FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements

June 30, 2016 and 2015

(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 years ended June 30, 2016 and 2015, and the related notes to the combined financial statements, which collectively comprise the Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund, as of June 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matters

Emphasis of Matter Regarding Adoption of a New Accounting Pronouncement

As discussed in note 1 to the combined financial statements, the Fund adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. 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, 2016 and 2015, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 3–7, the schedule of Fund's proportionate share of net pension liability on page 53, and the schedule of Fund's contributions on page 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2016 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

KPMG LLP

Minneapolis, Minnesota
October 28, 2016

Our discussion and analysis of the financial performance of the Florida Hurricane Catastrophe Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2016 and 2015. 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). 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		
	2016	**2015**	**2014**
Current assets	$ 11,000,423	6,140,297	11,957,961
Long-term assets	5,086,247	7,524,464	1,412,556
Total assets	16,086,670	13,664,761	13,370,517
Deferred outflows related to pensions	241	137	—
Current liabilities	614,040	31,340	523,902
Long-term liabilities	2,700,847	2,000,656	2,686,394
Total liabilities	3,314,887	2,031,996	3,210,296
Deferred inflows related to pensions	97	262	—
Net position:			
Net investment in capital assets	6	4	4
Unrestricted	12,771,921	11,632,636	10,160,217
Total net position	$ 12,771,927	11,632,640	10,160,221

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		
	2016	**2015**	**2014**
Net premium revenue (net of reinsurance premium)	$ 1,143,359	1,276,738	1,269,709
Net interest on premium adjustments	(43)	27	36
Other	42	41	41
Total operating revenues	1,143,358	1,276,806	1,269,786
Total nonoperating revenue net of nonoperating expenses	11,213	211,920	434,479
Total revenues	1,154,571	1,488,726	1,704,265
Hurricane losses (reduction in losses)	—	—	(186,004)
Other operating expenses	5,281	5,709	5,010
Depreciation	3	3	2
Total expenses	5,284	5,712	(180,992)
Income before transfers	1,149,287	1,483,014	1,885,257
Transfers to other state agencies	(10,000)	(10,000)	(10,000)
Change in net position	1,139,287	1,473,014	1,875,257
Net position at beginning of year	11,632,640	10,160,221	8,284,964
Adjustments to net position related to pensions	—	(595)	—
Net position at beginning of year	11,632,640	10,159,626	8,284,964
Net position at end of year	$ 12,771,927	11,632,640	10,160,221

Financial Highlights

- The increase in current assets and decrease in long-term assets between 2015 and 2016 is a result of an increase in short-term investments due to an anticipated market rate increase and a shortened duration to capture the rate increase. Additionally, during the year the FHCF issued $1.2 billion of 2016A Revenue Bonds increasing the short-term investments held during the year.
- From 2015 to 2016, the increase in current liabilities is the result of an increase in bonds payable for a principal payment due for Series 2013A Revenue Bonds on July 1, 2016.
- The net increase to the long-term bonds payable liability from 2015 to 2016 is due to the issuance of 2016A Revenue Bonds in March 2016 in the amount of $1.2 billion, and the shift from long-term to short-term of the $500 million principal payment for the 2013A Revenue Bonds due July 1, 2016. The 2016A Revenue Bonds maximize the ability of the Fund to meet future obligations with $550 million maturing on July 1, 2019 and

$650 million maturing on July 1, 2021. The Series 2016A Revenue Bonds proceeds are invested and the earnings will be used by the Fund to make debt service interest payments to bondholders.

- The decrease in net premium revenue from 2015 to 2016 is the result of participating companies reducing their coverage level from Contract Year 2014 to Contract Year 2015. All participating companies are required annually to sign a Reimbursement Contract with the FHCF and select one of three coverage levels (45%, 75% or 90%). The coverage levels selected for Contract Year 2014 affect the premium revenue recorded for fiscal year 2015 and the coverage levels selected for Contract Year 2015 affect the premium recorded for fiscal year 2016.

- Total nonoperating revenue decreased from 2015 to 2016 due to a decrease in the emergency assesssments from $256.9 million in 2015 to $3.1 million in 2016. Additionally, there was an increase in investment income from 2015 to 2016 of $33.5 million. The increase in 2016 is a result of changes made to the Fund's Investment Policy Statement allowing for longer maturities, along with the Federal Reserve's decision to begin raising interest rates in December 2015. The primary goal of the Fund is defined in the policy by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. The Fund's objective is to invest in securities that are highly liquid, relatively short term, and have a credit quality in accordance with the policy.

- Total nonoperating revenue includes emergency assessment revenue which decreased in 2015 and 2016. 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 $625.0 million in 2008, which matured on July 1, 2014, and an additional $675.92 million in 2010. The funding source for the repayment of these bonds was from an emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. The assessment was initially 1.0% on all policies issued or renewed on or after January 1, 2007 and was increased to 1.3% on January 1, 2011. A defeasance of the Series 2010A Revenue Bonds was executed on July 11, 2014; as a result, the Florida Office of Insurance Regulation issued orders on July 21, 2014 making the emergency assessment 0.0% for all policies issued or renewed on or after January 1, 2015.

- Aggregate excess catastrophe reinsurance providing coverage for $1.0 billion in excess of $11.5 billion was purchased effective June 1, 2016 through May 31, 2017; and $1.0 billion in excess of $12.5 billion was purchased effective June 1, 2015 through May 31, 2016. Reinsurance deposit premiums and broker commissions were/are due in three equal installments on August 1, October 1 and December 1 of 2015 and 2016. An accrual of $5,650,000 as of June 30, 2015, and an accrual of $5,291,667 as of June 30, 2016, was established for one month's pro-rata portion of the aggregate reinsurance deposit premium and broker commission. The reinsurance premium and broker commission are reported as operating activities net of the reimbursement premium received on the Combined Statement of Cash Flows.

