FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements

June 30, 2014 and 2013

(With Independent Auditors' Report Thereon)

FLORIDA HURRICANE CATASTROPHE FUND

Table of Contents

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), a proprietary fund of the State of Florida, as of and for the year ended June 30, 2014 and 2013, 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.

Auditors' 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2014 and 2013, and the changes in financial position, and its cash flows thereof for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Emphasis of Matter Regarding Adoption of a New Accounting Pronouncement

As discussed in note 1 to the combined financial statements, the Fund adopted new accounting guidance in its method of accounting for debt issuance costs due to the adoption of GASB 65 as of June 30, 2014 and 2013 and for the years then ended. Our opinion is not modified with respect to this matter.

Emphasis of Matter Regarding Fund Financial Statements

As discussed in note 1, the combined financial statements present only the Fund and do not purport to, and do not, present the financial position of the State of Florida as of June 30, 2014 and 2013, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–7 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 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 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 10, 2014 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 10, 2014

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, 2014 and 2013. Please read this information in conjunction with the Fund's combined financial statements and notes to the combined financial statements.

Overview of the Financial Statements

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

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

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

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

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

Financial Summary

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

		June 30		
		2014	**2013 (As restated)**	**2012 (As restated)**
Current assets	$	11,957,961	10,218,231	10,925,733
Long-term assets		1,412,556	1,834,026	1,068,844
Total assets	$	13,370,517	12,052,257	11,994,577
Current liabilities	$	523,902	748,387	4,246,787
Long-term liabilities		2,686,394	3,018,906	1,327,252
Total liabilities		3,210,296	3,767,293	5,574,039
Net position:				
Unrestricted		10,160,217	8,284,937	6,420,512
Net investment in capital assets		4	5	4
Restricted for hurricane mitigation		—	22	22
Total net position		10,160,221	8,284,964	6,420,538
Total liabilities and net position	$	13,370,517	12,052,257	11,994,577

(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		
	2014	**2013 (As restated)**	**2012 (As restated)**
Net premium revenue	$ 1,269,709	1,254,198	1,321,861
Net interest on premium adjustments	36	7	439
Net interest on loss disbursement adjustments/advances	—	8	5
Other	41	1,667	41
Total operating revenues	1,269,786	1,255,880	1,322,346
Total nonoperating revenue	434,479	445,012	391,813
Total revenues	1,704,265	1,700,892	1,714,159
Hurricane losses (reduction of losses)	(186,004)	(178,500)	—
Other operating expenses	5,010	4,963	4,687
Depreciation	2	3	3
Total expenses	(180,992)	(173,534)	4,690
Income before transfers	1,885,257	1,874,426	1,709,469
Transfers to other state agencies	(10,000)	(10,000)	(10,000)
Change in net position	1,875,257	1,864,426	1,699,469
Net position at beginning of year (note 1)	8,284,964	6,420,538	4,721,069
Net position at end of year	$ 10,160,221	8,284,964	6,420,538

Financial Highlights

- The Corporation had $372.85 million on June 30, 2014 in cash on deposit with its Master Trustee, a financial institution, pursuant to the Master Trust Indenture between the Corporation and the Trustee, that was used to pay the debt service on the Revenue Bonds on July 1, 2014, which was the following day.
- From 2012 to 2013, the decrease in current liabilities is primarily the result of the maturity of the Series 2007A Pre-event Notes in the amount of $3.50 billion, which became due and were 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.

