KPMG

FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements and
Other Financial Information

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

FLORIDA HURRICANE CATASTROPHE FUND

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KPMG LLP
4200 Wells Fargo Center
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Independent Auditors' Report

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

We have audited the accompanying combined statements of net assets of the Florida Hurricane Catastrophe Fund (the Fund) as of June 30, 2012 and 2011, and the related combined statements of revenue, expenses, and changes in net assets, combined statements of cash flows, and combined reconciliations of operating income to net cash provided by operating activities (hereafter referred to as combined financial statements) for the years then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing 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 over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the combined financial statements present only the Fund and do not purport to, and do not, fairly present the financial position of the State Board of Administration of Florida, the changes in its financial position, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

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, 2012 and 2011, and the respective changes in its financial position and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2012, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

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 combined 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.

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The June 30, 2012 combining information on pages 26 to 28 are presented for purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The June 30, 2012 combining financial statements has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the June 30, 2012 combining financial statements is fairly stated in all material respects in relation to the combined financial statements as a whole.

KPMG LLP

October 12, 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, 2012 and 2011. 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 assets, the combined statements of revenues, expenses, and changes in net assets, and the combined statements of cash flows*. These statements represent the financial position of the Fund, which includes the Florida Hurricane Catastrophe Fund Finance Corporation (the 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 other financial information section of this report.

The *combined statements of net assets* 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 assets of the Fund.

The *combined statements of revenues, expenses, and changes in net assets* present all revenues and expenses of the Fund occurring during the year resulting from operations and the effect of this activity on net assets. 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 *combined notes to the financial statements* provide additional information related to the data provided in the combined financial statements.

(Continued)

Financial Summary

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

	June 30		
	2012	**2011**	**2010**
Current assets	$ 10,925,733	$ 9,340,514	$ 8,754,966
Long-term assets	1,072,747	1,509,580	1,005,148
Total assets	$ 11,998,480	$ 10,850,094	$ 9,760,114
Current liabilities	$ 4,246,787	$ 985,287	$ 1,097,490
Long-term liabilities	1,327,252	5,135,489	5,432,425
Total liabilities	5,574,039	6,120,776	6,529,915
Net assets:			
Invested in capital assets, net of related debt	4	5	6
Unrestricted	6,424,415	4,729,291	3,230,171
Restricted for hurricane mitigation	22	22	22
Total net assets	6,424,441	4,729,318	3,230,199
Total liabilities and net assets	$ 11,998,480	$ 10,850,094	$ 9,760,114

(Continued)

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

	Year ended June 30		
	2012	**2011**	**2010**
Net premium revenue	$ 1,321,861	$ 1,308,877	$ 1,437,911
Net interest on premium adjustments	439	877	849
Net interest on loss disbursement adjustments/advances	5	2,544	5,182
Other	41	30	30
Total operating revenues	1,322,346	1,312,328	1,443,972
Total nonoperating revenue	387,467	312,435	302,528
Total revenues	1,709,813	1,624,763	1,746,500
Hurricane losses	—	110,000	250,000
Other operating expenses	4,687	5,641	5,465
Depreciation	3	3	2
Total expenses	4,690	115,644	255,467
Income before transfers	1,705,123	1,509,119	1,491,033
Transfers to other funds	(10,000)	(10,000)	(10,000)
Change in net assets	1,695,123	1,499,119	1,481,033
Net assets at beginning of year	4,729,318	3,230,199	1,749,166
Net assets at end of year	$ 6,424,441	$ 4,729,318	$ 3,230,199

Financial Highlights

- The increase in current liabilities and decrease in long-term liabilities includes the reclassification of the Series 2007A Pre-event Notes in the amount of $3.5 billion, which will become due/payable on October 15, 2012. This amount was included in long-term liabilities for fiscal years ended June 30, 2011 and 2010. It is included in current liabilities for fiscal year ended June 30, 2012.

- The increase in net premium revenue in 2012 was primarily the result of a 6% increase in the Fund's mandatory coverage rates (which includes a 4.55% increase attributable to the cash buildup factor as provided for in section 215.555, Florida Statutes), which was partially offset by the decrease in optional coverages available under Section 215.555, Florida Statutes, and selected by the insurers.

- Investment income included in "total nonoperating revenue" for the Fund was $80.04 million at June 30, 2010, $46.59 million at June 30, 2011, and $39.79 million at June 30, 2012. This decrease was due to the decline in interest rates and revisions to the Fund's Investment Policy Statement in 2011. 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.

