
	FRS Pension Plan	HIS
Fund's proportion at prior measurement date, June 30, 2016	0.002834117%	0.003358544%
Fund's proportion at measurement date, June 30, 2017	0.003265072%	0.003257066%
Increase / (decrease) in proportion	0.000430955%	(0.000101478%)

Based on the projected June 30, 2019 proportion, the Fund's total increase in pension liability would be approximately $36,231, or 2.55% higher than what was reported as of the measurement date of June 30, 2018. There are no other 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 (FRS) 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; assumption changes adopted by the FRS Assumptions Conference were incorporated into the July 1, 2014 FRS Valuation. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study of the FRS Pension Plan.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of the measurement dates of July 1, 2018 and July 1, 2017, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, 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 7.00% (7.10% for the June 30, 2017 measurement date). 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 benefits 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. The 7.00% rate of return assumption used in the June 30, 2018 calculations was determined by the consulting actuary, Milliman to be reasonable and appropriate per Actuarial Standard of Practice Number 27 (ASOP 27). The 7.00% reported investment return assumption differs from the 7.40% investment return assumption chosen by the 2018 FRS Actuarial Assumption Conference for funding policy purposes, as allowable under governmental accounting and reporting standards.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.87% for the measurement date of June 30, 2018 and 3.58% for the measurement date of June 30, 2017 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. 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 the FRS Pension Plan or HIS that affected the total pension liability since the most recent measurement date. One change in benefit terms for the FRS Investment Plan in fiscal year 2017-2018 that affects the total FRS Pension Plan liability was the addition of in-line-of-duty death benefits for surviving spouses or dependent children of members in classes other than the Special Risk Class if the members’ death occurred on or after July 1, 2002, for benefit payable on or after July 1, 2017. Also, eligibility was extended retroactively for the existing in-line-of-duty death benefits for Special Risk Class members from July 1, 2013 to July 1, 2002, for eligible survivors of FRS Pension Plan or Investment Plan members. There were no changes between the measurement date and the reporting date which significantly impact the Fund’s proportionate share of the net pension liability, deferred outflows, deferred inflows and pension expense for either the FRS Pension Plan or HIS.

The following changes in actuarial assumptions occurred in 2018:

- FRS Pension Plan: The long-term expected rate of return decreased from 7.10% to 7.00%. The 7.00% reported investment return assumption differs from the 7.40% investment return assumption chosen by the 2018 FRS Actuarial Assumption Conference for funding policy purposes, as allowable under governmental accounting and reporting standards. At June 30, 2018, the inflation rate, real wage growth, and overall payroll growth rate assumptions remained at 2.60%, 0.65%, and 3.25%, respectively.
- HIS: The municipal rate used to determine total pension liability increased from 3.58% to 3.87%.

The following changes in actuarial assumptions occurred in 2017:

- FRS Pension Plan: The long-term expected rate of return decreased from 7.60% to 7.10%. The 7.10% reported investment return assumption differs from the 7.50% investment return assumption chosen by the 2017 FRS Actuarial Assumption Conference for funding policy purposes, as allowable under governmental accounting and reporting standards. At June 30, 2017, the inflation rate, real wage growth, and overall payroll growth rate assumptions remained at 2.60%, 0.65%, and 3.25%, respectively.
- HIS: The municipal rate used to determine total pension liability increased from 2.85% to 3.58%

The long-term expected rate of return of 7.00% 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 tables:

	Measurement Date as of June 30, 2018	
	Target Allocation	**Long-Term expected real rate of return**
Cash	1.0%	2.9%
Fixed income	18.0%	4.4%
Global equity	54.0%	7.6%
Real estate (property)	11.0%	6.6%
Private equity	10.0%	10.7%
Strategic investments	6.0%	6.0%
	100.0%	

	Measurement Date as of June 30, 2017	
	Target Allocation	**Long-Term expected real rate of return**
Cash	1.0%	3.0%
Fixed income	18.0%	4.5%
Global equity	53.0%	7.8%
Real estate (property)	10.0%	6.6%
Private equity	6.0%	11.5%
Strategic investments	12.0%	6.1%
	100.0%	

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 each of the measurement dates of June 30, 2018 and 2017.

