



**FLORIDA HURRICANE CATASTROPHE FUND**

Combined Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

# FLORIDA HURRICANE CATASTROPHE FUND

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KPMG LLP  
4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

## 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), as of and for the year ended June 30, 2013 and 2012, and the related notes to the combined financial statements, as listed in the table of contents.

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

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

### ***Auditor Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the 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, 2013 and 2012, and the changes in financial position, and



where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in note 1, the combined financial statements present only the Fund and do not purport to, and do not, present fairly the financial position of the State Board of Administration of Florida as of June 30, 2013 and 2012, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3-6 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2013 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

**KPMG LLP**

Minneapolis, Minnesota  
October 11, 2013

## FLORIDA HURRICANE CATASTROPHE FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

Our discussion and analysis of the financial performance of the Florida Hurricane Catastrophe Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2013 and 2012. Please read this information in conjunction with the Fund's combined financial statements and notes to the combined financial statements.

#### **Overview of the Financial Statements**

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

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

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

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

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

**FLORIDA HURRICANE CATASTROPHE FUND**

Management's Discussion and Analysis

June 30, 2013 and 2012

**Financial Summary**

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

	<b>June 30</b>		
	<u><b>2013</b></u>	<u><b>2012</b></u>	<u><b>2011</b></u>
Current assets	\$ 10,218,231	\$ 10,925,733	\$ 9,340,514
Long-term assets	1,844,325	1,072,747	1,509,580
Total assets	<u>\$ 12,062,556</u>	<u>\$ 11,998,480</u>	<u>\$ 10,850,094</u>
Current liabilities	\$ 748,387	\$ 4,246,787	\$ 985,287
Long-term liabilities	3,018,906	1,327,252	5,135,489
Total liabilities	<u>3,767,293</u>	<u>5,574,039</u>	<u>6,120,776</u>
Net position:			
Unrestricted	8,295,236	6,424,415	4,729,291
Net investment in capital assets	5	4	5
Restricted for hurricane mitigation	<u>22</u>	<u>22</u>	<u>22</u>
Total net position	<u>8,295,263</u>	<u>6,424,441</u>	<u>4,729,318</u>
Total liabilities and net position	<u>\$ 12,062,556</u>	<u>\$ 11,998,480</u>	<u>\$ 10,850,094</u>

## FLORIDA HURRICANE CATASTROPHE FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

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		
	2013	2012	2011
Net premium revenue	\$ 1,254,198	\$ 1,321,861	\$ 1,308,877
Net interest on premium adjustments	7	439	877
Net interest on loss disbursement adjustments/advances	8	5	2,544
Other	1,667	41	30
Total operating revenues	1,255,880	1,322,346	1,312,328
Total nonoperating revenue	451,408	387,467	312,435
Total revenues	1,707,288	1,709,813	1,624,763
Hurricane losses	(178,500)	—	110,000
Other operating expenses	4,963	4,687	5,641
Depreciation	3	3	3
Total expenses	(173,534)	4,690	115,644
Income before transfers	1,880,822	1,705,123	1,509,119
Transfers to other funds	(10,000)	(10,000)	(10,000)
Change in net position	1,870,822	1,695,123	1,499,119
Net position at beginning of year	6,424,441	4,729,318	3,230,199
Net position at end of year	\$ 8,295,263	\$ 6,424,441	\$ 4,729,318

### Financial Highlights

- From 2011 to 2012, the increase in current liabilities and decrease in long-term liabilities is primarily the result of the reclassification of the Series 2007A Pre-event Notes in the amount of \$3.50 billion, which became due and was paid on October 15, 2012. This amount was included in long-term liabilities for the fiscal year ended June 30, 2011 and was included in current liabilities for the fiscal year ended June 30, 2012. The decrease from 2012 to 2013 in current liabilities resulted from the Series 2007A Pre-event Notes being paid on October 15, 2012.
- The increase from 2012 to 2013 in long-term liabilities is primarily due to the issuance of 2013A Pre-event Revenue Bonds in April 2013 in the amount of \$2.00 billion. The Revenue Bonds maximize the ability of the Fund to meet future obligations with \$500 million maturing on July 1, 2016, \$500 million maturing on July 1, 2018, and \$1 billion maturing on July 1, 2020. The Series 2013A Revenue Bonds proceeds are invested and their investment earnings will be used by the Fund to make debt service interest payments to bond holders.

## FLORIDA HURRICANE CATASTROPHE FUND

### Management's Discussion and Analysis

June 30, 2013 and 2012

- The increase in net premium revenue in 2012 followed by the decrease in 2013 was primarily the result of two items. The Fund's modeled mandatory coverage rates (which includes an increase attributable to the cash buildup factor as provided for in section 215.555, Florida Statutes), increased 6.28% and 14.79%, respectively in 2012 and 2013. The 2012 increase was partially offset by the decrease in the optional Temporary Increased Coverage Limits (TICL) coverage available under Section 215.555, Florida Statutes, and selected by the insurers. The elimination of the optional Limited Apportionment Companies coverage in 2013 and the continued decrease in the optional TICL coverage available in conjunction with a decrease in TICL premium revenue due to the decrease in its selection by the insurers more than offset the increase in mandatory premiums resulting in an overall decrease in premium revenue for 2013.
- The increase in other operating revenue in 2013 is primarily due to \$1.59 million of revenue received from several participating insurers in the form of an administrative charge pursuant to an agreement related to the selection of an optional coverage.
- Investment income included in "total non-operating revenue" for the Fund was \$46.59 million at June 30, 2011, \$39.79 million at June 30, 2012, and \$39.62 million at June 30, 2013. This decrease was due to the decline in interest rates and revisions to the Fund's Investment Policy Statement (the policy) in 2012. The primary goal of the policy is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. The Fund's objective is to invest in securities that are highly liquid, relatively short term, and have a credit quality in accordance with the Policy.
- "Total non-operating revenue" also includes emergency assessment revenue. In order to reimburse participating insurers for losses occurring in 2005, the Fund, through the Corporation, issued tax-exempt revenue bonds in 2006 in the amount of \$1.35 billion, which matured on July 1, 2012, an additional \$625.00 million in 2008, and \$675.92 million in 2010. The funding source for the repayment of these bonds is from an emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. The assessment was initially 1.0% on all policies issued or renewed on or after January 1, 2007 and was increased to 1.3% on January 1, 2011.
- For losses from hurricanes occurring in 2004 and 2005, as of June 30, 2013, the Fund had reimbursed participating insurers over \$9.37 billion. The total amount the Fund expects to pay is \$9.58 billion, with \$3.86 billion for 2004 and \$5.72 billion for 2005. "Hurricane losses" expense includes no additional hurricane loss expenses in 2012 and a reduction in hurricane loss expenses of \$178.50 million in 2013 for the prior years' storms due to estimates revised downward as a result of ongoing favorable loss development and actuarial analysis.
- At June 30, 2013, the Fund had the following credit ratings: Moody's, Aa3; Standard and Poor's, AA-; and Fitch, AA.