(Continued)

- "Total nonoperating revenue" also includes emergency assessment revenue. In order to reimburse participating insurers for losses occurring in 2005, the Fund, through the Florida Hurricane Catastrophe Fund Finance Corporation, issued tax-exempt revenue bonds in 2006 in the amount of $1.35 billion, $625 million in 2008, and $675.9 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% 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, 2012, the Fund had reimbursed participating insurers over $9.3 billion. The total amount the Fund expects to pay is $9.76 billion, with $3.87 billion for 2004 and $5.89 billion for 2005. "Hurricane losses" expense includes $250 million in 2010, $110 million in 2011, and no additional hurricane loss expenses were recorded in 2012 for the prior years' storms due to estimates revised as a result of ongoing loss development and actuarial analyses.
- In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of $675.9 million, which are reported in long-term liabilities. Cash received at bond issuance included a premium of $40.2 million, which will be amortized against interest expense over the life of the bonds. 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 will come from an emergency assessment. An Order was issued by the Florida Office of Insurance Regulation concurrently with the Series 2010A Revenue Bonds issue to supersede the 1% emergency assessment already in place with a 1.3% emergency assessment.
- At June 30, 2012, 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 Assets

June 30, 2012 and 2011

(In thousands)

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 167	$ 136
Short-term investments	10,796,353	9,219,564
Emergency assessment funds receivable	120,485	115,283
Emergency assessment interest receivable	—	4
Accrued interest	4,509	2,888
Accounts receivable	6	—
Excess loss payments receivable	1,177	1,434
Premiums receivable, net	3,036	1,205
Total current assets	10,925,733	9,340,514
Long-term assets:		
Long-term investments	1,068,840	1,501,326
Unamortized bond issuance costs	3,903	8,249
Capital assets, net of accumulated depreciation of $62 and $77 for June 30, 2012 and 2011, respectively	4	5
Total long-term assets	1,072,747	1,509,580
Total assets	$ 11,998,480	$ 10,850,094

See accompanying notes to combined financial statements.

Liabilities and Net Assets	2012	2011
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	$ 408,430	$ 649,091
Losses payable	—	4,713
Premium refunds payable	—	266
Accrued expenses	787	800
Bonds payable	3,796,795	282,660
Accrued bond interest expense	40,775	47,757
Total current liabilities	4,246,787	985,287
Long-term liabilities:		
Bonds payable	1,300,920	5,097,715
Premiums on bonds payable	26,213	37,647
Compensated absences, net of current portion	119	127
Total long-term liabilities	1,327,252	5,135,489
Total liabilities	5,574,039	6,120,776
Net assets:		
Unrestricted	6,424,415	4,729,291
Invested in capital assets, net of related debt	4	5
Restricted for hurricane mitigation	22	22
Total net assets	6,424,441	4,729,318
Total liabilities and net assets	$ 11,998,480	$ 10,850,094

FLORIDA HURRICANE CATASTROPHE FUND

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

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Operating revenues:		
Net premium revenue	$ 1,321,861	$ 1,308,877
Net interest on premium adjustments	439	877
Net interest on loss disbursement adjustments/advances	5	2,544
Other	41	30
Total operating revenues	1,322,346	1,312,328
Operating expenses:		
Hurricane losses	—	110,000
Administrative and actuarial fees	2,246	2,486
Other professional fees	1,098	1,759
Personnel expenses	1,152	1,151
Depreciation	3	3
Other	191	245
Total operating expenses	4,690	115,644
Operating income	1,317,656	1,196,684
Nonoperating revenue (expense):		
Investment income	39,788	46,590
Investment advisor fees	(1,585)	(1,381)
Emergency assessment revenue	456,790	386,670
Emergency assessment interest revenue	6	7
Custodian and bond trustee fees	(5)	(5)
Bond interest expense	(103,181)	(115,100)
Amortization of bond issuance costs	(4,346)	(4,346)
Total nonoperating revenue	387,467	312,435
Income before transfers	1,705,123	1,509,119
Transfers to other funds	(10,000)	(10,000)
Change in net assets	1,695,123	1,499,119
Net assets at beginning of year	4,729,318	3,230,199
Net assets at end of year	$ 6,424,441	$ 4,729,318