Measurement Date as of June 30, 2018

FRS Pension Plan			Health Insurance Subsidy		
1% Decrease 6.00%	Current discount rate 7.00%	1% Increase 8.00%	1% Decrease 2.87%	Current discount rate 3.87%	1% Increase 4.87%
$ 1,953,552	$ 1,070,415	$ 336,917	$ 399,191	$ 350,493	$ 309,900

Measurement Date as of June 30, 2017

FRS Pension Plan			Health Insurance Subsidy		
1% Decrease 6.10%	Current discount rate 7.10%	1% Increase 8.10%	1% Decrease 2.58%	Current discount rate 3.58%	1% Increase 4.58%
$ 1,748,015	$ 965,786	$ 316,357	$ 397,411	$ 348,260	$ 307,321

Pension Expense and Deferred Outflows (Inflows) of Resources

In accordance with GASB 68, paragraphs 54 and 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)
- Changes in proportion and differences between contributions and proportionate share of contributions - amortized over the average expected remaining services 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, 2018 and 2017 were 6.4 years for FRS Pension Plan and 7.2 years for HIS. The Fund's proportionate share of the components of collective pension expense and deferred outflows and inflows of resources reported in the pension allocation schedules for the fiscal years ended June 30, 2019 (measurement date of June 30, 2018) and June 30, 2018 (measurement date of June 30, 2017) are presented in the following tables for each plan.

FRS Pension Plan

	Recognized in expense Reporting period ending June 30, 2019	Recognition period	Deferred outflows of resources	Deferred inflows of resources
Service cost	$ 86,143	Current	—	—
Interest cost	456,586	Current	—	—
Effect of plan changes	—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	22,978	6.3 to 6.4 years	90,680	(3,291)
Effect of assumptions changes or inputs	82,961	years	349,761	—
Member contributions	(26,524)	Current	—	—
Projected investment earnings	(380,245)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	33,357	6.3 to 6.4 years	123,487	—
Net difference between projected and actual investment earnings	(59,040)	5 years	—	(82,703)
Contributions subsequent to the measurement date	—	1 year	112,836	—
Administrative expenses	717	Current	—	—
Immaterial adjustment to beginning balance due to OPEB implementation	332	Current	—	—
Total	$ 217,265		$ 676,764	(85,994)

Health Insurance Subsidy					
		Recognized in expense Reporting period ending June 30, 2019	**Recognition period**	**Deferred outflows of resources**	**Deferred inflows of resources**
Service cost	$	8,559	Current	—	—
Interest cost		12,905	Current	—	—
Effect of plan changes		—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)		723	7.2 years	5,366	(595)
Effect of assumptions changes or inputs		4,020	7.2 years	38,979	(37,057)
Member contributions		(8)	Current	—	—
Projected investment earnings		(241)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions		2,083	7.2 years	19,529	(10,381)
Net difference between projected and actual investment earnings		116	5 years	212	—
Contributions subsequent to the measurement date		—	1 year	18,942	—
Administrative expenses		6	Current	—	—
Total	$	28,163		$ 83,028	(48,033)
Total for all defined benefit pension plans	$	245,428		$ 759,792	(134,027)

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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

	FRS Pension Plan expense	HIS expense
Reporting period ending June 30:		
2020	$ 170,685	6,905
2021	123,926	6,888
2022	37,472	6,602
2023	82,491	2,177
2024	53,945	(5,009)
Thereafter	9,415	(1,510)
Total	$ 477,934	16,053

FRS Pension Plan					
		Recognized in expense Reporting period ending June 30, 2018	**Recognition period**	**Deferred outflows of resources**	**Deferred inflows of resources**
Service cost	$	67,710	Current	—	—
Interest cost		407,617	Current	—	—
Effect of plan changes		3,010	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)		18,280	6.3 to 6.4 years	88,636	(5,350)
Effect of assumptions changes or inputs		64,818	6.3 to 6.4 years	324,573	—
Member contributions					
Projected investment earnings		(24,320)	Current	—	—
Changes in proportion and		(343,870)	Current	—	—
differences between contributions and proportionate share of contributions		25,314	6.3 to 6.4 years	105,367	—
Net difference between projected and actual investment earnings		(32,986)	5 years	—	(23,935)
Contributions subsequent to the measurement date		—	1 years	101,280	—
Administrative expenses		599	Current	—	—
Total	$	186,172		$ 619,856	(29,285)

Health Insurance Subsidy						
		Recognized in expense Reporting period ending June 30, 2018	**Recognition period**		**Deferred outflows of resources**	**Deferred inflows of resources**
Service cost	$	9,919	Current		—	—
Interest cost		10,992	Current		—	—
Effect of plan changes		—	Current		—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)		(139)	7.2 years		—	(725)
Effect of assumptions changes or inputs		5,757	7.2 years		48,953	(30,114)
Member contributions		—	Current		—	—
Projected investment earnings		(135)	Current		—	—
Changes in proportion and differences between contributions and proportionate share of contributions		1,318	7.2 years		18,925	(13,208)
Net difference between projected and actual investment earnings		89	5 years		193	—
Contributions subsequent to the measurement date		—	1 year		17,958	—
Administrative expenses		6	Current		—	—
Total	$	27,807		$	86,029	(44,047)
Total for all defined benefit pension plans	$	213,979			705,885	(73,332)