- The decrease in restricted for hurricane mitigation from 2013 to 2014 is the result of the transfer of $22.4 thousand from a prior year appropriation to unrestricted. Based on a review of the Florida Legislature's appropriations process, it was determined that it was not necessary to carry a restricted item reflecting past appropriations activity.
- The decrease in net premium revenue in 2013 followed by the increase in 2014 was primarily the result of two items. The Fund's modeled mandatory coverage rates increased 14.79% and 5.25%, respectively, in 2013 and 2014. However, continued decreases in the optional Temporary Increased Coverage Limits (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 in 2013 resulting in an overall decrease in premium revenue and partially offset the increase in mandatory premiums in 2014.
- 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.
- Total nonoperating revenue includes investment income, which was $39.79 million for the year ended June 30, 2012, $39.62 million for the year ended June 30, 2013, and $26.76 million for the year ended June 30, 2014. The decrease in 2014 was due to the decline in interest rates. The primary goal of the Fund's Investment Policy Statement (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 nonoperating revenue also includes emergency assessment revenue. In order to reimburse participating insurers for losses occurring in 2005, the Fund, through the Corporation, issued tax-exempt revenue bonds in 2006 in the amount of $1.35 billion, which matured on July 1, 2012, an additional $625.00 million in 2008, which matured on July 1, 2014, and an additional $675.92 million in 2010. The funding source for the repayment of these bonds was from an emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. The assessment was initially 1.0% on all policies issued or renewed on or after January 1, 2007 and was increased to 1.3% on January 1, 2011.

(Continued)

- For losses from hurricanes occurring in 2004 and 2005, as of June 30, 2014, the Fund reimbursed participating insurers $9.40 billion with $3.86 billion for 2004 and $5.54 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 and $186.00 million in 2014 for the prior years' storms due to estimates revised downward as a result of ongoing favorable loss development, actuarial analysis, and loss settlement.
- At June 30, 2014, 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, 2014 and 2013

(In thousands)

Assets		2014	2013 (As restated)
Current assets:			
Cash and cash equivalents	$	374,748	138
Short-term investments		11,443,010	10,080,297
Emergency assessment funds receivable		138,285	135,015
Accrued interest		1,918	2,328
Premiums receivable, net		—	453
Total current assets		11,957,961	10,218,231
Long-term assets:			
Long-term investments		1,412,552	1,834,021
Capital assets, net of accumulated depreciation of $48 and $61 for June 30, 2014 and 2013, respectively		4	5
Total long-term assets		1,412,556	1,834,026
Total assets	$	13,370,517	12,052,257

See accompanying notes to combined financial statements.

Liabilities and Net Position		2014	2013 (As restated)
Current liabilities:			
Hurricane losses:			
Unpaid hurricane losses	$	—	204,891
Losses payable		—	2,054
Premium refunds payable		145	—
Accrued expenses		921	998
Bonds payable		325,000	300,000
Payable for securities purchased		149,985	200,000
Accrued bond interest expense		47,851	40,444
Total current liabilities		523,902	748,387
Long-term liabilities:			
Bonds payable		2,686,249	3,018,786
Compensated absences, net of current portion		145	120
Total long-term liabilities		2,686,394	3,018,906
Total liabilities		3,210,296	3,767,293
Net position:			
Unrestricted		10,160,217	8,284,937
Net investment in capital assets		4	5
Restricted for hurricane mitigation		—	22
Total net position		10,160,221	8,284,964
Total liabilities and net position	$	13,370,517	12,052,257

FLORIDA HURRICANE CATASTROPHE FUND

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

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013 (As restated)
Operating revenues:			
Net premium revenue	$	1,269,709	1,254,198
Net interest on premium adjustments		36	7
Net interest on loss disbursement adjustments/advances		—	8
Other		41	1,667
Total operating revenues		1,269,786	1,255,880
Operating expenses:			
Hurricane losses (reduction in losses)		(186,004)	(178,500)
Administrative and actuarial fees		2,420	2,405
Other professional fees		1,130	1,082
Personnel expenses		1,277	1,221
Depreciation		2	3
Other		183	255
Total operating expenses		(180,992)	(173,534)
Operating income		1,450,778	1,429,414
Nonoperating revenue (expense):			
Investment income		26,764	39,619
Investment advisor fees		(2,574)	(2,146)
Emergency assessment revenue		498,556	490,008
Emergency assessment interest revenue		6	3
Custodian and bond trustee fees		(107)	(3)
Bond interest expense		(88,166)	(74,154)
Bond issuance costs		—	(8,315)
Total nonoperating revenue		434,479	445,012
Income before transfers		1,885,257	1,874,426
Transfers to other state agencies		(10,000)	(10,000)
Change in net position		1,875,257	1,864,426
Net position at beginning of year		8,284,964	6,424,441
Adjustments to (decrease) beginning net position		—	(3,903)
Net position at beginning of year, as restated		8,284,964	6,420,538
Net position at end of year	$	10,160,221	8,284,964