## FLORIDA HURRICANE CATASTROPHE FUND

### Combined Statements of Net Position

June 30, 2013 and 2012

(In thousands)

<b>Assets</b>	<b>2013</b>	<b>2012</b>
Current assets:		
Cash and cash equivalents	\$ 138	\$ 167
Short-term investments	10,080,297	10,796,353
Emergency assessment funds receivable	135,015	120,485
Accrued interest	2,328	4,509
Accounts receivable	—	6
Excess loss payments receivable	—	1,177
Premiums receivable, net	453	3,036
Total current assets	<u>10,218,231</u>	<u>10,925,733</u>
Long-term assets:		
Long-term investments	1,834,021	1,068,840
Unamortized bond issuance costs	10,299	3,903
Capital assets, net of accumulated depreciation of \$61 and \$62 for June 30, 2013 and 2012, respectively	5	4
Total long-term assets	<u>1,844,325</u>	<u>1,072,747</u>
Total assets	<u>\$ 12,062,556</u>	<u>\$ 11,998,480</u>

See accompanying notes to combined financial statements.

<b>Liabilities and Net Position</b>	<b>2013</b>	<b>2012</b>
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	\$ 204,891	\$ 408,430
Losses payable	2,054	—
Accrued expenses	998	787
Bonds payable	300,000	3,796,795
Payable for securities purchased	200,000	—
Accrued bond interest expense	40,444	40,775
Total current liabilities	<u>748,387</u>	<u>4,246,787</u>
Long-term liabilities:		
Bonds payable	3,018,786	1,327,133
Compensated absences, net of current portion	120	119
Total long-term liabilities	<u>3,018,906</u>	<u>1,327,252</u>
Total liabilities	<u>3,767,293</u>	<u>5,574,039</u>
Net position:		
Unrestricted	8,295,236	6,424,415
Net investment in capital assets	5	4
Restricted for hurricane mitigation	22	22
Total net position	<u>8,295,263</u>	<u>6,424,441</u>
Total liabilities and net position	<u>\$ 12,062,556</u>	<u>\$ 11,998,480</u>

**FLORIDA HURRICANE CATASTROPHE FUND**

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

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Operating revenues:		
Net premium revenue	\$ 1,254,198	\$ 1,321,861
Net interest on premium adjustments	7	439
Net interest on loss disbursement adjustments/advances	8	5
Other	<u>1,667</u>	<u>41</u>
Total operating revenues	<u>1,255,880</u>	<u>1,322,346</u>
Operating expenses:		
Hurricane losses	(178,500)	—
Administrative and actuarial fees	2,405	2,246
Other professional fees	1,082	1,098
Personnel expenses	1,221	1,152
Depreciation	3	3
Other	<u>255</u>	<u>191</u>
Total operating expenses	<u>(173,534)</u>	<u>4,690</u>
Operating income	<u>1,429,414</u>	<u>1,317,656</u>
Nonoperating revenue (expense):		
Investment income	39,619	39,788
Investment advisor fees	(2,146)	(1,585)
Emergency assessment revenue	490,008	456,790
Emergency assessment interest revenue	3	6
Custodian and bond trustee fees	(3)	(5)
Bond interest expense	(74,154)	(103,181)
Amortization of bond issuance costs	<u>(1,919)</u>	<u>(4,346)</u>
Total nonoperating revenue	<u>451,408</u>	<u>387,467</u>
Income before transfers	1,880,822	1,705,123
Transfers to other funds	<u>(10,000)</u>	<u>(10,000)</u>
Change in net position	1,870,822	1,695,123
Net position at beginning of year	<u>6,424,441</u>	<u>4,729,318</u>
Net position at end of year	<u>\$ 8,295,263</u>	<u>\$ 6,424,441</u>

See accompanying notes to combined financial statements.

**FLORIDA HURRICANE CATASTROPHE FUND**

Combined Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Operating activities:		
Premium received	\$ 1,256,788	\$ 1,320,203
Hurricane losses paid	(21,808)	(245,117)
Net interest on loss disbursements and adjustments	8	5
Other	1,667	41
Administrative and actuarial fees	(2,264)	(2,276)
Other professional fees	(1,124)	(1,086)
Personnel expenses	(1,220)	(1,164)
Other operating expenses	(224)	(199)
Net cash provided by operating activities	<u>1,231,823</u>	<u>1,070,407</u>
Investing activities:		
Purchases of investments	(334,739,965)	(399,532,273)
Sales and maturities of investments	334,908,246	398,403,776
Interest received	24,393	22,360
Investment advisor fees	(2,083)	(1,573)
Custodian and bond trustee fees	(3)	(5)
Net cash provided (used) by investing activities	<u>190,588</u>	<u>(1,107,715)</u>
Financing from noncapital activities:		
Transfers to other funds	(10,000)	(10,000)
Emergency assessment funds received	475,494	451,587
Emergency assessment interest received	4	10
Cash received at bond issuance	1,993,049	—
Bond principal paid	(3,796,795)	(282,660)
Bond interest paid	(82,832)	(121,597)
Bond cost of issuance	(1,355)	—
Net cash (used) provided by financing from noncapital activities	<u>(1,422,435)</u>	<u>37,340</u>
Financing from capital activity:		
Purchases of capital assets	(5)	(1)
Net (decrease) increase in cash and cash equivalents	(29)	31
Cash and cash equivalents at beginning of year	<u>167</u>	<u>136</u>
Cash and cash equivalents at end of year	<u>\$ 138</u>	<u>\$ 167</u>

See accompanying notes to combined financial statements.