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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

		FRS Pension Plan expense	HIS expense
Reporting period ending June 30:			
2019	$	75,427	7,026
2020		158,511	6,990
2021		115,290	6,972
2022		35,389	6,706
2023		76,400	2,326
Thereafter		28,274	(5,996)
Total	$	489,291	24,024

Payables to the Defined Benefit Pension Plans

The Fund reported payables of $9,637 to the FRS Pension Plan and $1,596 to the HIS Program as of June 30, 2019 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, 2019		FRS Pension Plan[1]	HIS
Employer pension contribution payable for defined benefit plan participants	$	6,292	1,208
Employer UAL and HIS pension contribution payable for FRS investment plan participants[2]		3,345	388
Total defined benefit pension expense payable at June 30, 2019	$	9,637	1,596

[1] FRS Pension Plan amounts do not include the fees (.06% of payroll) charged to cover the administrative cost for the FRS Pension Plan and the FRS Financial Guidance Program. The fees owed at June 30, 2019 totaled $28 for FRS Defined Benefit Plan members and $14 for FRS Investment Plan participants.

[2] The amount reported as employer UAL pension contributions payable for FRS Investment Plan participants includes $72 in disability and in-line-of-duty expense paid into the FRS Pension Plan on behalf of FRS Investment Plan participants.

The Fund reported payables of $8,510 to the FRS Pension Plan and $1,530 to the HIS Program as of June 30, 2018 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, 2018		FRS Pension Plan[1]	HIS
Employer pension contribution payable for defined benefit plan participants	$	5,514	1,116
Employer UAL and HIS pension contribution payable for FRS investment plan participants[2]		2,996	414
Total defined benefit pension expense payable at June 30, 2018	$	8,510	1,530

[1] FRS Pension Plan amounts do not include the fees (.06% of payroll) charged to cover the administrative cost for the FRS Pension Plan and the FRS Financial Guidance Program. The fees owed at June 30, 2018 totaled $25 for FRS Defined Benefit Plan members and $15 for FRS Investment Plan participants.

[2] The amount reported as employer UAL pension contributions payable for FRS Investment Plan participants includes $77 in disability and in-line-of-duty expense paid into the FRS Pension Plan on behalf of FRS Investment Plan participants.

(i) Defined Contribution Programs

FRS Investment Plan

The State Board of Administration administers the defined contribution plan officially titled the FRS Investment Plan. The Florida Legislature establishes and amends the benefit terms of the 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, the years of service required for vesting under the Pension Plan (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings of the funds. The employer pays a contribution as a percentage of salary that is deposited into the individual member's account. Effective July 1, 2011, there is a mandatory employee contribution of 3.00%. The FRS 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 assessment of 0.06% 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 FRS Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Upon receiving a distribution, other than a de minimis distribution or required minimum distribution, the member is a retiree. Disability coverage is provided for total and permanent disability (non-duty or line of duty); the employer pays an employer contribution to the fund the disability benefit which is deposited in the FRS Trust Fund. 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. Survivor benefit coverage is provided to the surviving spouse or depended children of members who die in line of duty;

the employer pays an employer contribution to fund the survivor benefit which is deposited in the FRS Trust Fund. The member's account balance must be transferred to the FRS Pension Plan when approved for survivor benefits to receive guaranteed lifetime monthly benefits under the FRS Pension Plan for the surviving spouse or on behalf of the dependent children until the youngest unmarried dependent child reaches age 18, or up to age 25 if unmarried and enrolled as a fulltime student.

Effective July 1, 2017, Section 121.735, F.S., provides that allocations for in-line-of-duty death benefit coverage for members in the FRS Investment Plan be transferred monthly by the Department of Management Services, Division of Retirement from the FRS Contributions Clearing Trust Fund to the survivor benefit account of the Florida Retirement System Trust Fund. Contribution percentages, calculated as a percentage of each FRS Investment Plan member's gross compensation, during the fiscal years ended June 30, 2019 and 2018, ranged from 0.05% for the Regular Class to 1.15% for the Special Risk Class. These contributions are paid by the employer and included in the gross pension contribution percentages for FRS Investment Plan members.