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

		2014	2013
Operating activities:			
Premium received	$	1,270,342	1,256,788
Hurricane losses paid		(20,941)	(21,808)
Net interest on loss disbursements and adjustments		—	8
Other operating revenues		41	1,667
Administrative and actuarial fees		(2,513)	(2,264)
Other professional fees		(1,116)	(1,124)
Personnel expenses		(1,243)	(1,220)
Other operating expenses		(224)	(224)
Net cash provided by operating activities		1,244,346	1,231,823
Investing activities:			
Purchases of investments		(224,030,751)	(334,739,965)
Sales and maturities of investments		223,048,555	334,908,246
Interest received		18,110	24,393
Investment advisor fees		(2,551)	(2,083)
Custodian and bond trustee fees		(68)	(3)
Net cash (used) provided by investing activities		(966,705)	190,588
Financing from noncapital activities:			
Transfers to other state agencies		(10,000)	(10,000)
Emergency assessment funds received		495,269	475,494
Emergency assessment interest received		6	4
Cash received at bond issuance		—	1,993,049
Bond principal paid		(300,000)	(3,796,795)
Bond interest paid		(88,296)	(82,832)
Bond cost of issuance		(10)	(1,355)
Net cash provided (used) by financing from noncapital activities		96,969	(1,422,435)
Financing from capital activity:			
Purchases of capital assets		—	(5)
Net increase (decrease) in cash and cash equivalents		374,610	(29)
Cash and cash equivalents at beginning of year		138	167
Cash and cash equivalents at end of year	$	374,748	138

See accompanying notes to combined financial statements.

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2014 and 2013

(In thousands)

	2014	2013
Operating income	$ 1,450,778	1,429,414
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2	3
(Increase) decrease in accounts receivable	—	6
(Increase) decrease in premiums receivable, net	453	2,583
Increase (decrease) in premium refunds payable	145	—
Increase (decrease) in unpaid hurricane losses	(204,891)	(203,539)
Increase (decrease) in losses payable	(2,054)	2,054
(Increase) decrease in excess loss payments receivable	—	1,177
Increase (decrease) in accrued expenses	(87)	125
Net cash provided by operating activities	$ 1,244,346	1,231,823

See accompanying notes to combined financial statements.

(1) Organization

(a) Business

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

The Fund also includes the accounts of its blended component unit, the State Board of Administration Finance Corporation (the Corporation), 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.

(Continued)

(c) Adoption of New Accounting Pronouncement

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which reclassifies certain items that were previously reported as assets and liabilities as deferred outflows of resources, deferred inflows of resources, or current period outflows and inflows. The requirements of this statement were effective for the Fund for the year ended June 30, 2014. GASB 65 requires debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred. Previously, these costs were amortized over the life of the related debt issuance. The Fund implemented GASB 65 in fiscal year 2014 and restated its fiscal year 2013 combined financial statements as follows:

		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Statements of revenues, expenses, and changes in net position:				
Change in net position for the period June 30, 2013, as previously reported	$	1,870,822	1,477,901	392,921
Amortization of bond issuance costs		1,919	—	1,919
Bond issuance expense for 2013A issue		(8,315)	—	(8,315)
Change in net position for the period ended June 30, 2013, as restated	$	1,864,426	1,477,901	386,525
Statement of net position:				
Net position at June 30, 2012, as previously reported	$	6,424,441	6,788,612	(364,171)
Unamortized bond issuance costs		(3,903)	—	(3,903)
Net position at June 30, 2012, as restated	$	6,420,538	6,788,612	(368,074)
Net position at June 30, 2013, as previously reported	$	8,295,263	8,266,513	28,750
Unamortized bond issuance costs		(10,299)	—	(10,299)
Net position at June 30, 2013, as restated	$	8,284,964	8,266,513	18,451

(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 (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.