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Operating activities:		
Premium received	$ 1,320,203	$ 1,318,493
Hurricane losses paid	(245,117)	(241,945)
Net interest on loss disbursements and adjustments	5	2,544
Other	41	30
Administrative and actuarial fees	(2,276)	(2,479)
Other professional fees	(1,086)	(1,772)
Personnel expenses	(1,164)	(1,146)
Other operating expenses	(199)	(238)
Net cash provided by operating activities	1,070,407	1,073,487
Investing activities:		
Purchases of investments	(399,532,273)	(446,807,416)
Sales and maturities of investments	398,403,776	445,742,296
Interest received	22,360	34,304
Investment advisor fees	(1,573)	(1,365)
Custodian and bond trustee fees	(5)	(5)
Net cash used by investing activities	(1,107,715)	(1,032,186)
Financing from noncapital activities:		
Transfers to other funds	(10,000)	(10,000)
Emergency assessment funds received	451,587	361,194
Emergency assessment interest received	10	4
Bond principal paid	(282,660)	(269,485)
Bond interest paid	(121,597)	(122,919)
Net cash provided by (used by) financing from noncapital activities	37,340	(41,206)
Financing from capital activity:		
Purchases of capital assets	(1)	(2)
Net increase in cash and cash equivalents	31	93
Cash and cash equivalents at beginning of year	136	43
Cash and cash equivalents at end of year	$ 167	$ 136

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Reconciliations of Operating Income to Net Cash
Provided by Operating Activities

Years ended June 30, 2012 and 2011

(In thousands)

	2012	2011
Operating income	$ 1,317,656	$ 1,196,684
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3	3
(Increase) decrease in accounts receivable	(6)	—
(Increase) decrease in premiums receivable, net	(1,831)	8,473
Increase (decrease) in premium refunds payable	(266)	266
Increase (decrease) in unpaid hurricane losses	(240,661)	(134,859)
Increase (decrease) in losses payable	(4,713)	2,732
(Increase) decrease in excess loss payments receivable	257	182
Increase (decrease) in accrued expenses	(32)	6
Net cash provided by operating activities	$ 1,070,407	$ 1,073,487

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

(b) Basis of Presentation

The Fund is classified as an enterprise fund, which is a type of proprietary fund. The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of the Fund are included in the combined statements of net assets. The combined statements of revenues, expenses, and changes in net assets 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 and only Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

(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 assets 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 assets; and the amount of undispersed 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.

(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, 2012 and 2011. 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 remit 30 days 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, 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. As of June 30, 2011, the allowance was equal to the premium receivable of $9,438,681 for one insurer that had entered into receivership.

(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, 2012 and 2011, 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 Notes 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.

(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,

$46,585 in 2012 and $47,127 in 2011, is included in accrued expenses on the combined statements of net assets. The remaining liability is included as compensated absences with long-term liabilities on the combined statements of net assets.

(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, 2012, the interest rate was 0.38% for overpayments of premium and 5.38% for underestimated payments. For the contract year ended May 31, 2011, the interest rate was 1.05% for overpayments of premium and 6.05% 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.

(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 2013) 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 2012 and 2011, $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 2012 has been restricted in the June 30, 2012 net assets 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 Internal Revenue Service 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 assets available and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of changes in net assets during the reporting period. Actual amounts could differ from those estimates.

(3) Investments

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

	June 30	
	2012	**2011**
Short-term investments:		
Certificates of deposit	$ 1,445,223	$ 1,150,863
Commercial paper	3,649,021	3,083,876
Repurchase agreements	2,201,388	1,700,000
Money market funds	366,868	655,690
Domestic corporate bonds and notes, variable rate	47,577	219,093
International corporate bonds and notes, variable rate	—	175,079
Federal agencies – discount notes	814,583	880,342
Federal agencies	1,583,122	799,151
U.S. Treasuries	688,571	555,470
Total short-term investments	$ 10,796,353	$ 9,219,564
Long-term investments:		
Domestic nongovernment mortgage-backed securities	$ 45,398	$ 50,905
Federal agencies	919,872	1,450,421
U.S. Treasuries	103,570	—
Total long-term investments	$ 1,068,840	$ 1,501,326

As of June 30, 2012, 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	$ 1,445,223	46
Commercial paper	3,649,021	48
Repurchase agreements	2,201,388	2
Money market funds	366,868	2
Domestic corporate bonds and notes	47,577	16
Domestic nongovernment mortgaged-backed securities*	45,398	*
Federal agencies – discount notes	814,583	91
Federal agencies	2,502,994	208
U.S. Treasuries	792,141	145
Total fair value	$ 11,865,193	
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 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 of the portfolio shall not exceed 90 days and the dollar weighted average final maturity of the portfolio shall not exceed 180 days. For purposes of this calculation, the maturity date is assumed to be the next reset date rather than the stated maturity except in the case of the domestic nongovernment mortgage-backed securities.