Pension Amounts for the FRS Investment Plan

During the fiscal years ended June 30, 2019 and 2018, the Fund recognized $12,986 and $12,384 in net pension expense related to the FRS Investment Plan, respectively, and employee contributions totaled $9,188 and $8,778, respectively. As of June 30, 2019 and 2018, the Fund reported current liabilities of $1,018 and $1,056, respectively, for June 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. Schedules of employer contributions on behalf of employees in the FRS Investment Plan for June 30, 2019 and 2018 fiscal years are presented below:

FRS Investment Plan expenses		Reporting period ended June 30, 2019	Payable at June 30, 2019
Gross pension employer contribution	$	58,504	4,765
Less contributions to HIS Pension Plan		(5,084)	(388)
Less UAL contributions to FRS Pension Plan		(39,310)	(3,273)
Less disability fees		(940)	(72)
Less administrative fees		(184)	(14)
Net pension expense/liability	$	12,986	1,018

FRS Investment Plan expenses		Reporting period ended June 30, 2018	Payable at June 30, 2018
Gross pension employer contribution	$	52,628	4,481
Less contributions to HIS Pension Plan		(4,857)	(414)
Less UAL contributions to FRS Pension Plan		(34,313)	(2,919)
Less disability fees		(898)	(77)
Less administrative fees		(176)	(15)
Net pension expense/liability	$	12,384	1,056

(j) Other Postemployment Benefits (OPEB)

The Fund follows GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits (OPEB) administered by the State Group Health Insurance Program.

General Information about the OPEB Plan

Plan Description. The Fund participates in the State Employee's Health Insurance Program, a multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance (DSGI), which provides healthcare benefits to retired state and university employees in accordance with Section 110.123, Florida Statutes (F.S.). Pursuant to the provisions of Section 112.0801, F.S., all public employers (including the Fund) that offer benefits through a group insurance plan shall allow their retirees and their eligible dependents the option to continue participation in the plan during retirement. As a part of normal retirement, a retiree has 60 days after separation to elect post-retirement health coverage. After 60 days, they are no longer entitled to benefits. A retiree is defined as any officer or employee who retires under a State retirement system or State optional annuity or retirement program or is placed on disability retirement and who begins receiving retirement benefits immediately after retirement from employment. In addition, any officer or employee who retires under the Florida Retirement System Investment Plan is considered a "retiree" if he or she meets the age and service requirements to qualify for normal retirement or has attained the age of 59.5 years and has the years of service required for vesting. The law also requires the claims experience of the retirees under 65 age group to be combined with the claims experience of active employees for premium determination and the premium offered to retired employees to be no more than the premium applicable to active employees. As a result, the Fund subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Florida Legislature. The Fund's benefit payments are approved in the Fund's budget as adopted by SBA Trustees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

Benefits Provided

The benefits provided are the same as those provided for active employees. Spouses and dependents of eligible retirees are also eligible for medical coverage. All non-OPS employees of the Fund are eligible to receive postemployment health care benefits. Four types of health plans are offered to eligible participants:

- Standard statewide Preferred Provider Organization (PPO).
- High Deductible PPO Plan
- Standard Health Maintenance Organization (HMO) Plan
- High Deductible HMO Plan

HMO coverage is available only to those retirees who live or work in the HMO's service area. The four PPO and HMO options are considered managed-care plans and have specific provider networks.

Employees Covered by Benefit Terms

At July 1, 2017, the total number of OPEB Plan employees covered by the benefit terms were as follows:

Active Plan Members	137,962
No Coverage Active Members	15,658
Retired and Inactive Members	37,046
Total eligible members	190,666

There are currently zero inactive plan members entitled to but not yet receiving benefits because the OPEB plan does not provide a vested termination benefit.

Contributions

Retirees participating in the group insurance plans offered by the Fund are required to contribute 100% of the premiums. The Fund implicitly subsidizes the healthcare premium rates paid by the retirees by allowing them to participate in the same health plan offered to active employees. Retirees under age 65 pay the same premium amounts as applicable to active employees. Retirees over age 65 are included in the overall risk pool but pay a lesser premium amount than is applicable to active employees because Medicare is the primary payer. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

Note that the projected post-65 employee contributions for the fully-insured HMO plan are assumed to cover the entire cost of the program.

(Continued)

Total OPEB Liability

As of June 30, 2019, the State reported a total OPEB liability of $10,551,552,000 of which the Fund reported $410,333 for its proportionate share of the total OPEB liability measured as of June 30, 2018. The table below presents the Fund's proportion and change in proportion since the prior measurement date:

	Fund
Proportion at prior measurement date, June 30, 2017	0.00370%
Proportion at measurement date, June 30, 2018	0.00389%
Increase / (Decrease) in proportion	0.00019%

As of June 30, 2018, the State reported a total OPEB liability of $10,811,085,000 of which the Fund reported $400,257 for its proportionate share measured as of June 30, 2017. The table below presents the Fund's proportion and change in proportion since the prior measurement date:

	Fund
Proportion at prior measurement date, June 30, 2016	0.00348%
Proportion at measurement date, June 30, 2017	0.00370%
Increase / (Decrease) in proportion	0.00022%