(Continued)

## FLORIDA HURRICANE CATASTROPHE FUND

### Combined Statements of Cash Flows

Years ended June 30, 2013 and 2012

(In thousands)

	<u>2013</u>	<u>2012</u>
Operating income	\$ 1,429,414	\$ 1,317,656
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3	3
(Increase) decrease in accounts receivable	6	(6)
(Increase) decrease in premiums receivable, net	2,583	(1,831)
Increase (decrease) in premium refunds payable	—	(266)
Increase (decrease) in unpaid hurricane losses	(203,539)	(240,661)
Increase (decrease) in losses payable	2,054	(4,713)
(Increase) decrease in excess loss payments receivable	1,177	257
Increase (decrease) in accrued expenses	125	(32)
Net cash provided by operating activities	<u>\$ 1,231,823</u>	<u>\$ 1,070,407</u>

See accompanying notes to combined financial statements.

# FLORIDA HURRICANE CATASTROPHE FUND

## Notes to Combined Financial Statements

June 30, 2013 and 2012

### (1) Organization

#### (a) *Business*

The Florida Hurricane Catastrophe Fund (the Fund), a trust fund created in November 1993 during a special Florida Congressional legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to all authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Premiums are calculated for each of the approximately 168 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), formerly known as the Florida Hurricane Catastrophe Fund Finance 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.

The Fund implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which became effective for financial statements for periods beginning after December 15, 2011. GASB Statement No. 63 identifies net position, rather than net assets, as the residual of all other elements presented in a statement of financial position. Although the Fund did not have any deferred outflows of resources or deferred inflows of resources to report, the change in format of the financial statements was incorporated into the Fund's 2013 financial statements. Comparative prior year financial statements for 2012 have also been modified to reflect this format change. There was no effect on beginning net position as a result of this change for either fiscal year.

## FLORIDA HURRICANE CATASTROPHE FUND

### Notes to Combined Financial Statements

June 30, 2013 and 2012

(c) ***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 (to date, the Fund has never purchased such reinsurance); 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. Revenue bonds have been issued under authorization of Section 215.555(6) of the Florida Statutes; as such, the SBA has directed the Florida Office of Insurance Regulation to levy an emergency assessment on each insurer writing property and casualty business in this State. The Fund, therefore, has no risk that it will be unable to meet its contractual obligations to participating insurers because its obligation is limited to its ability to pay.

Although bonds have been issued on behalf of the Fund, the State of Florida assumes no liability for the repayment of the bonds. Additionally, the State of Florida has no legal responsibility to make any contribution to the Fund should its obligations exceed available resources.

(d) ***Risk Management***

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

(2) **Significant Accounting Policies**

(a) ***Measurement Focus***

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

(b) ***Investments***

The Fund's cash is invested according to an Investment Policy Statement, which sets forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The primary goal of the policy is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. These investments are recorded at fair value and, the fair values are primarily

## FLORIDA HURRICANE CATASTROPHE FUND

### Notes to Combined Financial Statements

June 30, 2013 and 2012

obtained from independent quoted market prices. No investments were recorded at amortized cost as of June 30, 2013 and 2012. The Fund considers all investments with maturity dates of less than one year to be short-term investments. Investments with maturity dates in excess of one year are included in long-term investments. Investment advisory services are provided by the SBA.

(c) ***Emergency Assessment Receivable***

Emergency assessments are remitted as a percentage of quarterly direct written premium and are due 45 days following the end of each quarter. Insureds procuring coverage and filing under Section 626.938 of the Florida Statutes report such coverage 30 days after the insurance is procured and remit emergency assessments within 45 days following the quarter after the insurance is procured.

(d) ***Premiums Receivable***

Premiums receivable represent amounts from previous billings that have not yet been collected and are net of any allowances management has established to anticipate uncollectible billings. As of June 30, 2013 and 2012, an allowance equal to the premium receivable of \$19,976,652 exists for three insurers that have entered into receivership and the collectibility of this amount is uncertain.

(e) ***Loss Reimbursement Advances Receivable***

Certain companies may qualify for advances from the Fund, which are in essence loans based on a company's potential recoveries from the Fund (i.e., based on incurred losses rather than paid losses). Loss reimbursement advances receivable represent amounts currently outstanding on these advances, including accrued interest. As of June 30, 2013 and 2012, there are no outstanding loss reimbursement advances.

(f) ***Capital Assets***

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

(g) ***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.

(h) ***Bonds Payable***

Under authorization of Section 215.555(6) of the Florida Statutes, the Fund has issued post-event revenue bonds and pre-event revenue bonds in order to meet current and future obligations. The Fund classifies amounts expected to be paid within the next year as current liabilities, with remaining amounts classified as long-term liabilities. Bond issuance costs are capitalized as long-term assets and amortized using a straight-line basis over the life of the bonds.

## FLORIDA HURRICANE CATASTROPHE FUND

### Notes to Combined Financial Statements

June 30, 2013 and 2012

(i) ***Compensated Absences***

Compensated absences represent the Fund's obligation to accrue a liability for employees' rights to receive compensation for future absences, such as vacation and sick leave. The Fund allows vested employees to carry forward any unpaid leave indefinitely. The short-term portion of this liability, \$46,255 in 2013 and \$46,585 in 2012, is included in accrued expenses on the combined statements of net position. The remaining liability is included as compensated absences with long-term liabilities on the combined statements of net position.

(j) ***Current Contract Year Premium Revenue***

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

(k) ***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; the Fund may also be required to refund amounts to insurers relating to a prior contract year.

(l) ***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.

(m) ***Net Interest on Premium Adjustments***

Participating insurers have the option of paying the billed provisional premium or estimating premium for the August and October installments. If the provisional or estimated payments are too high, interest is returned to the insurer on the overpayment. Likewise, if estimated premiums are underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2013, the interest rate was 0.39% for overpayments of premium and 5.39% for underestimated payments. For the contract year ended May 31, 2012, the interest rate was 0.38% for overpayments of premium and 5.38% for underestimated payments.

(n) ***Hurricane Losses***

Hurricane losses represent the estimated ultimate cost of all reported and unreported claims incurred during the year that exceed the participating insurers' individual company retention levels. The reserves for unpaid claims are estimated primarily by management's review of reported loss information obtained from the participating insurers. Although considerable variability is inherent in such estimates, management believes that the reserves for hurricane losses are adequate. The estimates are continually reviewed and adjusted as experience develops or new information becomes known, and such adjustments are included in current operations.