(e) Risk Management

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

(2) Significant Accounting Policies

(a) Measurement Focus

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

(b) Investments

The Fund's cash is invested according to an Investment Policy Statement, which sets forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The primary goal of the policy is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. These investments are recorded at fair value and, the fair values are primarily obtained from independent quoted market prices. No investments were recorded at amortized cost as of June 30, 2014 and 2013. 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, 2014 and 2013, 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, 2014 and 2013, 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 recognized as an expense in the period incurred.

(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, $53,154 in 2014 and $46,255 in 2013, 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 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.

(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, 2014, the interest rate was 0.20% for overpayments of premium and 5.20% for underestimated payments. For the contract year ended May 31, 2013, the interest rate was 0.39% for overpayments of premium and 5.39% for underestimated payments.

(n) Hurricane Losses

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

(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 2014 and 2013, $10,000,000 was appropriated from the Fund. In fiscal year 2013, $22,400 was restricted in the June 30, 2013 net position for hurricane mitigation. Based on a review of the Florida Legislature's appropriations process, it was determined that it was not necessary to carry a restricted item reflecting past appropriations activity; therefore, in fiscal year 2014, the $22,400 was transferred to unrestricted in the June 30, 2014 net position.

(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 and 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.

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

(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, 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):

	June 30	
	2014	**2013**
Short-term investments:		
Certificates of deposit	$ —	425,069
Commercial paper	5,275,541	4,575,625
Money market funds	787	33,414
Repurchase agreements	2,514,866	1,800,782
U.S. Treasury bills	49,948	216,000
U.S. Treasury bonds, notes and SLGS	919,523	1,109,734
Federal agencies – discount notes	482,228	1,177,857
Federal agencies – unsecured	1,789,102	591,865
Domestic corporate bonds and notes, fixed rate	24,437	—
Domestic corporate bonds and notes, variable rate	236,587	100,014
International corporate bonds and notes, variable rate	149,991	—
International bonds – government agency, fixed rate	—	49,937
Total short-term investments	$ 11,443,010	10,080,297
Long-term investments:		
U.S. Treasury bonds, notes and SLGS	$ 34,824	70,193
Federal agencies – unsecured	1,371,789	1,742,158
Domestic nongovernment mortgage-backed securities	5,939	21,670
Total long-term investments	$ 1,412,552	1,834,021

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

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

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

As of June 30, 2013, 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	$	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	$	11,914,318	
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.

(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.

(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, 2014 (in thousands):

Investment type		Fair value	Credit quality ratings S & P	Credit quality ratings Moody's
Commercial paper	$	5,200,541	A-1	P-1
Commercial paper*		75,000	Not Rated	Not Rated
Money market funds		787	AAAm	Aaa-mf
Repurchase agreements		2,514,866	Not Rated	Not Rated
U.S. Treasuries		1,004,295	Not Rated	Not Rated
Federal agencies – discount notes		482,228	Not Rated	Not Rated
Federal agencies – unsecured		1,911,232	AA	Aaa
Federal agencies – unsecured		125,030	AA	Not Rated
Federal agencies – unsecured		1,124,629	Not Rated	Not Rated
Domestic corporate bonds and notes		179,973	AA	A3
Domestic corporate bonds and notes		28,998	A	A1
Domestic corporate bonds and notes		27,616	A	A2
Domestic corporate bonds and notes		24,437	A	A3
Domestic nongovernment mortgage-backed securities		5,939	Not Rated	Not Rated
International corporate bonds and notes		149,991	A-1	P-1
	$	12,855,562		

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

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

Investment type		Fair value	Credit quality ratings S & P	Credit quality ratings Moody's
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
	$	11,914,318		

* 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.