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation date	July 1, 2017 (valuation updated) for current fiscal year reporting July 1, 2017 for prior fiscal year reporting
Measurement date	June 30, 2018 for current fiscal year reporting June 30, 2017 for prior fiscal year reporting
Actuarial cost method	Entry age normal
Amortization method	The recognition period for the changes in assumption and proportionate share is 8 years
Actuarial value of assets	N/A
Inflation	2.60%
Salary increases	Varies by FRS Class

Discount rate	3.87% for measurement date June 30, 2018 3.58% for measurement date June 30, 2017
Healthcare cost trend rates	7.8% and 5.2% for PPO and HMO, respectively for FY17 to FY18, increasing to 10.6% and 8.0% by 2022, then decreasing by 0.9% and 0.5% each year until 2027, then decreasing gradually for both plans by up to 0.1% per year to an ultimate rate of 3.8% for 2076 and later years.
Retirees' share of benefit-related costs	100% of projected health insurance premiums for retirees
Medical aging factors	4% per year prior to age 65 3% per year between ages 65 and 75 2% per year between ages 75 and 85 0% per year thereafter
Marital status	80% assumed married, with male spouses 3 years older than female spouses
Health care participation (HMO)	50% participation assumed, with 25% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.
Health care participation (PPO)	50% participation assumed, with 35% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.

The discount rates of 3.87% in 2018 and 3.58% in 2017 were based on the Bond Buyer 20-year Municipal Bond Index as published by the Federal Reserve. The discount rate increased to 3.58% as of June 30, 2017 from 2.85% as of June 30, 2016.

Mortality rates were based on the Generational RP-2000 with Projected Scale BB. Disabled mortality has not been adjusted for mortality improvements.

The demographic actuarial assumptions for retirement, disability, withdrawal and salary merit scales used in the June 30, 2017 OPEB valuation were based on the results of an actuarial experience study for the period January 1, 2010, through December 31, 2014, adopted by the Florida Retirement System July 1, 2016 Actuarial Valuation. Comparing with the previous valuation as of July 1, 2015, all the demographic assumptions remain unchanged except active mortality which was based on the Generational RP-2000 with Projected Improvement Scale BB and updated using the rates mandated by Chapter 2015-157, Laws of Florida, which amended Chapter 112.63, Florida Statutes for pension plans. The overall effect of the mortality change was an increase in the actuarial liability and normal cost in the reporting period ended June 30, 2018.

The healthcare trend rates for the first five years used in the valuations were consistent with the Report on the Financial Outlook for the Fiscal Years Ending June 30, 2017 through June 30, 2023 as presented on August 3, 2017 at the Self-Insurance Estimating Conference. The long-term healthcare trends were generated by the Getzen Model, but no longer reflect the potential impact of the excise tax due to its uncertainty. The actuarial liability increased, and normal cost decreased slightly due to the changes in healthcare trend rate assumptions.

Retirees participating in the group insurance plans offered by the State of Florida (and the Fund) are required to contribute 100% of the premiums. Retiree contributions were not as high as expected based on the expected increases from July 1, 2015 to July 1, 2017. As such, the net implicit subsidy gap further widened and costs increased during this time.

Changes in Total OPEB Liability

The Fund's changes in total OPEB liability for each fiscal year are presented below:

	2019	2018
Reporting period ending June 30,		
Reporting period beginning balance	$ 400,257	411,115
Changes for the year:		
Service cost	17,499	21,447
Interest	15,556	13,439
Changes in benefit terms	—	—
Differences between expected and actual experience	—	—
Changes of assumptions or other inputs	(36,974)	(67,030)
Employer benefit payments	(9,111)	(10,203)
Changes in proportionate share	23,106	31,489
Net changes	10,076	(10,858)
Reporting period ending balance	$ 410,333	400,257

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following tables demonstrate the sensitivity of the Fund's proportionate share of the total OPEB liability to changes in the discount rate for each fiscal year presented. The sensitivity analysis shows the impact to the Fund's proportionate share of the total OPEB liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate:

Measurement Date as of June 30, 2018	**1% Decrease (2.87%)**	**Current Discount Rate (3.87%)**	**1% Increase (4.87%)**
Fund's proportionate share of the total OPEB liability	$499,055	$410,333	$341,278

(Continued)

Measurement Date as of June 30, 2017	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Fund's proportionate share of the total OPEB liability	$477,818	$400,257	$339,097

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table demonstrates the sensitivity of the Fund's proportionate share of the total OPEB liability to changes in the healthcare cost trend rates for each fiscal year presented. The sensitivity analysis shows the impact to the Fund's proportionate share of the total OPEB liability if the healthcare cost trend rates were 1.00% higher or 1.00% lower than the current healthcare cost trend rates:

Measurement date as of	1% Decrease	Current Healthcare Cost Trend Rates*	1% Increase
June 30, 2018	$331,944	$410,333	$515,555
June 30, 2017	$336,793	$400,257	$481,493

*Please refer to the Healthcare Cost Trend Rates information presented above in the *Actuarial and Other Input Assumptions.*

OPEB Expense and Deferred Outflows/(Inflows) of Resources Related to OPEB

For the fiscal year ended June 30, 2019, the Fund recognized OPEB expense of $27,033, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Reporting Date as of June 30, 2019

Description		Deferred Outflows	Deferred Inflows
Change of assumptions or other inputs	$	—	(82,611)
Changes of proportionate share to the total OPEB liability and difference between the actual benefit payments and expected share of benefit payments		43,834	—
Transactions subsequent to the measurement date		7,091	—
Total	$	50,925	(82,611)

(Continued)

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date as shown in the table above will be recognized as a reduction of the total OPEB liability in the reporting period ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30		**Amount**
2020	$	(6,190)
2021		(6,190)
2022		(6,190)
2023		(6,190)
2024		(6,190)
Thereafter		(7,827)
Total	$	(38,777)

For the fiscal year ended June 30, 2018, the Fund recognized OPEB expense of $30,608, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Reporting Date as of June 30, 2018			
Description		**Deferred Outflows**	**Deferred Inflows**
Change of assumptions or other inputs	$	—	(58,651)
Changes of proportionate share to the total OPEB liability and difference between the actual benefit payments and expected benefit payments		27,553	—
Transactions subsequent to the measurement date		9,278	—
Total	$	36,831	(58,651)

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date as shown in the table above will be recognized as a reduction of the total OPEB liability in the reporting period ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ending June 30		Amount
2019	$	(4,443)
2020		(4,443)
2021		(4,443)
2022		(4,443)
2023		(4,443)
Thereafter		(8,883)
Total	$	(31,098)

(14) Subsequent Events

The Fund has reviewed and considered the events subsequent to the date of the combined financial statements through December 19, 2019, which is the date the combined financial statements were available to be issued, and are disclosing the following subsequent events:

On July 1, 2019, Series 2016A Revenue Bonds had principal due of $550,000,000 and was paid using the bond proceeds.

(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, 2019 (in thousands):

Assets		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Current assets:				
Cash and cash equivalents	$	—	—	—
Short-term investments		6,274,667	4,539,289	1,735,378
Investment sales receivable		831,335	816,060	15,275
Premium receivable		102,567	102,567	—
Accrued interest		62,499	51,106	11,393
Prepaid expenses		6	6	—
Total current assets		7,271,074	5,509,028	1,762,046
Long-term assets:				
Long-term investments		9,535,563	8,970,966	564,597
Capital assets, net of Accumulated depreciation		58	58	—
Total long-term assets		9,535,621	8,971,024	564,597
Total assets	$	16,806,695	14,480,052	2,326,643
Deferred outflows of resources:				
Deferred outflows related to pensions and OPEB (note 13)	$	811	811	—

The following table provides the condensed combining liabilities and net position information of the Fund as of June 30, 2019 (in thousands):

Liabilities		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Current liabilities:				
Unpaid hurricane losses	$	3,407,710	3,407,710	—
Reimbursed losses payable		42,422	42,422	—
Premium refunds payable		—	—	—
Accrued expenses		6,465	6,423	42
Compensated absences		83	83	—
Bonds payable		550,000	—	550,000
Pending investment purchases		830,868	815,868	15,000
Accrued bond interest expense		29,497	—	29,497
Net pension and OPEB liability (note 13)		16	16	—
Total current liabilities		4,867,061	4,272,522	594,539
Long-term liabilities, net of current portion:				
Bonds payable		1,650,000	—	1,650,000
Net pension and OPEB liability (note 13)		1,815	1,815	—
Compensated absences		175	175	—
Total long-term liabilities		1,651,990	1,990	1,650,000
Total liabilities	$	6,519,051	4,274,512	2,244,539
Deferred inflows of resources:				
Deferred inflows related to pensions and OPEB (note 13)	$	217	217	—
Net position:				
Net investment in capital assets		58	58	—
Unrestricted		10,288,180	10,206,076	82,104
Total net position	$	10,288,238	10,206,134	82,104

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the year ended June 30, 2019 (in thousands):