- Bond interest expense increased in 2016 as a result of the issuance of 2016A Revenue Bonds in the amount of $1.2 billion in March 2016.

- GASB Statement No. 72, Fair Value Measurement and Application, was implemented for fiscal year ended June 30, 2016. This resulted in additional financial tables and disclosures related to fair value hierarchy and pricing sources.

- On September 2, 2016, Hurricane Hermine made landfall east of St. Marks, Florida as a Category 1 hurricane.

- On October 7, 2016, the eye of Hurricane Matthew tracked close to the coast of Florida making its way along the east coast of the United States as a Category 3 hurricane.
- At June 30, 2016, 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, 2016 and 2015

(In thousands)

		2016	2015
Assets:			
Current assets:			
Cash and cash equivalents	$	11	9
Short-term investments		10,818,319	6,131,572
Investment sales receivable		175,003	—
Emergency assessment funds receivable		331	3,057
Accrued interest		6,759	5,648
Prepaid expenses		—	11
Total current assets		11,000,423	6,140,297
Long-term assets:			
Long-term investments		5,086,241	7,524,460
Capital assets, net of accumulated depreciation of $31 and $32 for June 30, 2016 and 2015, respectively		6	4
Total long-term assets		5,086,247	7,524,464
Total assets		16,086,670	13,664,761
Deferred outflows of resources:			
Deferred outflows related to pensions (note 14)		241	137
Liabilities:			
Current liabilities:			
Accrued expenses		6,426	7,842
Bonds payable		500,000	—
Payable for securities purchased		74,997	—
Accrued bond interest expense		32,604	23,488
Net pension liability (note 14)		13	10
Total current liabilities		614,040	31,340
Long-term liabilities:			
Bonds payable		2,700,000	2,000,000
Net pension liability (note 14)		661	420
Compensated absences, net of current portion		127	181
Other post-employment benefits payable		59	55
Total long-term liabilities		2,700,847	2,000,656
Total liabilities		3,314,887	2,031,996
Deferred inflows of resources:			
Deferred inflows related to pensions (note 14)		97	262
Net position:			
Net investment in capital assets		6	4
Unrestricted		12,771,921	11,632,636
Total net position	$	12,771,927	11,632,640

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

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

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Operating revenues:		
Net premium revenue (net of reinsurance premium)	$ 1,143,359	1,276,738
Net interest on premium adjustments	(43)	27
Other	42	41
Total operating revenues	1,143,358	1,276,806
Operating expenses:		
Hurricane losses (reduction in losses)	—	—
Administrative and actuarial fees	2,449	2,772
Other professional fees	1,245	1,249
Personnel expenses	1,391	1,432
Depreciation	3	3
Other	196	256
Total operating expenses	5,284	5,712
Operating income	1,138,074	1,271,094
Nonoperating revenue (expense):		
Investment income	71,159	37,699
Investment advisor fees	(3,332)	(2,863)
Settlement income	—	2,798
Emergency assessment revenue	3,063	256,880
Emergency assessment interest revenue	—	3
Custodian fees	(201)	(171)
Bond interest expense	(56,091)	(47,703)
Bond issuance expense	(3,385)	—
Bond early extinguishment of debt expense	—	(34,723)
Total nonoperating revenue	11,213	211,920
Income before transfers	1,149,287	1,483,014
Transfers to other state agencies	(10,000)	(10,000)
Change in net position	1,139,287	1,473,014
Net position at beginning of year	11,632,640	10,160,221
Adjustments to net position related to pensions (note 13)	—	(595)
Net position at beginning of year	11,632,640	10,159,626
Net position at end of year	$ 12,771,927	11,632,640

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

	2016	2015
Operating activities:		
Premium received	$ 1,142,958	1,282,270
Hurricane losses paid	—	—
Other cash received from customers	42	41
Administrative and actuarial fees	(2,493)	(2,745)
Other professional fees	(1,340)	(1,067)
Personnel expenses	(1,481)	(1,370)
Other cash paid to vendors	(210)	(246)
Net cash provided by operating activities	1,137,476	1,276,883
Investing activities:		
Purchases of investments	(111,018,102)	(113,089,071)
Sales and maturities of investments	108,687,828	112,143,527
Interest received	51,788	29,058
Settlement income received	—	2,798
Investment advisor fees	(3,299)	(2,829)
Custodian fees	(209)	(167)
Net cash (used) by investing activities	(2,281,994)	(916,684)
Financing from noncapital activities:		
Transfers to other state agencies	(10,000)	(10,000)
Emergency assessment funds received	4,884	393,102
Emergency assessment interest received	—	3
Cash received at bond issuance	1,200,000	—
Bond principal paid	—	(1,000,920)
Bond interest paid	(46,975)	(82,396)
Bond early extinguishment of debt	—	(34,723)
Bond cost of issuance	(3,385)	—
Net cash provided (used) by financing from noncapital activities	1,144,524	(734,934)
Financing from capital activity:		
Purchases of capital assets	(4)	(4)
Net increase (decrease) in cash and cash equivalents	2	(374,739)
Cash and cash equivalents at beginning of year	9	374,748
Cash and cash equivalents at end of year	$ 11	9

(Continued)

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2016 and 2015

(In thousands)

		2016	2015
Operating income	$	1,138,074	1,271,094
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation		3	3
(Increase) decrease in premiums receivable		10,538	9,438
Increase (decrease) in allowance for uncollectables		(10,538)	(9,438)
(Increase) decrease in deposits and prepaid expenses		11	(11)
Increase (decrease) in premium refunds payable		—	(145)
Increase (decrease) in compensated absences		(69)	45
Increase (decrease) in unpaid hurricane losses		—	—
Increase (decrease) in losses payable		—	—
Increase (decrease) in accrued expenses		(522)	5,882
Increase (decrease) in other post-employment benefits payable		4	55
Increase (decrease) in pension liability and deferrals		(25)	(40)
Net cash provided by operating activities	$	1,137,476	1,276,883

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 most authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Premiums are calculated for each of the 159 insurers using rates developed based on hurricane modeling of the trended data from the prior year. The modeling takes into consideration factors such as historical records of hurricane strength and landfall patterns, geographic location, type of business, construction, coverage selected, deductible, and mitigation features. The Fund is administered by the State Board of Administration of Florida (SBA), which has contracted for administrative and actuarial services.