(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). Single issuer has been interpreted to be each separate issuer and not the aggregate of all affiliated issuers. However, where total holdings by affiliated issuers represented more than 3% of the total portfolio amortized cost the amounts are provided in these notes for informational purposes. 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, 2014, securities issued by Bank of America were in compliance with the Investment Policy Statement and represented 3.30% of the portfolio's total amortized cost. The fair value of Bank of America holdings at June 30, 2014 was $424,998,000, held in repurchase agreements issued by Bank of America. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2014.

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

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

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

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

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

(Continued)

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

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

At June 30, 2013, securities issued by Bank of America were in compliance with the Investment Policy Statement and represented 3.36% of the portfolio's total amortized cost. The fair 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.

At June 30, 2013, securities issued by Bank of Nova Scotia were in compliance with the Investment Policy Statement and represented 9.22% of the portfolio's total amortized cost. The fair 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 were in compliance with the Investment Policy Statement and represented 1.26% of the portfolio's amortized cost. Holdings in Bank of New Zealand, a subsidiary of National Australia Bank, were in compliance with the Investment Policy Statement and 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. The fair 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 were in compliance with the Investment Policy Statement and represented 2.51% of the portfolio's amortized cost. Holdings in Bank of Tokyo-Mitsubishi UFJ Ltd were in compliance with the Investment Policy Statement and represented 2.44% of the portfolio's amortized cost. The combined holdings in Mitsubishi UFJ Financial group totaled 4.95% of the portfolio's amortized cost. The fair 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.

(Continued)

At June 30, 2013, the Fund held $1,395,927,637 in U.S. Treasuries, which was in compliance with the Investment Policy Statement and 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 were reinvested in state and local government series securities (SLGS) as soon as the federal government allowed. 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 was in compliance with the Investment Policy Statement and represented 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 were as follows (in thousands):

Investment type	Fair value	Percentage of portfolio
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

(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, 2014 and 2013, all investments held were either insured or registered and held by the Fund or its agent in the Fund's name.

(e) Foreign Currency Risk

There was no exposure to foreign currency risk during the fiscal years ended June 30, 2014 and 2013.

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2014 and 2013 is as follows (in thousands):

		Equipment	Accumulated depreciation	Net
Balance as of June 30, 2012	$	66	(62)	4
Additions and depreciation expense		4	(3)	1
Sales or disposals		(4)	4	—
Balance as of June 30, 2013		66	(61)	5
Additions and depreciation expense		1	(2)	(1)
Sales or disposals		(15)	15	—
Balance as of June 30, 2014	$	52	(48)	4

(5) Hurricane Losses

The State of Florida was not hit by any hurricanes during the 2006 to 2013 hurricane seasons.

The State of Florida was hit by four hurricanes during July through October of 2005 (fiscal year 2006). As of June 30, 2014, no hurricane losses remain unpaid. As of June 30, 2013, there were hurricane losses remaining only from the Category 3 Hurricane Wilma on October 24, 2005.

The State of Florida was hit by four hurricanes during August and September 2004 (fiscal year 2005). As of June 30, 2014 and 2013, no hurricane losses remain unpaid.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2014 and 2013 (in thousands):

		Year ended June 30	
		2014	2013
Reserve for unpaid hurricane losses at beginning of year	$	204,891	408,430
Provision for hurricane losses occurring in:			
Current year		—	—
Prior years		(186,004)	(178,500)
Net incurred losses during the current year		(186,004)	(178,500)
Payments for claims occurring in:			
Current year		—	—
Prior years		18,887	25,039
Net claim payments during the current year		18,887	25,039
Reserve for unpaid hurricane losses at end of year	$	—	204,891

(Continued)

The Fund's reserve for prior years' unpaid hurricane losses was decreased at June 30, 2014 and 2013 by $186.0 million and $178.5 million respectively for prior years as a result of ongoing loss development, actuarial analyses, and loss settlement. The final commutation of losses with participating insurers was concluded in May 2014.