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating revenues:			
Net premium revenue (net of reinsurance premium)	$ 1,052,053	1,052,053	—
Net interest on premium adjustments	(53)	(53)	—
Net interest on loss disbursements and adjustments	27	27	—
Other	43	43	—
Total operating revenues	1,052,070	1,052,070	—
Operating expenses:			
Hurricane losses	3,950,000	3,950,000	—
Administrative and actuarial fees	2,872	2,872	—
Other professional fees	1,342	1,335	7
Personnel expenses	1,782	1,782	—
Depreciation	14	14	—
Other	270	269	1
Total operating expenses	3,956,280	3,956,272	8
Operating loss	(2,904,210)	(2,904,202)	(8)
Nonoperating revenue (expense):			
Investment income	566,712	496,062	70,650
Investment advisor fees	(3,702)	(3,208)	(494)
Settlement proceeds	1,460	1,460	—
Emergency assessment revenue	81	58	23
Custodian fees	(112)	(82)	(30)
Bond interest expense	(58,994)	—	(58,994)
Nonoperating revenue, net	505,445	494,290	11,155
Net income (loss) before transfers	(2,398,765)	(2,409,912)	11,147
Transfers to (from) component units	—	(21,007)	21,007
Transfers to other state agencies	(13,500)	(13,500)	—
Change in net position	(2,412,265)	(2,444,419)	32,154
Net position at beginning of year	12,700,503	12,650,553	49,950
Net position at end of year	$ 10,288,238	10,206,134	82,104

The following table provides the condensed combining cash flows information of the Fund for the year ended June 30, 2019 (in thousands):

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Cash flows from operating activities:			
Net premium received	$ 1,042,107	1,042,107	—
Hurricane losses paid	(2,396,531)	(2,396,531)	—
Loss reimbursement advances and interest	28	28	—
Other cash received from customers	43	43	—
Administrative and actuarial fees	(2,851)	(2,851)	—
Other professional fees	(1,307)	(1,300)	(7)
Personnel expenses	(1,617)	(1,617)	—
Other cash paid to vendors	(261)	(260)	(1)
Net cash provided (used) by operating activities	(1,360,389)	(1,360,381)	(8)
Cash flows from investing activities:			
Purchases of investments	(82,210,482)	(79,335,751)	(2,874,731)
Sales and maturities of investments	83,859,425	80,490,194	3,369,231
Interest received	287,666	242,403	45,263
Settlement proceeds	1,460	1,460	—
Investment advisor fees	(3,727)	(3,224)	(503)
Investment custodian fees	(107)	(79)	(28)
Net cash provided (used) by investing activities	1,934,235	1,395,003	539,232
Cash flows from noncapital financing activities:			
Transfers to other state agencies	(13,500)	(34,507)	21,007
Emergency assessment funds received (paid)	(27)	(49)	22
Bond principal paid	(500,000)	—	(500,000)
Bond interest paid	(64,261)	—	(64,261)
Net cash used by noncapital financing activities	(577,788)	(34,556)	(543,232)
Cash flows from capital and related financing activities:			
Purchases of capital assets	(67)	(67)	—
Net increase (decrease) in cash and cash equivalents	(4,009)	(1)	(4,008)
Cash and cash equivalents at beginning of year	4,009	1	4,008
Cash and cash equivalents at end of year	$ —	—	—

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 Pension Plan[1]				
Measurement Date	**6/30/2018**	**6/30/2017**	**6/30/2016**	**6/30/2015**	**6/30/2014**
Fund's proportion of the net pension liability	0.003553773%	0.003265072%	0.002834117%	0.002651678%	0.002394824%
Fund's proportionate share of the net pension liability	$ 1,070,415	965,786	715,617	342,500	146,119
Fund's covered payroll	1,081,584	1,038,160	1,036,792	983,644	900,947
Fund's proportionate share of the net pension liability as a percentage of covered payroll	98.97%	93.03%	69.02%	34.82%	16.22%
Plan fiduciary net position as a percentage of the total pension liability	84.26%	83.89%	84.88%	92.00%	96.09%

[1] Changes in actuarial assumptions: The inflation rate assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return decreased from 7.10% to 7.00% effective for the June 30, 2018, measurement date.

	Health Insurance Subsidy Program[2]				
Measurement Date	**6/30/2018**	**6/30/2017**	**6/30/2016**	**6/30/2015**	**6/30/2014**
Fund's proportion of the net pension liability	0.003311502%	0.325706600%	0.003358544%	0.003242266%	0.003032327%
Fund's proportionate share of the net pension liability	$ 350,493	348,260	391,424	330,660	283,530
Fund's covered payroll	1,081,584	1,038,160	1,036,792	983,644	900,947
Fund's proportionate share of the net pension liability as a percentage of covered payroll	32.41%	33.55%	37.75%	33.62%	31.47%
Plan fiduciary net position as a percentage of the total pension liability	2.15%	1.64%	0.97%	0.50%	0.99%

[2] Changes in actuarial assumptions: The municipal rate used to determine total pension liability increased from 3.58% to 3.87% effective for the June 30, 2018, measurement date.