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

(b) Basis of Presentation

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

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

(c) Adoption of New Accounting Pronouncement

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The Fund implemented GASB's 68 in fiscal year 2015. This resulted in a $595,000 reduction of beginning net position at July 1, 2014. The Fund also implemented the requirements of GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The Fund implemented GASB 72 in fiscal year 2016 and adoption resulted in retrospective application to fiscal year 2015. This resulted in additional financial tables and disclosures related to fair value hierarchy and pricing sources.

In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. Adoption of this statement had no impact on the Fund's financial statements.

(d) Limited Liability of the Fund

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

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

(e) Risk Management

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

(2) Significant Accounting Policies

(a) Measurement Focus

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

(b) Investments

The Fund's cash is invested according to an Investment Policy Statement, which sets forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The primary goal of the policy is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. These investments are recorded at fair value and the fair values are primarily obtained from independent quoted market prices. The Fund considers all investments with maturity dates of less than one year to be short-term investments. Investments with maturity dates in excess of one year are included in long-term investments. Investment advisory services are provided by the SBA. The Investment Policy Statement was amended effective February 1, 2016, April 15, 2016 and again on May 31, 2016. Changes to the Investment Policy Statement are further outlined in Footnote 3(a), (b), and (c).

(c) Emergency Assessment Receivable

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

(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, 2016 there is no premium receivable balance. As of June 30, 2015, an allowance existed equal to the premium receivable of $10,537,971 for two insurers which was subsequently deemed uncollectable in 2016.

(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 paid and reported outstanding losses). Loss reimbursement advances receivable represent amounts currently outstanding on these advances, including accrued interest. As of June 30, 2016 and 2015, there are no outstanding loss reimbursement advances.

(f) Capital Assets

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

(g) Deferred Outflows of Resources

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

(h) Premium Refunds Payable

Premium refunds payable represent amounts due to participating insurers where provisional or estimated premium payments are in excess of amounts actually owed based upon the current exposure data. Also included, are premium amounts received from companies pending exemption. These amounts are returned once an exemption is granted. There were no issued and outstanding premium refund checks as of June 30, 2016.

(i) Bonds Payable

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

(j) Compensated Absences

Compensated absences represent the Fund's obligation to accrue a liability for employees' rights to receive compensation for future absences, such as vacation and sick leave. The Fund allows vested employees to carry forward any unpaid leave indefinitely. The short-term portion of this liability, $47,092 in 2016 and $61,908 in 2015, is included in accrued expenses on the combined statements of net position. The remaining liability is included as compensated absences within long-term liabilities on the combined statements of net position.

(k) Deferred Inflows of Resources

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

(l) Current Contract Year Premium Revenue

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

(m) Reinsurance

The reinsurance premium and commission expenses are reported as operating activities net of the reimbursement premium received. As of June 30, 2016 and 2015, an accrual was established for one month's pro-rata portion of the aggregate reinsurance deposit premium and commission expense.

(n) Prior Contract Year Adjustments

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

(Continued)

(o) Operating Revenues and Expenses

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

(p) Net Interest on Premium Adjustments

Participating insurers have the option of paying the billed provisional premium or estimating premium for the August and October installments. If the provisional or estimated payments are too high, interest is returned to the insurer on the overpayment after the December installment. Likewise, if estimated premiums are underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2016, the interest rate was 0.30% for overpayments of premium and 5.30% for underpayments. For the contract year ended May 31, 2015, the interest rate was 0.00% for overpayments of premium and 5.00% for underpayments.

(q) Hurricane Losses

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

(r) Emergency Assessment

Section 215.555(6)(b) of the Florida Statutes provides for an emergency assessment on all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2019) medical malpractice premiums. A maximum annual assessment of 6% is allowed for losses attributable to any one contract year and a maximum aggregate annual assessment of 10% for all contract years. For policies issued or renewed on or after January 1, 2007, a 1% emergency assessment has been levied; except for policies issued or renewed on or after January 1, 2011, where a 1.3% emergency assessment has been levied. For policies issued or renewed on or after January 1, 2015, the emergency assessment is 0.0%. The emergency assessment revenue was the funding source for repayment of the Series 2006A, 2008A and 2010A Revenue Bonds.

(s) Transfers

Pursuant to Section 215.555(7)(c) of the Florida Statutes, the Florida Legislature will appropriate from the Fund an amount no less than $10,000,000 and no more than 35% of the investment income from the prior fiscal year, providing that the actuarial soundness of the Fund is not jeopardized, for the purpose of providing funding for governments, agencies, and educational institutions to support programs intended to improve hurricane preparedness or reduce potential losses in the event of a hurricane. For these purposes, in each of the fiscal years 2016 and 2015, $10,000,000 was appropriated from the Fund.