(6) Bonds Payable

Long-term liability activity for the years ended June 30, 2014 and 2013 was as follows (in thousands):

Long-term liabilities as of June 30, 2014		Beginning balance	Additions	Reductions	Ending balance
Long-term bonds	$	3,000,920	—	(325,000)	2,675,920

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

Post-event Bonds – The Fund paid loss reimbursements of $3.86 billion to participating insurers for the calendar year 2004 hurricanes and paid $5.54 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net position as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of $1,350,025,000 during the year ended June 30, 2006. The funding for these bonds 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 malpractice premiums. At June 30, 2014, none of these bonds were outstanding as they matured on July 1, 2012.

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of $625 million. The Series 2008A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds 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 4.25% to 5.00% as follows (in thousands):

		Par outstanding	Interest rates
Year:			
2014	$	106,610	4.25%
2014		218,390	5.00
	$	325,000	

In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of $675.9 million. The Series 2010A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds 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):

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

* Subsequent to the closing of the fiscal period, a legal defeasance of the bonds was executed on July 11, 2014 in accordance with the master trust indenture. See note 10 for additional discussion.

Pre-event Notes and Bonds – 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 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):

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

(7) Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2012	$	165
Increases		104
Decreases		(103)
Balance as of June 30, 2013		166*
Increases		125
Decreases		(93)
Balance as of June 30, 2014	$	198*

* Includes long-term and current balances, of which $53,154 and $46,255 is estimated due within one year of June 30, 2014 and 2013, respectively.

(8) Premium Revenue

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

		Year ended June 30	
		2014	**2013**
Contract year 2013	$	1,270,240	—
Contract year 2012		(411)	1,266,332
Contract year 2011		(120)	(10,571)
Contract year 2010		—	(823)
Contract year 2009		—	(740)
	$	1,269,709	1,254,198

(9) Related Parties

The Fund paid the SBA approximately $2,116,795 for the Fund and $456,830 for the Corporation in the fiscal year ended June 30, 2014, and $1,829,286 for the Fund and $316,874 for the Corporation in the fiscal year ended June 30, 2013, for investment advisory services.

(10) Subsequent Events

A legal defeasance of the Series 2010A Revenue Bonds was executed on July 11, 2014 in accordance with the Master Trust Indenture; therefore, the bonds are no longer outstanding as of that date. With the defeasance of the Series 2010A Revenue Bonds and no outstanding hurricane losses, the Florida Office of Insurance Regulation issued Orders on July 21, 2014 establishing that for all policies issued or renewed on or after January 1, 2015 the emergency assessment is 0.0%.

(11) 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, 2014 (in thousands):

Assets		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Current assets:				
Cash and cash equivalents	$	374,748	1	374,747
Short-term investments		11,443,010	8,693,523	2,749,487
Emergency assessment funds receivable		138,285	—	138,285
Accrued interest		1,918	1,468	450
Premium receivable, net		—	—	—
Total current assets		11,957,961	8,694,992	3,262,969
Long-term assets:				
Long-term investments		1,412,552	1,176,067	236,485
Capital assets, net of accumulated depreciation		4	4	—
Total long-term assets		1,412,556	1,176,071	236,485
Total assets	$	13,370,517	9,871,063	3,499,454

(Continued)

The following table provides the condensed combining liabilities and net position information of the Fund as of June 30, 2014 (in thousands):

Liabilities and Net Position		Combined	Florida Hurricane Catastrophe	State Board of Administration Finance Corporation
Current liabilities:				
Hurricane losses:				
Unpaid hurricane losses	$	—	—	—
Losses payable		—	—	—
Premium refunds payable		145	145	—
Accrued expenses		921	876	45
Bonds payable		325,000	—	325,000
Payable for securities purchased		149,985	149,985	—
Accrued bond interest expense		47,851	—	47,851
Total current liabilities		523,902	151,006	372,896
Long-term liabilities:				
Bonds payable		2,686,249	—	2,686,249
Compensated absences, net of current portion		145	145	—
Total long-term liabilities		2,686,394	145	2,686,249
Total liabilities		3,210,296	151,151	3,059,145
Net position:				
Unrestricted		10,160,217	9,719,908	440,309
Net investment in capital assets		4	4	—
Total net position		10,160,221	9,719,912	440,309
Total liabilities and net position	$	13,370,517	9,871,063	3,499,454