## FLORIDA HURRICANE CATASTROPHE FUND

### Notes to Combined Financial Statements

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**(o) Emergency Assessment**

Section 215.555(6)(b)2 of the Florida Statutes provides for an emergency assessment on all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2016) medical malpractice premiums. A maximum annual assessment of 6% is allowed for losses attributable to any one contract year and a maximum aggregate annual assessment of 10% for all contract years. For policies issued or renewed on or after January 1, 2007, a 1% emergency assessment has been levied; except for policies issued or renewed on or after January 1, 2011, where a 1.3% emergency assessment has been levied. The emergency assessment revenue is the funding source for repayment of the Series 2006A, 2008A, and 2010A Revenue Bonds.

**(p) Transfers**

Pursuant to Section 215.555(7)(c) of the Florida Statutes, the Florida Legislature will appropriate from the Fund an amount no less than \$10,000,000 and no more than 35% of the investment income from the prior fiscal year, providing that the actuarial soundness of the Fund is not jeopardized, for the purpose of providing funding for governments, agencies, and educational institutions to support programs intended to improve hurricane preparedness or reduce potential losses in the event of a hurricane. For these purposes, in each of fiscal years 2013 and 2012, \$10,000,000 was appropriated from the Fund, and \$22,400 was available from prior years. The remaining \$22,400 available for transfer in fiscal year 2013 has been restricted in the June 30, 2013 net position for hurricane mitigation.

**(q) 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.

**(r) Cash Equivalents**

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

**(s) Use of Estimates**

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

**(3) Investments**

Funds are invested in accordance with Section 215.47 of the Florida Statutes, and the Fund's Investment Policy Statement, which includes, but is not limited to, certificates of deposit, bonds, commercial paper,

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

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U.S. government agency notes, U.S. government Treasury bills, state and local government series (SLGS), shares on money market funds, repurchase agreements, and variable rate notes that enhance the Fund's investment income while maintaining liquidity and safety of principal.

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

	<b>June 30</b>	
	<u>2013</u>	<u>2012</u>
Short-term investments:		
Certificates of deposit	\$ 425,069	\$ 1,445,223
Commercial paper	4,575,625	3,649,021
Money market funds	33,414	366,868
Repurchase agreements	1,800,782	2,201,388
U.S. Treasury bills	216,000	—
U.S. Treasury bonds, notes and SLGS	1,109,734	688,571
Federal agencies – discount notes	1,177,857	814,583
Federal agencies – unsecured	591,865	1,583,122
Domestic corporate bonds and notes, variable rate	100,014	47,577
International bonds – government agency, fixed rate	49,937	—
Total short-term investments	<u>\$ 10,080,297</u>	<u>\$ 10,796,353</u>
Long-term investments:		
U.S. Treasury bonds, notes and SLGS	\$ 70,193	\$ 103,570
Federal agencies – unsecured	1,742,158	919,872
Domestic nongovernment mortgage-backed securities	21,670	45,398
Total long-term investments	<u>\$ 1,834,021</u>	<u>\$ 1,068,840</u>

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

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As of June 30, 2013, the weighted average maturity of the Fund's investments is as follows (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (days)</b>
Certificates of deposit	\$ 425,069	43
Commercial paper	4,575,625	42
Money market funds	33,414	1
Repurchase agreements	1,800,782	11
U.S. Treasury bills	216,000	5
U.S. Treasury bonds, notes and SLGS	1,179,927	102
Federal agencies – discount notes	1,177,857	62
Federal agencies – unsecured	2,334,023	255
Domestic corporate bonds and notes	100,014	7
Domestic nongovernment mortgage-backed securities*	21,670	*
International bonds – government agency	49,937	331
Total fair value	\$ <u>11,914,318</u>	
Portfolio weighted average maturity		90

\* Due to the nature of certain mortgage-backed securities that have been restricted after default, the weighted average maturity is not available. When the original liquidity notes defaulted, the SBA (on behalf of certain funds) elected for a distribution of the underlying collateral in lieu of a cash payment (the Collateral Securities). The SBA-issued notes were issued to the participatory funds that had an interest in the original liquidity notes, and these notes hold the Collateral Securities as security for repayment of the notes. The Collateral Securities consist of domestic nongovernment mortgage-backed securities. The note payouts were set to pay interest at one-month LIBOR + 35 basis points. Any additional amount collected as principal or interest on the underlying mortgages is used to first pay the note holders the interest (calculated at one-month LIBOR + 35 basis points), and anything collected over that is used to pay down the note principal for each note holder. These segregated securities are subject to the Investment Management Guidelines of the Investment Management Agreement for the sale, exchange, or disposition of the collateral and are no longer under the Fund's Investment Policy Statement.

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Notes to Combined Financial Statements

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As of June 30, 2012, the weighted average maturity of the Fund's investments is as follows (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>Weighted average maturity (days)</b>
Certificates of deposit	\$ 1,445,223	46
Commercial paper	3,649,021	48
Money market funds	366,868	2
Repurchase agreements	2,201,388	2
U.S. Treasury bonds, notes, and SLGS	792,141	145
Federal agencies – discount notes	814,583	91
Federal agencies – unsecured	2,502,994	208
Domestic corporate bonds and notes	47,577	16
Domestic nongovernment mortgage-backed securities*	45,398	*
Total fair value	\$ <u>11,865,193</u>	
Portfolio weighted average maturity		89

\* Due to the nature of certain mortgage backed securities that have been restricted after default, the weighted average maturity is not available. When the original liquidity notes defaulted, the SBA (on behalf of certain funds) elected for a distribution of the underlying collateral in lieu of a cash payment (the Collateral Securities). The SBA issued notes were issued to the participatory funds which had an interest in the original liquidity notes, and these notes hold the Collateral Securities as security for repayment of the notes. The Collateral Securities consist of domestic nongovernment mortgage backed securities. The note payouts were set to pay interest at one-month LIBOR + 35 basis points. Any additional amount collected as principal or interest on the underlying mortgages is used to first pay the note holders the interest (calculated at one-month LIBOR + 35 basis points), and anything collected over that is used to pay down the note principal for each note holder. These segregated securities are subject to the Investment Management Guidelines of the Investment Management Agreement for the sale, exchange or disposition of the collateral and are no longer under the Fund's Investment Policy Statement.