(t) Income Taxes

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

(u) Cash and Cash Equivalents

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

(v) Use of Estimates

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

(3) Investments

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

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

	June 30	
	2016	**2015**
Short-term investments:		
Certificates of deposit	$ 2,530,398	274,975
Commercial paper	3,417,392	1,978,733
Money market funds	568,770	54,805
Repurchase agreements	925,000	894,726
U.S. Treasury bills	1,718,960	—
U.S. Treasury notes	50,008	39,173
Federal agencies – discount notes	256,769	911,554
Federal agencies – unsecured	427,461	570,527
Domestic corporate bonds and notes	443,639	1,276,869
International government agency discount notes	24,975	—
International government bonds and notes	324,889	50,010
International corporate bonds and notes	130,058	80,200
Total short-term investments	10,818,319	6,131,572
Long-term investments:		
Certificates of deposit	—	2,232,208
U.S. Treasury notes	400,264	—
Federal agencies – unsecured	4,685,977	4,429,204
Domestic corporate bonds and notes	—	432,978
International corporate bonds and notes	—	230,100
International government bonds and notes	—	199,970
Total long-term investments	5,086,241	7,524,460
Total	$ 15,904,560	13,656,032

(Continued)

As of June 30, 2016, the weighted average maturity of the Fund's investments is as follows (in thousands):

Investment type		Fair value	Weighted average maturity (days)
Certificates of deposit	$	2,530,398	31
Commercial paper		3,417,392	51
Money market funds		568,770	1
Repurchase agreements		925,000	15
U.S. Treasury bills		1,718,960	119
U.S. Treasury notes		450,272	663
Federal agencies – discount notes		256,769	123
Federal agencies – unsecured		5,113,438	158
Domestic corporate bonds and notes		443,639	19
International government agency discount notes		24,975	34
International government bonds and notes		324,889	50
International corporate bonds and notes		130,058	33
Total fair value	$	15,904,560	
Portfolio weighted average maturity			103

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

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

(a) Interest Rate Risk

Liquidity being a primary concern, the Fund's objective as defined in the Investment Policy Statement is to invest in high quality, highly liquid, relatively short-term investment strategies, which are reviewed on an annual basis to ensure the appropriateness of the strategic goal. The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk. In accordance with the

Investment Policy Statement, no individual security shall have a final maturity date longer than 545 days, with the exception of those for government securities and agency securities, which shall not exceed 1,188 days. No more than 30% of total portfolio amortized cost may be invested in fixed rate securities with remaining time to maturity exceeding 545 days. The dollar weighted average maturity to reset (DWAM) of the portfolio shall not exceed 270 days. For purposes of the DWAM calculation, the maturity date is assumed to be the next reset date rather than the stated maturity. The weighted average life (to final maturity) of the portfolio shall not exceed 540 days.

(b) Credit Risk

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

The Investment Policy Statement 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, 2016 (in thousands):

Investment type		Fair value	Credit quality ratings S & P	Credit quality ratings Moody's
Certificates of deposit	$	30,021	AA	Aa
Certificates of deposit		175,144	A	A
Certificates of deposit		25,025	A	Not Rated
Certificates of deposit		75,020	Not Rated	Aa
Certificates of deposit*		2,225,188	Not Rated	Not Rated
Commercial paper		3,417,392	A-1	P-1
Money market funds		568,770	AAAm	Aaa-mf
Repurchase agreements (collateralized by U.S. guaranteed obligations)		109,116	Not Rated	Not Rated
Repurchase agreements		21,943	AA	Aaa
Repurchase agreements		793,941	Not Rated	Not Rated
U.S. Treasuries		2,169,232	Not Rated	Not Rated
Federal agencies – discount notes		256,769	Not Rated	Not Rated
Federal agencies		3,854,214	AA	Aaa
Federal agencies		507,010	AA	Not Rated
Federal agencies		199,648	Not Rated	Aaa
Federal agencies		552,566	Not Rated	Not Rated
Domestic corporate bonds and notes		287,865	AA	Aa
Domestic corporate bonds and notes		125,000	AA	A
Domestic corporate bonds and notes		30,774	A	A
International government agency discount notes		24,975	Not Rated	Not Rated
International government bonds and notes		199,950	AA	Aa
International government bonds and notes		124,939	A	Aa
International corporate bonds and notes		125,022	AA	Aa
International corporate bonds and notes		5,036	A	Aa
	$	15,904,560		

* All certificates of deposit, including the $2,225,188 "not rated" certificates of deposit, had short-term issuer ratings of A-1 for S&P and P-1 for Moody's.

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

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

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

(c) Concentration of Credit Risk

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

At June 30, 2016, securities issued by Bank of Nova Scotia were in compliance with the Investment Policy Statement and represented 7.70% of the portfolio's total fair value. The fair value of Bank of

Nova Scotia holdings at June 30, 2016 was $1,225,157,750, of which, $875,000,000 was held in repurchase agreements issued by Bank of Nova Scotia. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity dates in July 2016.

At June 30, 2016, securities issued by Morgan Stanley were in compliance with the Investment Policy Statement and represented 3.56% of the portfolio's total fair value. The fair value of Morgan Stanley holdings at June 30, 2016 was $566,253,146, all of which was held in money market funds.

At June 30, 2016, the Fund held $2,169,231,987 in U.S. Treasuries, which was in compliance with the Investment Policy Statement and represented 13.64% of the portfolio's total fair value. $1,718,959,947 was held in Treasury Bills, and $450,272,040 in Treasury notes.

At June 30, 2016, the Fund also held $5,370,206,786 in federal agency bonds and notes, which was in compliance with the Investment Policy Statement and represented 33.77% of the portfolio's total fair value. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2016 are as follows (in thousands):

Investment type	Fair value	Percentage of portfolio
Federal Farm Credit Bank	$ 2,637,629,637	16.58%
Federal Home Loan Mortgage Corp	1,387,795,923	8.73
Federal Home Loan Banks	594,431,726	3.74
Federal Agricultural Mortgage Corp	575,290,000	3.62
Federal National Mortgage Association	175,059,500	1.10

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

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

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

(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, 2016 and 2015, 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, 2016 and 2015.