(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 states that all securities must be investment grade at time of purchase. For short-term ratings, this has been defined as the highest applicable rating 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 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, 2012 (in thousands):

		Credit quality ratings	
Investment type	**Fair value**	**S & P**	**Moody's**
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
Repurchase agreements	2,201,388	Not Rated	Not Rated
Money market funds	366,868	AAAm	Aaa-mf
Domestic corporate bonds and notes	47,577	AA	Aa
Domestic nongovernment mortgaged-backed securities	45,398	Not Rated	Not Rated
Federal agencies – discount notes	814,583	Not Rated	Not Rated
Federal agencies	2,117,292	AA	Aaa
Federal agencies	25,020	AA	Not Rated
Federal agencies	270,662	Not Rated	Aaa
Federal agencies	90,020	Not Rated	Not Rated
U.S. Treasuries	792,141	Not Rated	Not Rated
	$ 11,865,193		

* 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, 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):

Investment type	Fair value	Percentage of portfolio
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, 2012, 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

No exposure to foreign currency risk existed at June 30, 2012.

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2012 and 2011, is as follows (in thousands):

	Equipment	Accumulated depreciation	Net
Balance as of June 30, 2010	$ 80	$ (74)	$ 6
Additions and depreciation expense	2	(3)	(1)
Sales or disposals	—	—	—
Balance as of June 30, 2011	82	(77)	5
Additions and depreciation expense	2	(3)	(1)
Sales or disposals	(18)	18	—
Balance as of June 30, 2012	$ 66	$ (62)	$ 4

(5) Hurricane Losses

The State of Florida was not hit by any hurricanes during the 2006 to 2011 hurricane seasons.

The State of Florida was hit by four hurricanes during July through October of 2005 (fiscal year 2006). These hurricanes were: Category 3 Hurricane Dennis on July 10, Category 1 Hurricane Katrina on August 25, Category 1 Hurricane Rita on September 20, and Category 3 Hurricane Wilma on October 24.

The State of Florida was hit by four hurricanes during August and September 2004 (fiscal year 2005). These hurricanes were: Category 4 Hurricane Charley on August 13, Category 2 Hurricane Frances on September 4, Category 3 Hurricane Ivan on September 16, and Category 3 Hurricane Jeanne on September 25.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2012 and 2011 (in thousands):

	Year ended June 30	
	2012	**2011**
Reserve for unpaid hurricane losses at beginning of year	$ 649,091	$ 783,950
Add provision for hurricane losses occurring in:		
Current year	—	—
Prior years	—	110,000
Net incurred losses during the current year	—	110,000
Deduct payments for claims occurring in:		
Current year	—	—
Prior years	240,661	244,859
Net claim payments during the current year	240,661	244,859
Reserve for unpaid hurricane losses at end of year	$ 408,430	$ 649,091

The Fund's reserve for prior years' unpaid hurricane losses at June 30, 2011, was increased by $110 million, and no additional hurricane losses were recorded in 2012 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, 2012 and 2011 was as follows (in thousands):

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

Long-term liabilities as of June 30, 2011	**Beginning balance**	**Additions**	**Reductions**	**Ending balance**
Long-term bonds	$ 5,380,375	$ —	$ (282,660)	$ 5,097,715

Post-event Bonds – The Fund is expecting to pay loss reimbursements of $3.87 billion to participating insurers for the calendar year 2004 hurricanes and $5.89 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net assets 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, 2012, $296,795,000 of these bonds were outstanding, which are stated to mature without right of prior redemption on July 1, 2012 and bear interest at rates ranging from 5.00% to 5.25% as follows (in thousands):

		Par outstanding	Interest rates
Year:			
2012	$	140,865	5.00%
2012		155,930	5.25
	$	296,795	

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):

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

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 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):

		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	

Pre-event Notes – 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 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 notes. The single maturity date for these notes will be October 15, 2012.

Costs of Issuance – Costs of issuance are capitalized and amortized over the life of the notes/bonds payable. 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. Expense for amortization of costs of issuance recognized in fiscal year ended June 30, 2011, 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, 2010	$	171
Increases		139
Decreases		(136)
Balance as of June 30, 2011		174*
Increases		93
Decreases		(102)
Balance as of June 30, 2012	$	165*

* Includes long-term and current balances, of which $46,585 and $47,127 is estimated due within one year of June 30, 2012 and 2011.

(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 assets, relate to contract years as follows (in thousands):

	Year ended June 30	
	2012	**2011**
Contract year 2011	$ 1,326,295	$ —
Contract year 2010	5,895	1,314,000
Contract year 2009	(3,490)	1,294
Contract year 2008	(389)	(3,700)
Contract year 2007	(6,450)	(2,415)
Contract year 2006	—	(192)
Contract year 2005	—	(110)
	$ 1,321,861	$ 1,308,877

(9) Related Parties

The Fund paid the SBA approximately $1,029,793 for the Fund and $527,333 for the Corporation in the fiscal year ended June 30, 2012, and $835,713 for the Fund and $527,234 for the Corporation in the fiscal year ended June 30, 2011, for investment advisory services.