**(a) Interest Rate Risk**

Liquidity being a primary concern, the investment policy objective is to invest in high quality, highly liquid, relatively short-term investment strategies, which are reviewed on an annual basis to ensure the appropriateness of the strategic goal. The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk. In accordance with the policy, no individual security shall have a final maturity date longer than 397 days, with the exception of those for government securities and agency securities, which shall not exceed three years. No more than 20% of total portfolio amortized cost may be invested in fixed rate securities with remaining time to maturity exceeding 397 days. The dollar weighted average maturity to reset (DWAM) of the portfolio shall not exceed 90 days. For purposes of the DWAM calculation, the maturity date is assumed to be the next reset date rather than the stated maturity except in the case of the nongovernment mortgage-backed securities. The dollar weighted average final maturity of the portfolio shall not exceed 180 days.

**FLORIDA HURRICANE CATASTROPHE FUND**

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**(b) Credit Risk**

Funds are invested in accordance with Section 215.47 of the Florida Statutes and the Fund’s Investment Policy Statement, which includes, but is not limited to, corporate debt securities such as variable rate notes, bonds and commercial paper, bank instruments such as certificates of deposit and bankers acceptances, U.S. government treasury and agency securities, municipal securities, shares of money market mutual funds, and repurchase agreements that enhance the Fund’s investment income while maintaining liquidity and safety of principal.

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

The schedule below provides the credit quality ratings by Standard and Poor’s and Moody’s Investor Services at June 30, 2013 (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Credit quality ratings</u>	
		<u>S &amp; P</u>	<u>Moody’s</u>
Certificates of deposit*	\$ 425,069	Not Rated	Not Rated
Commercial paper	4,575,625	A-1	P-1
Money market funds	33,414	AAAm	Aaa-mf
Repurchase agreements	1,800,782	Not Rated	Not Rated
U.S. Treasuries	1,395,927	Not Rated	Not Rated
Federal agencies – discount notes	1,177,857	Not Rated	Not Rated
Federal agencies – unsecured	1,939,472	AA	Aaa
Federal agencies – unsecured	100,023	Not Rated	Aaa
Federal agencies – unsecured	294,528	Not Rated	Not Rated
Domestic corporate bonds and notes	25,005	AA	Aa
Domestic corporate bonds and notes**	75,009	Not Rated	Not Rated
Domestic nongovernment mortgage-backed securities	21,670	Not Rated	Not Rated
International bonds – government agency	49,937	AAA	Aaa
	<u>\$ 11,914,318</u>		

\* The \$425,069 “not rated” certificates of deposit had issuer ratings of A-1 for S&P and P-1 for Moody’s.

\*\* The \$75,009 “not rated” domestic corporate bonds and notes had issuer ratings of AA for S&P and Aa for Moody’s.

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### Notes to Combined Financial Statements

June 30, 2013 and 2012

The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2012 (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Credit quality ratings</u>	
		<u>S &amp; P</u>	<u>Moody's</u>
Certificates of deposit	\$ 125,011	AA	Aa
Certificates of deposit*	1,320,212	Not Rated	Not Rated
Commercial paper	3,649,021	A-1	P-1
Money market funds	366,868	AAAm	Aaa-mf
Repurchase agreements	2,201,388	Not Rated	Not Rated
U.S. Treasuries	792,141	Not Rated	Not Rated
Federal agencies – discount notes	814,583	Not Rated	Not Rated
Federal agencies – unsecured	2,117,292	AA	Aaa
Federal agencies – unsecured	25,020	AA	Not Rated
Federal agencies – unsecured	270,662	Not Rated	Aaa
Federal agencies – unsecured	90,020	Not Rated	Not Rated
Domestic corporate bonds and notes	47,577	AA	Aa
Domestic nongovernment mortgage-backed securities	45,398	Not Rated	Not Rated
	<u>\$ 11,865,193</u>		

\* Of the \$1,320,212 “not rated” certificates of deposit, \$970,084 had issuer ratings of A-1 for S&P and P-1 for Moody's; and \$350,128 had issuer ratings of A-1 for S&P and P-2 for Moody's.

**(c) Concentration of Credit Risk**

Pursuant to the Investment Policy Statement, securities of a single issuer shall not represent more than 3% of total portfolio amortized cost (excluding U.S. Treasuries and agencies). 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 seven days. Repurchase agreements, which are collateralized at least 102% with U.S. government, agency, or agency mortgage-backed securities, are excluded by the SBA in determining compliance with the guidelines. No more than 10% of the portfolios may be invested in an individual money market fund (including any one treasury or agency money market fund). No more than 25% of total portfolio amortized cost may be in a single industry sector except that more than 25% of total portfolio amortized cost may be invested in the financial services industry sector.

At June 30, 2013, the single issuer threshold of 3% was exceeded with securities issued by Bank of America, which represented 3.36% of the portfolio's total amortized cost. The market value of Bank of America holdings at June 30, 2013 was \$400,988,000, held in repurchase agreements issued by Bank of America. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2013.

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### Notes to Combined Financial Statements

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At June 30, 2013, the single issuer threshold of 3% was exceeded with securities issued by Bank of Nova Scotia, which represented 9.22% of the portfolio's total amortized cost. The market value of Bank of Nova Scotia holdings at June 30, 2013 was \$1,100,000,000. Specifically, the Fund held \$100,000,000 in certificates of deposits, and \$1,000,000,000 in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2013.

At June 30, 2013, holdings directly in National Australia Bank represented 1.26% of the portfolio's amortized cost. Holdings in Bank of New Zealand, a subsidiary of National Australia Bank, represented 1.88% of the portfolio's amortized cost. The combined holdings of National Australia Bank and its subsidiary totaled 3.14% of the portfolio's amortized cost, which exceeded the 3% threshold. The market value of these holdings at June 30, 2013 was \$374,990,260. Specifically, the Fund held \$50,000,000 in certificates of deposits issued directly by National Australia Bank and \$324,990,260 in commercial paper issued by National Australia Bank and its subsidiary. \$49,994,260 of these holdings matured in August 2013.