(f) Fair Value Hierarchy

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

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

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

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

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

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

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

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

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

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

(Continued)

The Fund has the following recurring fair value measurements as of June 30, 2016, and June 30, 2015:

	June 30, 2016	Fair value measurements using: Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments by fair value level:				
Debt securities:				
Certificates of deposit	$ 2,530,398	—	2,480,398	50,000
Commercial paper	3,417,392	—	3,417,392	—
U.S. Treasuries	2,169,232	450,272	1,718,960	—
Federal agencies – unsecured	5,113,438	—	5,113,438	—
Federal agencies – discount notes	256,769	—	256,769	—
Domestic corporate bonds and notes	443,639	—	443,639	—
International government bonds and notes	349,864	—	324,889	24,975
International bonds and notes	130,058	—	130,058	—
Total debt securities measured at fair value	$ 14,410,790	450,272	13,885,543	74,975

	June 30, 2015	Fair value measurements using: Quoted prices in active market for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Investments by fair value level:				
Debt securities:				
Certificates of deposit	$ 2,507,183	—	2,507,183	—
Commercial paper	1,978,733	—	1,978,733	—
U.S. Treasuries	39,173	39,173	—	—
Federal agencies – unsecured	4,999,731	—	4,999,731	—
Federal agencies – discount notes	911,554	—	911,554	—
Domestic corporate bonds and notes	1,709,847	—	1,709,847	—
International government bonds and notes	249,980	—	249,980	—
International bonds and notes	310,300	—	310,300	—
Total debt securities measured at fair value	$ 12,706,501	39,173	12,667,328	—

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2016 and 2015 is as follows (in thousands):

		Equipment	Accumulated depreciation	Net
Balance as of June 30, 2014	$	52	(48)	4
Additions and depreciation expense		3	(3)	—
Sales or disposals		(19)	19	—
Balance as of June 30, 2015		36	(32)	4
Additions and depreciation expense		4	(2)	2
Sales or disposals		(3)	3	—
Balance as of June 30, 2016	$	37	(31)	6

(5) Hurricane Losses

The State of Florida was not hit by any hurricanes during the 2006 to 2015 hurricane seasons.

The State of Florida was hit by four hurricanes during July through October of 2005 (fiscal year 2006). As of June 30, 2016 and 2015, no hurricane losses remain unpaid.

The State of Florida was hit by four hurricanes during August and September 2004 (fiscal year 2005). As of June 30, 2016 and 2015, no hurricane losses remain unpaid.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2016 and 2015 (in thousands):

		Year ended June 30	
		2016	2015
Reserve for unpaid hurricane losses at beginning of year	$	—	—
Provision for hurricane losses occurring in:			
Current year		—	—
Prior years		—	—
Net incurred losses during the current year		—	—
Payments for claims occurring in:			
Current year		—	—
Prior years		—	—
Net claim payments during the current year		—	—
Reserve for unpaid hurricane losses at end of year	$	—	—

The Fund's reserve for prior years' unpaid hurricane losses was $0 at June 30, 2016 and 2015.

(Continued)

(6) Changes in Long-term Liabilities

The following table provides the long-term liability activity for the years ended June 30, 2016 and 2015 as follows (in thousands):

Long-term liabilities as of June 30, 2016		Beginning balance*	Additions	Reductions	Ending balance	Amount Due within 1 year
Bonds payable	$	2,000,000	1,200,000	—	3,200,000	500,000
Net pension liability		430	323	(80)	673	12
Compensated absences		243	182	(251)	174	47
Other post employment benefits payable		55	4	—	59	—

* Long-term liabilities include any related current liability balance. Amounts due in one year are classified as current liabilities on the Statements of Net Position.

Long-term liabilities as of June 30, 2015		Beginning balance*	Prior Period Adj.	Additions	Reductions	Ending balance	Amount due in 1 year
Bonds payable	$	3,000,920	—	—	(1,000,920)	2,000,000	—
Unamortized bonds premiums		10,329	—	—	(10,329)	—	—
Net pension liability		—	658	98	(326)	430	10
Compensated balances		198	—	146	(101)	243	62
Other post employment benefits payable		—	—	55	—	55	—

* Long-term liabilities include any related current liability balance. Amounts due in one year are classified as current liabilities on the Statements of Net Position.

(7) Bonds Payable

Post-event Bonds – The Fund paid loss reimbursements of $3.86 billion to participating insurers for the calendar year 2004 hurricanes and paid $5.54 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net position as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of $1,350,025,000 during the year ended June 30, 2006. The funding for these bonds came from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. At June 30, 2016, none of these bonds were outstanding as they matured on July 1, 2012.

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of $625 million. The Series 2008A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds came from the same 1% emergency assessment mentioned above. At June 30, 2016, none of these bonds were outstanding as they matured on July 1, 2014.

In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of $675.9 million. The Series 2010A Revenue Bonds proceeds and their investment earnings were used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds came from the same emergency assessment mentioned above. An Order was issued by the Florida Office of Insurance Regulation concurrently with the issuance of the Series 2010A Revenue

Bonds to supersede the 1% emergency assessment with a 1.3% emergency assessment. The increased emergency assessment was effective for all policies issued or renewed on or after January 1, 2011. A legal defeasance of the bonds was executed on July 11, 2014 in accordance with the Master Trust Indenture. See note 11 for additional discussion.

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

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

In March 2016, the Corporation issued pre-event Series 2016A Revenue Bonds in the amount of $1.2 billion to maximize the ability of the Fund to meet future obligations. The proceeds from these bonds 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 2.163% to 2.638% as follows (in thousands):

		Par outstanding	Interest rates
Year:			
2019	$	550,000	2.163%
2021		650,000	2.638
	$	1,200,000	

(Continued)

(8) Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2014	$	198
Increases		146
Decreases		(101)
Balance as of June 30, 2015		243*
Increases		182
Decreases		(251)
Balance as of June 30, 2016	$	174*

* Includes long-term and current balances, of which $47,092 and $61,908 is estimated due within one year of June 30, 2016 and 2015, respectively.