OTHER FINANCIAL INFORMATION

FLORIDA HURRICANE CATASTROPHE FUND

Combining Statement of Net Assets

June 30, 2012

(In thousands)

Assets	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Current assets:			
Cash and cash equivalents	$ 167	$ —	$ 167
Short-term investments	10,796,353	6,319,140	4,477,213
Emergency assessment funds receivable	120,485	—	120,485
Accrued interest	4,509	2,871	1,638
Accounts receivable	6	6	—
Excess loss payments receivable	1,177	1,177	—
Premium receivable, net	3,036	3,036	—
Total current assets	10,925,733	6,326,230	4,599,503
Long-term assets:			
Long-term investments	1,068,840	871,666	197,174
Unamortized bond issuance costs	3,903	—	3,903
Capital assets, net of accumulated depreciation	4	4	—
Total long-term assets	1,072,747	871,670	201,077
Total assets	$ 11,998,480	$ 7,197,900	$ 4,800,580

See accompanying independent auditors’ report.

Liabilities and Net Assets	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Current liabilities:			
Hurricane losses:			
Unpaid hurricane losses	$ 408,430	$ 408,430	$ —
Accrued expenses	787	739	48
Bonds payable	3,796,795	—	3,796,795
Accrued bond interest expense	40,775	—	40,775
Total current liabilities	4,246,787	409,169	3,837,618
Long-term liabilities:			
Bonds payable	1,300,920	—	1,300,920
Premiums on bonds payable	26,213	—	26,213
Compensated absences, net of current portion	119	119	—
Total long-term liabilities	1,327,252	119	1,327,133
Total liabilities	5,574,039	409,288	5,164,751
Net assets (deficit):			
Unrestricted	6,424,415	6,788,586	(364,171)
Invested in capital assets, net of related debt	4	4	—
Restricted for hurricane mitigation	22	22	—
Total net assets (deficit)	6,424,441	6,788,612	(364,171)
Total liabilities and net assets	$ 11,998,480	$ 7,197,900	$ 4,800,580

FLORIDA HURRICANE CATASTROPHE FUND

Combining Statement of Revenues, Expenses, and Changes in Net Assets (Deficit)

Year ended June 30, 2012

(In thousands)

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Operating revenues:			
Net premium revenue	$ 1,321,861	$ 1,321,861	$ —
Net interest on premium adjustments	439	439	—
Net interest on loss disbursement adjustments/advances	5	5	—
Other	41	41	—
Total operating revenues	1,322,346	1,322,346	—
Operating expenses:			
Hurricane losses	—	—	—
Administrative and actuarial fees	2,246	2,246	—
Other professional fees	1,098	1,085	13
Personnel expenses	1,152	1,152	—
Depreciation	3	3	—
Other	191	159	32
Total operating expenses	4,690	4,645	45
Operating income (loss)	1,317,656	1,317,701	(45)
Nonoperating revenue (expense):			
Investment income	39,788	27,692	12,096
Investment advisor fees	(1,585)	(1,058)	(527)
Emergency assessment revenue	456,790	—	456,790
Emergency assessment interest revenue	6	—	6
Custodian and bond trustee fees	(5)	(2)	(3)
Bond interest expense	(103,181)	—	(103,181)
Amortization of bond issuance costs	(4,346)	—	(4,346)
Total nonoperating revenue	387,467	26,632	360,835
Income before transfers	1,705,123	1,344,333	360,790
Transfers from (to) component units	—	190,070	(190,070)
Transfers to other funds	(10,000)	(10,000)	—
Total transfers	(10,000)	180,070	(190,070)
Change in net assets	1,695,123	1,524,403	170,720
Net assets (deficit) at beginning of year	4,729,318	5,264,209	(534,891)
Net assets (deficit) at end of year	$ 6,424,441	$ 6,788,612	$ (364,171)

See accompanying independent auditors' report.

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 the combined financial statements of the Florida Hurricane Catastrophe Fund (the Fund) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 12, 2012. 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.

Internal Control over Financial Reporting

Management of the Fund is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Fund's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

A deficiency in internal control over financial reporting 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 misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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*.

This report is intended solely for the information and use of the Florida Auditor General and the management of the State Board of Administration of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

October 12, 2012