(Continued)

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the year ended June 30, 2014 (in thousands):

		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating revenues:				
Net premium revenue	$	1,269,709	1,269,709	—
Net interest on premium adjustments		36	36	—
Net interest on loss disbursement adjustments/advances		—	—	—
Other		41	41	—
Total operating revenues		1,269,786	1,269,786	—
Operating expenses:				
Hurricane losses (reduction in losses)		(186,004)	(186,004)	—
Administrative and actuarial fees		2,420	2,420	—
Other professional fees		1,130	1,119	11
Personnel expenses		1,277	1,277	—
Depreciation		2	2	—
Other		183	160	23
Total operating expenses		(180,992)	(181,026)	34
Operating income (loss)		1,450,778	1,450,812	(34)
Nonoperating revenue (expense):				
Investment income		26,764	21,291	5,473
Investment advisor fees		(2,574)	(2,117)	(457)
Emergency assessment revenue		498,556	—	498,556
Emergency assessment interest revenue		6	—	6
Custodian and bond trustee fees		(107)	(88)	(19)
Bond interest expense		(88,166)	—	(88,166)
Total nonoperating revenue		434,479	19,086	415,393
Income before transfers		1,885,257	1,469,898	415,359
Transfers from (to) component units		—	(6,499)	6,499
Transfers to other state agencies		(10,000)	(10,000)	—
Total transfers		(10,000)	(16,499)	6,499
Change in net position		1,875,257	1,453,399	421,858
Net position at beginning of year (note 1)		8,284,964	8,266,513	18,451
Net position at end of year	$	10,160,221	9,719,912	440,309

The following table provides the condensed combining cash flows information of the Fund for the year ended June 30, 2014 (in thousands):

		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating activities				
Premium received	$	1,270,342	1,270,342	—
Hurricane losses paid		(20,941)	(20,941)	—
Net interest on loss disbursements and adjustments		—	—	—
Other operating revenues		41	41	—
Administrative and actuarial fees		(2,513)	(2,513)	—
Other professional fees		(1,116)	(1,106)	(10)
Personnel expenses		(1,243)	(1,243)	—
Other operating expenses		(224)	(199)	(25)
Net cash provided/(used) by operating activities		1,244,346	1,244,381	(35)
Investing activities				
Purchases of investments		(224,030,751)	(190,471,737)	(33,559,014)
Sales and maturities of investments		223,048,555	189,234,037	33,814,518
Interest received		18,110	11,967	6,143
Investment advisor fees		(2,551)	(2,094)	(457)
Custodian and bond trustee fees		(68)	(55)	(13)
Net cash provided/(used) by investing activities		(966,705)	(1,227,882)	261,177
Financing from noncapital activities				
Transfers to other state agencies		(10,000)	(16,499)	6,499
Emergency assessments funds received		495,269	—	495,269
Emergency assessments interest received		6	—	6
Cash received at bond issuance		—	—	—
Bond principal paid		(300,000)	—	(300,000)
Bond interest paid		(88,296)	—	(88,296)
Bond cost of issuance		(10)	—	(10)
Net cash provided/(used) by financing from noncapital activities		96,969	(16,499)	113,468
Financing from capital activity				
Purchases of capital assets		—	—	—
Net increase in cash and cash equivalents		374,610	—	374,610

		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Cash and cash equivalents at beginning of year	$	138	1	137
Cash and cash equivalents at end of year	$	374,748	1	374,747

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 statements of net position as of June 30, 2014 and 2013, and the related combined statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the combined financial statements, and have issued our report thereon dated October 10, 2014.

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 10, 2014