(9) Premium Revenue

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

		Year ended June 30	
		2016	2015
Contract year 2016	$	(5,292)*	—
Contract year 2015		1,161,162	(5,650)*
Contract year 2014		(10,157)	1,284,837
Contract year 2013		(2,298)	(3,397)
Contract year 2012		(56)	(424)
Contract year 2011		—	—
Contract year 2010		—	—
Contract year 2009		—	1,372
	$	1,143,359	1,276,738

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

(10) Related Parties

The Fund paid the SBA $2,798,759 for the Fund and $533,391 for the Corporation in the fiscal year ended June 30, 2016, and $2,412,609 for the Fund and $450,646 for the Corporation in the fiscal year ended June 30, 2015 for investment advisory services.

(11) Legal Defeasance

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

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

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

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

(12) Lehman Settlement

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

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

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

(13) Reinsurance

Aggregate excess catastrophe reinsurance providing coverage for $1.0 billion in excess of $11.5 billion was purchased effective June 1, 2016 through May 31, 2017; and $1.0 billion in excess of $12.5 billion was purchased effective June 1, 2015 through May 31, 2016. The deposit premium including commission was $63.5 million for contract year 2016. The premium including commission paid for reinsurance in contract year 2015 was $59.4 million. The final premium may be adjusted down, but not adjusted up, and is determined based on the actual reimbursement contract aggregate reimbursement premium as of December 31. Reinsurance deposit premium and commission are due in three equal installments on August 1, October 1 and December 1. The effect of reinsurance on premiums for the years ended June 30 was as follows (in thousands):

		Year ended June 30	
		2016	**2015**
Direct premiums	$	1,202,369	1,282,388
2015 Reinsurance		(53,713)	(5,650)
2016 Reinsurance		(5,297)	—
Net premiums	$	1,143,359	1,276,738

(14) Pension and Other Postemployment Benefits

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

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

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

The Florida Department of Management Services (Department) is part of the primary government of the state of Florida and is responsible for administering the Florida Retirement System Pension Plan and Other State-Administered Systems. For each of the fiscal years ended June 30, 2015, and June 30, 2014, the Department issued a publicly available, audited comprehensive annual financial report (CAFR) that includes financial statements, notes and required supplementary information for each of the pension plans which it administers. Detailed information about the plans is provided in the CAFRs which are available online or by contacting the Department.

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

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

1. Defined Benefit Plans

The Florida Retirement System Pension Plan

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

Membership

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

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

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

care, or correctional administrative support positions within an FRS special risk-employing agency.

- *Elected Officers' Class (EOC)* – Members who are elected state and county officers and the elected officers of cities and special districts that choose to place their elected officials in this class.

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

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

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

Special Risk Class and Special Risk Administrative Support Class Members:

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

Benefits

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

The DROP became effective July 1, 1998, subject to provisions of Section 121.091(13), F.S. FRS Pension Plan members who reach normal retirement are eligible to defer receipt of monthly benefit payments while continuing employment with an FRS employer. An employee may participate in the DROP for a maximum of 60 months. Authorized instructional personnel may participate in the DROP for up to 36 additional months beyond their initial 60-month participation period. Monthly retirement benefits remain in the FRS Trust Fund during DROP participation and accrue interest. As of June 30, 2015, the FRS Trust Fund held in trust $3,119,220,735 in accumulated benefits and interest for 34,829 current and prior participants in DROP.

Administration

The Department of Management Services, Division of Retirement administers the FRS Pension Plan. The State Board of Administration invests the assets of the Pension Plan held in the FRS Trust Fund. Costs of administering the FRS Pension Plan are funded from earnings on investments of the FRS Trust Fund. Reporting of the FRS is on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Contributions

All participating employers must comply with statutory contribution requirements. Section 121.031(3), F.S., requires an annual actuarial valuation of the FRS Pension Plan, which is provided to the Legislature as guidance for funding decisions. Employer and employee contribution rates are established in Section 121.71, F.S. Employer contribution rates under the uniform rate structure (a blending of both the FRS Pension Plan and Investment Plan rates) are recommended by the actuary but set by the Legislature. Statutes require that any unfunded actuarial liability (UAL) be amortized within 30 plan years. Pursuant to Section 121.031(3) (f), F.S., any surplus amounts available to offset total retirement system costs are to be amortized over a 10-year rolling period on a level-dollar basis. The balance of legally required reserves for the FRS Pension Plan at June 30, 2015, was $148,454,681,903. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

The tables below present FRS retirement employer contribution rates for the fiscal years ending June 30, 2016, and June 30, 2015. Rates indicated are uniform rates for all FRS members created by blending the FRS Investment Plan and the FRS Pension Plan rates and including UAL contribution rates. These rates do not include a 1.66% Retiree Health Insurance Subsidy (HIS) contribution rate (1.26% for the fiscal year ended June 30, 2015) and a 0.04% assessment for the administration of the FRS Investment Plan and the educational program available to all FRS members. In addition, the July 1, 2015, and the July 1, 2014, statutory employer rates do not include the 3.00% mandatory employee contribution for all membership classes except for members in the Deferred Retirement Option Program.