At June 30, 2013, holdings directly in Mitsubishi UFJ Trust & Banking Corporation represented 2.51% of the portfolio's amortized cost. Holdings in Bank of Tokyo-Mitsubishi UFJ Ltd represented 2.44% of the portfolio's amortized cost. The combined holdings in Mitsubishi UFJ Financial group totaled 4.95% of the portfolio's amortized cost, which exceeded the 3% threshold. The market value of these holdings at June 30, 2013 was \$590,639,749, all in commercial paper. \$380,740,828 of these holdings matured in July 2013.

At June 30, 2013, the Fund held \$1,395,927,637 in U.S. Treasuries, which represented 11.71% of the portfolio's amortized cost. Specifically, the Fund held \$215,999,840 in U.S. Treasury bills, \$132,613,054 in U.S. Treasury notes, and \$1,047,314,743 in U.S. Treasury 90 day certificates of indebtedness. The funds invested in the 90 day certificates will be reinvested in state and local government series securities (SLGS) as soon as the federal government allows. SLGS are nonmarketable securities that are only available for purchase by state and local governments and other issuers of tax-exempt securities. SLGS are direct obligations of the U.S. government, backed by the full faith and credit of the U.S. government.

At June 30, 2013, the Fund also held \$3,511,879,917 in federal agency bonds and notes, which represents 29.48% of the portfolio's holdings. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2013 are as follows (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>Percentage of portfolio</b>
Federal Home Loan Banks	\$ 1,259,844,332	10.57%
Federal Farm Credit Bank	1,045,387,806	8.77
Federal Agricultural Mortgage Corp	618,024,397	5.19
Federal National Mortgage Association	534,588,393	4.49
Federal Home Loan Mortgage Corp	54,034,989	0.45

## FLORIDA HURRICANE CATASTROPHE FUND

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June 30, 2013 and 2012

At June 30, 2012, the single issuer threshold of 3% was exceeded with securities issued by Bank of America, which represented 10.94% of the portfolio's total amortized cost. The market value of Bank of America holdings at June 30, 2012 was \$1,301,388,000, held in repurchase agreements issued by Bank of America. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity date of July 2, 2012.

At June 30, 2012, the single issuer threshold of 3% was also exceeded with securities issued by Bank of Nova Scotia, which represented 7.23% of the portfolio's amortized cost. The market value of the Bank of Nova Scotia holdings at June 30, 2012 was \$860,021,150. Specifically, the Fund held \$210,021,150 in certificates of deposits, and \$650,000,000 in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity date of July 2, 2012.

At June 30, 2012, the single issuer threshold of 3% was also exceeded with securities issued by Wells Fargo, which represented 3.08% of the portfolio's amortized cost. The market value of the Wells Fargo holdings at June 30, 2012, was \$366,867,834, held in money market funds.

At June 30, 2012, the Fund held \$792,140,554 in U.S. Treasuries, which represented 6.66% of the portfolio's amortized cost. Specifically, the Fund held \$133,620,665 in U.S. Treasury notes and \$658,519,889 in U.S. Treasury state and local government series securities (SLGS). SLGS are nonmarketable securities that are only available for purchase by state and local governments and other issuers of tax-exempt securities. SLGS are direct obligations of the U.S. government, backed by the full faith and credit of the U.S. government.

At June 30, 2012, the Fund also held \$3,317,577,037 in federal agency bonds and notes which represents 27.96% of the portfolio's holdings. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2012 are as follows (in thousands):

<b>Investment type</b>	<b>Fair value</b>	<b>% of Portfolio</b>
Federal Home Loan Banks	\$ 1,359,381,759	11.46%
Federal National Mortgage Association	943,441,930	7.95
Federal Home Loan Mortgage Corp	411,016,381	3.46
Federal Farm Credit Bank	342,749,176	2.89
Federal Agricultural Mortgage Corp	260,987,791	2.20

**(d) Custodial Credit Risk**

Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. The Fund does not have a formal investment policy for custodial credit risk. At June 30, 2013 and 2012, all investments held were either insured or registered and held by the Fund or its agent in the Fund's name.

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

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**(e) Foreign Currency Risk**

There was no exposure to foreign currency risk during the fiscal years ended June 30, 2013 and 2012.

**(4) Capital Assets**

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2013 and 2012 is as follows (in thousands):

	<u>Equipment</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Balance as of June 30, 2011	\$ 82	\$ (77)	\$ 5
Additions and depreciation expense	2	(3)	(1)
Sales or disposals	<u>(18)</u>	<u>18</u>	<u>—</u>
Balance as of June 30, 2012	66	(62)	4
Additions and depreciation expense	4	(3)	1
Sales or disposals	<u>(4)</u>	<u>4</u>	<u>—</u>
Balance as of June 30, 2013	<u>\$ 66</u>	<u>\$ (61)</u>	<u>\$ 5</u>

**(5) Hurricane Losses**

The State of Florida was not hit by any hurricanes during the 2006 to 2012 hurricane seasons.

The State of Florida was hit by four hurricanes during July through October of 2005 (fiscal year 2006). As of June 30, 2013 and 2012, hurricane losses remain only from the Category 3 Hurricane Wilma on October 24.

The State of Florida was hit by four hurricanes during August and September 2004 (fiscal year 2005). As of June 30, 2013, no hurricane losses remain unpaid. As of June 30, 2012, there were hurricane losses remaining from the Category 4 Hurricane Charley on August 13, Category 2 Hurricane Frances on September 4, and Category 3 Hurricane Ivan on September 16.

**FLORIDA HURRICANE CATASTROPHE FUND**

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The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2013 and 2012 (in thousands):

		<b>Year ended June 30</b>	
		<b>2013</b>	<b>2012</b>
Reserve for unpaid hurricane losses at beginning of year	\$	408,430	\$ 649,091
Provision for hurricane losses occurring in:			
Current year		—	—
Prior years		(178,500)	—
Net incurred losses during the current year		(178,500)	—
Payments for claims occurring in:			
Current year		—	—
Prior years		25,039	240,661
Net claim payments during the current year		25,039	240,661
Reserve for unpaid hurricane losses at end of year	\$	204,891	\$ 408,430

The Fund's reserve for prior years' unpaid hurricane losses was unchanged at June 30, 2012 and was decreased by \$178.5 million in 2013 for prior years as a result of ongoing loss development and actuarial analyses.