*Fiscal year 2015 (Measurement date 2014) was the first year of implementation. Additional years' information will be included as they become available in future years.

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2019 and 2018

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

		Florida Retirement System Pension Plan					
Reporting Period Ending June 30		2019	2018	2017	2016	2015	2014
Statutorily required contributions	$	112,836	101,280	84,998	69,114	64,650	52,457
Fund contributions in relation to the contractually required contributions		(112,836)	(101,280)	(84,998)	(69,114)	(64,650)	(52,457)
Contribution deficiency (excess)	$	—	—	—	—	—	—
Fund covered payroll	$	1,140,851	1,081,584	1,038,160	1,036,792	983,644	900,947
Contributions as a percentage of covered payroll		9.89%	9.36%	8.19%	6.67%	6.57%	5.82%

		Health Insurance Subsidy Program					
Fiscal Year		2019	2018	2017	2016	2015	2014
Statutorily required contributions	$	18,942	17,958	17,237	17,215	12,394	10,388
Fund contributions in relation to the contractually required contributions		(18,942)	(17,958)	(17,237)	(17,215)	(12,394)	(10,388)
Contribution deficiency (excess)	$	—	—	—	—	—	—
Fund covered payroll	$	1,140,851	1,081,584	1,038,160	1,036,792	983,644	900,947
Contributions as a percentage of covered payroll		1.66%	1.66%	1.66%	1.66%	1.26%	1.15%

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

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2019 and 2018

Schedule of Fund's Proportionate Share of the Total Other Postemployment Benefits Liability

Last 10 Fiscal Years*

Fiscal Year End	2019	2018
Total OPEB Liability**	$ 10,551,552,000	$ 10,811,085,000
Fund's proportion of the total OPEB liability	0.0039%	0.0037%
Fund's proportionate share of the total OPEB liability	$ 410,333	$ 400,257
Fund's covered-employee payroll	$ 1,081,584	$ 1,038,160
Fund's proportionate share of the total OPEB liability as a percentage of its covered-employee payroll	37.94%	38.55%

* This schedule is intended to present information for 10 years. However, until a full 10-year trend is compiled, the Fund is presenting information for those years for which information is available.

** The Total OPEB Liability amounts presented include only the total OPEB liabilities of Employer 1, as reported in the actuary report, since the Fund is considered to be a part of Employer 1. The total OPEB liability amounts including all employers were $10,560,332,000 and $10,820,060,000, for 2019 and 2018, respectively.

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2019 and 2018

Schedule of Changes in the Fund's Total OPEB Liability and Related Ratios

Last 10 Fiscal Years*

Reporting Period Ending June 30,	2019	2018
Changes for the year:		
Service cost	$ 17,499	$ 21,447
Interest	15,556	13,439
Changes in benefit terms	0	0
Differences between expected and actual experience	0	0
Changes of assumptions or other inputs	(36,974)	(67,030)
Benefit payments	(9,111)	(10,203)
Change in proportional share	23,106	31,489
Net change in total OPEB liability	10,076	(10,858)
Total OPEB liability-beginning	400,257	411,115
Total OPEB liability-ending	$ 410,333	$ 400,257
Covered-employee payroll	$ 1,081,584	$ 1,038,160
Total OPEB liability as a percentage of covered-employee payroll	37.94%	38.55%

Notes to Schedule:

The Division of State Group Insurance's Other Postemployment Benefits Plan (OPEB) does not have assets accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75 to pay related benefits.

Potential factors that may significantly decrease/increase the Fund's total OPEB liability reported as of June 30, 2018 include discount rate, inflation rate, salary increases, payroll growth, healthcare inflation, retiree contribution increase rate, medical aging factors, healthcare participation, healthcare cost trends, mortality rates, and other demographic assumptions.

Changes of benefit terms : There have been no changes in benefit terms.

Changes in discount rate:

- Reporting period ended June 30, 2019: The discount rate changed from 3.58% as of the measurement date (MD) of June 30, 2017, to 3.87% as of June 30, 2018 (MD).
- Reporting period ended June 30, 2018: The discount rate changed from 2.85% for the opening balance as of June 30, 2016 (MD) to 3.58% as of June 30, 2017 (MD).

*This schedule is intended to present information for 10 years. However, until a full 10-year trend is compiled, the Fund is presenting information for those years for which information is available.

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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 statement of financial position as of June 30, 2019, and the related combined statement of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated December 19, 2019.

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 a 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*.

KPMG

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
December 19, 2019