Membership class	Uniform employer rates recommended by actuarial valuation for fiscal year 2015–2016	July 1, 2015 Statutory rates (Ch. 121, F.S.)
Regular	5.56%	5.56%
Senior Management Service	19.73	19.73
Special Risk	20.34	20.34
Special Risk Administrative Support	31.25	31.25
Elected Officers – Judges	34.01	34.01
Elected Officers – Legislators/Attorneys/Cabinet	44.10	44.10
Elected Officers – County	40.57	40.57
Deferred Retirement Option Program – applicable to members from all of the above classes or plans	11.22	11.22

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

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

Retiree Health Insurance Subsidy Program

The Retiree Health Insurance Subsidy (HIS) Program is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. by the authority of the Florida

Legislature. Benefit terms are established in Chapter 112.363, F.S. and may only be amended by the Florida Legislature. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Department of Management Services, Division of Retirement. For the fiscal year ended June 30, 2016, and June 30, 2015, eligible retirees and beneficiaries received a monthly HIS payment equal to the number of years of creditable service completed at the time of retirement multiplied by $5. The payments are at least $30 but not more than $150 per month, pursuant to Section 112.363, F.S. To be eligible to receive a HIS benefit, a retiree under a state-administered retirement system must provide proof of eligible health insurance coverage, which can include Medicare.

The HIS Program is funded by required contributions from FRS participating employers as set by the Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal years ended June 30, 2016, and June 30, 2015, the contribution rates were 1.66% and 1.26%, respectively, of payroll pursuant to Section 112.363, F.S. The Fund contributed 100% of its statutorily required contributions for the current and preceding two years. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

Pension Amounts for Defined Benefit Pension Plans

Net Pension Liability

At June 30, 2016, and June 30, 2015, the Fund reported total liabilities of $673,160 and $429,649, respectively, for its proportionate share of the net pension liabilities of the defined benefit, multiple employer cost sharing pension plans. The tables below present the fiduciary net position for each plan as well as the Fund's proportion and proportionate share as of the measurement dates of June 30, 2015 and June 30, 2014:

Measurement date as of June 30, 2015

	FRS	HIS	Total
Plan total pension liability (A)	$ 161,370,735,088	10,249,201,290	
Plan fiduciary net position (B)	(148,454,393,902)	(50,774,315)	
Plan net pension liability (A-B)	12,916,341,186	10,198,426,975	
Fund's proportion	0.002651678%	0.003242266%	
Fund's proportionate share*	$ 342,500	330,660	673,160

* The amount of the Fund's proportionate share due within one year is $0 for the FRS Pension and $12,620 for the HIS Pension.

Measurement date as of June 30, 2014		FRS	HIS	Total
Plan total pension liability (A)	$	156,115,762,947	9,443,629,461	
Plan fiduciary net position (B)		(150,014,292,372)	(93,385,450)	
Plan net pension liability (A-B)		6,101,470,575	9,350,244,011	
Fund's proportion		0.002394824%	0.003032327%	
Fund's proportionate share*	$	146,119	283,530	429,649

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

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

Change in proportionate share from measurement date of June 30, 2014 to June 30, 2015

	FRS	HIS
Fund's proportionate at prior measurement date, June 30, 2014	0.002394824%	0.003032327%
Fund's proportion at measurement date, June 30, 2015	0.002651678%	0.003242266%
Increase (decrease) in proportion	0.000256854%	0.000209939%

Change in proportionate share from measurement date of June 30, 2013 to June 30, 2014

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

Based on the projected June 30, 2016 proportion, the Fund's total increase in pension liability would be approximately $35,000, or 5.26% higher than what was reported as of the measurement date of June 30, 2015. There are no known changes between the measurement date of the collective net pension liability and the Fund's reporting date that are expected to have a significant effect on the Fund's proportionate share of the collective net pension liability of either defined benefit pension plan.

Actuarial Methods and Assumptions

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

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of the measurement dates of June 30, 2015, and June 30, 2014, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.60%. Payroll growth, including inflation, for both plans is assumed at 3.25%.

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

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.80% for the measurement date of June 30, 2015, and 4.29% for the measurement date of June 30, 2014, was used to determine the total pension liability for the program. The source of the municipal bond rate is the Bond Buyer General Obligation 20-Bond Municipal Bond Index. Mortality assumptions for both plans were based on the Generational RP-2000 with Projection Scale BB tables.

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

The following changes in actuarial assumptions occurred in 2015:

- FRS: There were no changes in actuarial assumptions. As of June 30, 2015, the inflation rate assumption remained at 2.60%, the real payroll growth assumption remained at 0.65%, and the overall payroll growth rate assumption remained at 3.25%. The long-term expected rate of return remained at 7.65%.

- HIS: The municipal rate used to determine total pension liability decreased from 4.29% to 3.80%.

The following changes in actuarial assumptions occurred in 2014:

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

- HIS: The municipal rate used to determine total pension liability decreased from 4.63% to 4.29%.

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

Measurement date as of June 30, 2015

Asset class	Target allocation	Long-term expected real rate of return
Cash	1.00%	3.20%
Fixed income	18.00	4.80
Global equity	53.00	8.50
Real estate (property)	10.00	6.80
Private equity	6.00	11.90
Strategic investments	12.00	6.70
	100.00%	

Measurement date as of June 30, 2014

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

Sensitivity Analysis

The following tables demonstrate the sensitivity of the net pension liability to changes in the discount rate. The sensitivity analysis shows the impact to the Fund's proportionate share of each plan's net pension liability if the discount rate was 1.00% higher or 1.00% lower than the current discount rate at each of the measurement dates of June 30, 2015, and June 30, 2014.

Measurement date as of June 30, 2015

Florida Retirement System			Health Insurance Subsidy		
1% Decrease 6.65%	Current discount rate 7.65%	1% Increase 8.65%	1% Decrease 2.80%	Current discount rate 3.80%	1% Increase 4.80%
$ 887,495	342,500	(111,025)	376,772	330,660	292,210

Measurement date as of June 30, 2014

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

Pension Expense and Deferred Outflows (Inflows) of Resources

In accordance with GASB 68, paragraphs 54 and 71, changes in the net pension liability are recognized in pension expense in the current measurement period, except as indicated below. For each of the following, a portion is recognized in pension expense in the current measurement period, and the balance is amortized as deferred outflows or deferred inflows of resources using a systematic and rational method over a closed period, as defined below:

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

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2015 and June 30, 2014, was 6.3 years for FRS and 7.2 years for HIS. The Fund’s proportionate share of the components of collective pension expense reported in the pension allocation schedules for the fiscal years ended June 30, 2016 (measurement date of June 30, 2015), June 30, 2015 (measurement date of June 30, 2014), are presented below for each plan.