**(6) Bonds Payable**

Long-term liability activity for the years ended June 30, 2013 and 2012 was as follows (in thousands):

<b>Long-term liabilities as of June 30, 2013</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>
Long-term bonds	\$ 1,300,920	\$ 2,000,000	\$ (300,000)	\$ 3,000,920

  

<b>Long-term liabilities as of June 30, 2012</b>	<b>Beginning balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance</b>
Long-term bonds	\$ 5,097,715	\$ —	\$ (3,796,795)	\$ 1,300,920

*Post-event Bonds* – The Fund paid loss reimbursements of \$3.86 billion to participating insurers for the calendar year 2004 hurricanes and is expecting to pay \$5.72 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net position as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of \$1,350,025,000 during the year ended June 30, 2006. The funding for these bonds comes from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical

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malpractice premiums. At June 30, 2013, none of these bonds were outstanding as they matured on July 1, 2012.

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of \$625 million. The Series 2008A Revenue Bonds proceeds and their investment earnings will be used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds comes from the same 1% emergency assessment mentioned above. The bonds are stated to mature without prior right of redemption on July 1 of the following years and bear interest at rates ranging from 4.125% to 5.000% as follows (in thousands):

	<u>Par outstanding</u>	<u>Interest rates</u>
Year:		
2013	\$ 66,865	4.125%
2013	233,135	5.000
2014	106,610	4.250
2014	<u>218,390</u>	5.000
	<u>\$ 625,000</u>	

In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of \$675.9 million. The Series 2010A Revenue Bonds proceeds and their investment earnings will be used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds comes from the same emergency assessment mentioned above. An Order was issued by the Florida Office of Insurance Regulation concurrently with the issuance of the Series 2010A Revenue Bonds to supersede the 1% emergency assessment with a 1.3% emergency assessment. The increased emergency assessment is effective for all policies issued or renewed on or after January 1, 2011. The bonds are stated to mature without prior right of redemption on July 1 of the following years and bear interest at rates ranging from 3.50% to 5.00% as follows (in thousands):

	<u>Par outstanding</u>	<u>Interest rates</u>
Year:		
2015	\$ 15,775	3.50%
2015	5,765	4.00
2015	320,915	5.00
2016	17,990	3.75
2016	<u>315,475</u>	5.00
	<u>\$ 675,920</u>	

*Pre-event Notes and Bonds* – To maximize the ability of the Fund to meet future obligations, the Corporation issued pre-event Series 2007A Floating Rate Notes in the amount of \$3.5 billion in October 2007. The proceeds from these notes were available to pay for losses incurred from future covered events. Investment earnings on these funds, as well as reimbursement premiums, if necessary, were used to

**FLORIDA HURRICANE CATASTROPHE FUND**

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pay the debt service requirements of these notes. The single maturity date for these notes was October 15, 2012.

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

	<b>Par outstanding</b>	<b>Interest rates</b>
Year:		
2016	\$ 500,000	1.298%
2018	500,000	2.107
2020	1,000,000	2.995
	\$ 2,000,000	

*Costs of Issuance* – Costs of issuance are capitalized and amortized over the life of the notes/bonds payable. In connection with the issuance of the Series 2013A Revenue Bonds, the Corporation incurred issuance costs of \$8,315,840, which have been capitalized and will be amortized over the life of the bonds payable. Expense for amortization of costs of issuance recognized in fiscal year ended June 30, 2013 was \$515,728, \$540,185, \$576,702, and \$286,753 for the Series 2007A Notes, Series 2008A Revenue Bonds, Series 2010A Revenue Bonds, and Series 2013A Revenue Bonds, respectively. Expense for amortization of costs of issuance recognized in fiscal year ended June 30, 2012 was \$1,165,869, \$2,062,910, \$540,185, and \$576,702 for the Series 2006A Revenue Bonds, Series 2007A Notes, Series 2008A Revenue Bonds, and Series 2010A Revenue Bonds, respectively.

**(7) Compensated Absences**

Compensated absences were as follows (in thousands):

Balance as of June 30, 2011	\$ 174
Increases	93
Decreases	(102)
Balance as of June 30, 2012	165*
Increases	104
Decreases	(103)
Balance as of June 30, 2013	\$ 166*

\* Includes long-term and current balances, of which \$46,255 and \$46,585 is estimated due within one year of June 30, 2013 and 2012, respectively.

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

June 30, 2013 and 2012

**(8) Premium Revenue**

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

	<b>Year ended June 30</b>	
	<b>2013</b>	<b>2012</b>
Contract year 2012	\$ 1,266,332	\$ —
Contract year 2011	(10,571)	1,326,295
Contract year 2010	(823)	5,895
Contract year 2009	(740)	(3,490)
Contract year 2008	—	(389)
Contract year 2007	—	(6,450)
	<u>\$ 1,254,198</u>	<u>\$ 1,321,861</u>

**(9) Related Parties**

The Fund paid the SBA approximately \$1,829,286 for the Fund and \$316,874 for the Corporation in the fiscal year ended June 30, 2013, and \$1,029,793 for the Fund and \$527,333 for the Corporation in the fiscal year ended June 30, 2012, for investment advisory services.

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

June 30, 2013 and 2012

**(10) 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, 2013 (in thousands):

<b>Assets</b>	<b>Combined</b>	<b>Florida Hurricane Catastrophe Fund</b>	<b>State Board of Administration Finance Corporation</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Current assets:			
Cash and cash equivalents	\$ 138	\$ 1	\$ 137
Short-term investments	10,080,297	7,235,678	2,844,619
Emergency assessment funds receivable	135,015	—	135,015
Accrued interest	2,328	1,419	909
Premium receivable, net	453	453	—
Total current assets	<u>10,218,231</u>	<u>7,237,551</u>	<u>2,980,680</u>
Long-term assets:			
Long-term investments	1,834,021	1,436,953	397,068
Unamortized bond issuance costs	10,299	—	10,299
Capital assets, net of accumulated depreciation	5	5	—
Total long-term assets	<u>1,844,325</u>	<u>1,436,958</u>	<u>407,367</u>
Total assets	<u>\$ 12,062,556</u>	<u>\$ 8,674,509</u>	<u>\$ 3,388,047</u>

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

June 30, 2013 and 2012

The following table provides the condensed combining liabilities and net position information of the Fund as of June 30, 2013 (in thousands):

<b>Liabilities and Net Position</b>	<b>Combined</b>	<b>Florida Hurricane Catastrophe</b>	<b>State Board of Administration Finance Corporation</b>
	<u>          </u>	<u>          </u>	<u>          </u>
Current liabilities:			
Hurricane losses:			
Unpaid hurricane losses	\$ 204,891	\$ 204,891	\$ —
Losses Payable	2,054	2,054	—
Accrued expenses	998	931	67
Bonds payable	300,000	—	300,000
Payable for securities purchased	200,000	200,000	—
Accrued bond interest expense	40,444	—	40,444
Total current liabilities	<u>748,387</u>	<u>407,876</u>	<u>340,511</u>
Long-term liabilities:			
Bonds payable	3,018,786	—	3,018,786
Compensated absences, net of current portion	120	120	—
Total long-term liabilities	<u>3,018,906</u>	<u>120</u>	<u>3,018,786</u>
Total liabilities	<u>3,767,293</u>	<u>407,996</u>	<u>3,359,297</u>
Net position:			
Unrestricted	8,295,236	8,266,486	28,750
Net investment in capital assets	5	5	—
Restricted for hurricane mitigation	22	22	—
Total net position	<u>8,295,263</u>	<u>8,266,513</u>	<u>28,750</u>
Total liabilities and net position	<u>\$ 12,062,556</u>	<u>\$ 8,674,509</u>	<u>\$ 3,388,047</u>

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

June 30, 2013 and 2012

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the year ended June 30, 2013 (in thousands):

	<u>Combined</u>	<u>Florida Hurricane Catastrophe Fund</u>	<u>State Board of Administration Finance Corporation</u>
Operating revenues:			
Net premium revenue	\$ 1,254,198	\$ 1,254,198	\$ —
Net interest on premium adjustments	7	7	—
Net interest on loss disbursement adjustments/advances	8	8	—
Other	1,667	1,667	—
Total operating revenues	<u>1,255,880</u>	<u>1,255,880</u>	<u>—</u>
Operating expenses:			
Hurricane losses	(178,500)	(178,500)	—
Administrative and actuarial fees	2,405	2,405	—
Other professional fees	1,082	1,069	13
Personnel expenses	1,221	1,221	—
Depreciation	3	3	—
Other	255	227	28
Total operating expenses	<u>(173,534)</u>	<u>(173,575)</u>	<u>41</u>
Operating income (loss)	<u>1,429,414</u>	<u>1,429,455</u>	<u>(41)</u>
Nonoperating revenue (expense):			
Investment income	39,619	36,467	3,152
Investment advisor fees	(2,146)	(1,829)	(317)
Emergency assessment revenue	490,008	—	490,008
Emergency assessment interest revenue	3	—	3
Custodian and bond trustee fees	(3)	(2)	(1)
Bond interest expense	(74,154)	—	(74,154)
Amortization of bond issuance costs	(1,919)	—	(1,919)
Total nonoperating revenue	<u>451,408</u>	<u>34,636</u>	<u>416,772</u>
Income before transfers	<u>1,880,822</u>	<u>1,464,091</u>	<u>416,731</u>
Transfers from (to) component units	—	23,810	(23,810)
Transfers to other funds	(10,000)	(10,000)	—
Total transfers	<u>(10,000)</u>	<u>13,810</u>	<u>(23,810)</u>
Change in net position	1,870,822	1,477,901	392,921
Net position at beginning of year	6,424,441	6,788,612	(364,171)
Net position at end of year	<u>\$ 8,295,263</u>	<u>\$ 8,266,513</u>	<u>\$ 28,750</u>

**FLORIDA HURRICANE CATASTROPHE FUND**

Notes to Combined Financial Statements

June 30, 2013 and 2012

The following table provides the condensed combining cash flows information of the Fund for the year ended June 30, 2013 (in thousands):

	<u>Combined</u>	<u>Florida Hurricane Catastrophe Fund</u>	<u>State Board of Administration Finance Corporation</u>
Operating activities			
Premium received	\$ 1,256,788	\$ 1,256,788	\$ —
Hurricane losses paid	(21,808)	(21,808)	—
Net interest on loss disbursements and adjustments	8	8	—
Other	1,667	1,667	—
Administrative and actuarial fees	(2,264)	(2,264)	—
Other professional fees	(1,124)	(1,111)	(13)
Personnel expenses	(1,220)	(1,220)	—
Other operating expenses	(224)	(196)	(28)
Net cash provided/(used) by operating activities	<u>1,231,823</u>	<u>1,231,864</u>	<u>(41)</u>
Investing activities			
Purchases of investments	(334,739,965)	(254,763,674)	(79,976,291)
Sales and maturities of investments	334,908,246	253,499,739	81,408,507
Interest received	24,393	20,029	4,364
Investment advisor fees	(2,083)	(1,760)	(323)
Custodian and bond trustee fees	(3)	(2)	(1)
Net cash provided/(used) by investing activities	<u>190,588</u>	<u>(1,245,668)</u>	<u>1,436,256</u>
Financing from noncapital activities			
Transfers to other funds	(10,000)	13,810	(23,810)
Emergency assessments funds received	475,494	—	475,494
Emergency assessments interest received	4	—	4
Cash received at bond issuance	1,993,049	—	1,993,049
Bond principal paid	(3,796,795)	—	(3,796,795)
Bond interest paid	(82,832)	—	(82,832)
Bond cost of issuance	(1,355)	—	(1,355)
Net cash provided/(used) by financing from noncapital activities	<u>(1,422,435)</u>	<u>13,810</u>	<u>(1,436,245)</u>
Financing from capital activity			
Purchases of capital assets	<u>(5)</u>	<u>(5)</u>	<u>—</u>
Net increase/(decrease) in cash and cash equivalents	<u>(29)</u>	<u>1</u>	<u>(30)</u>
Net position at beginning of year	<u>167</u>	<u>—</u>	<u>167</u>
Net position at end of year	<u>\$ 138</u>	<u>\$ 1</u>	<u>\$ 137</u>



KPMG LLP  
4200 Wells Fargo Center  
90 South Seventh Street  
Minneapolis, MN 55402

**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 net position as of June 30, 2013, and the related combined statement of revenues, 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 October 11, 2013.

**Internal Control Over Financial Reporting**

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

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

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



### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

**KPMG LLP**

Minneapolis, Minnesota  
October 11, 2013