Florida Retirement System				
	Recognized in expense reporting period ending June 30, 2016	**Recognition period**	**Deferred outflows of resources**	**Deferred inflows of resources**
Service cost	$ 56,058	Current	—	—
Interest cost	310,818	Current	—	—
Effect of plan changes	—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	4,933	6.3 years	36,158	(8,123)
Effect of assumptions changes or inputs	5,287	6.3 years	22,733	—
Member contributions	(18,517)	Current	—	—
Projected investment earnings	(297,257)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	10,863	6.3 years	53,075	—
Net difference between projected and actual investment earnings	(37,314)	5 years	—	(81,783)
Contributions subsequent to the measurement date	—	1 years	69,114	—
Administrative expenses	479	Current	—	—
Total	$ 35,350		181,080	(89,906)

(Continued)

	Health Insurance Subsidy			
	Recognized in expense reporting period ending June 30, 2016	**Recognition period**	**Deferred outflows of resources**	**Deferred inflows of resources**
Service cost	$ 7,053	Current	—	—
Interest cost	13,145	Current	—	—
Effect of plan changes	—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	—	7.2 years	—	—
Effect of assumptions changes or inputs	4,476	7.2 years	26,014	—
Member contributions	—	Current	—	—
Projected investment earnings	(100)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	1,189	7.2 years	16,295	(7,481)
Net difference between projected and actual investment earnings	54	5 years	179	—
Contributions subsequent to the measurement date	—	1 years	17,215	—
Administrative expenses	6	Current	—	—
Total	$ 25,823		59,703	(7,481)
Total for all defined benefit pension plans	$ 61,173		240,783	(97,387)

Deferred outflows of resources related to contributions paid subsequent to the measurement date as shown in the tables above will be recognized as a reduction of the net pension liability in the reporting period ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

	FRS expense	**HIS expense**
Reporting period ending June 30:		
2017	$ (16,230)	5,719
2018	(16,230)	5,719
2019	(16,230)	5,719
2020	51,242	5,682
2021	15,552	5,665
Thereafter	3,956	6,503
Total	$ 22,060	35,007

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

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

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

		FRS expense	**HIS expense**
Reporting period ending June 30:			
2016	$	(53,366)	223
2017		(53,366)	223
2018		(53,366)	223
2019		(53,366)	223
2020		7,572	189
Thereafter		2,273	225
Total	$	(203,619)	1,306

(Continued)

Payables to the Defined Benefit Pension Plans

The Fund reported payables of $6,180 to the FRS and $1,304 to the HIS Program as of June 30, 2016, for legally required contributions to the plans. The payables are included in accrued expenses as a current liability in the Combined Statements of Net Position.

Payable at June 30, 2016		FRS pension plan[1]	HIS Program pension plan
Employer pension contribution payable for defined benefit plan participants	$	3,627	917
Employer UAL and HIS pension contribution payable for FRS investment plan participants[2]		2,553	387
Total defined benefit pension expense payable at June 30, 2016	$	6,180	1,304

[1] FRS pension plan amounts do not include the fees (.04% of payroll) charged to cover the administrative cost for the FRS Pension Plan and the FRS Financial Guidance Program. The fees owed at June 30, 2016 totaled $18 for FRS defined benefit plan members and $9 for FRS investment plan participants.

[2] The amount reported as employer UAL pension contributions payable for FRS investment plan participants includes $60 in disability expense paid into the FRS pension plan on behalf of FRS investment plan participants.

The Fund reported payables of $5,947 to the FRS and $1,102 to the HIS Program as of June 30, 2015, for legally required contributions to the plans. The payables are included in accrued expenses as a current liability in the Combined Statements of Net Position.

Payable at June 30, 2015		FRS pension plan[1]	HIS Program pension plan
Employer pension contribution payable for defined benefit plan participants	$	5,356	833
Employer UAL and HIS pension contribution payable for FRS investment plan participants[2]		591	269
Total defined benefit pension expense payable at June 30, 2015	$	5,947	1,102

[1] FRS pension plan amounts do not include the fees (.04% of payroll) charged to cover the administrative cost for the FRS Pension Plan and the FRS Financial Guidance Program. The fees owed at June 30, 2015 totaled $16 for FRS defined benefit plan members and $9 for FRS investment plan participants.

[2] The amount reported as employer UAL pension contributions payable for FRS investment plan participants includes $53 in disability expense paid into the FRS pension plan on behalf of FRS investment plan participants.

2. Defined Contribution Programs

FRS Investment Plan

The State Board of Administration administers the defined contribution plan officially titled the FRS Investment Plan. The Florida Legislature establishes and amends the benefit terms of the plan. Retirement benefits are based upon the value of the member's account upon retirement. The FRS Investment Plan provides vesting after one year of service regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the years of service required for vesting under the Pension Plan (including the service credit represented by the transferred funds) is required to be vested for these funds and the earnings of the funds. The employer pays a contribution as a percentage of salary that is deposited into the individual member's account. Effective July 1, 2011, there is a mandatory employee contribution of 3.00%. The FRS Investment Plan member directs the investment from the options offered under the plan. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer assessment of 0.04% of payroll and by forfeited benefits of plan members. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the FRS Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Disability coverage is provided; the employer pays an employer contribution to the fund the disability benefit which is deposited in the FRS Trust Fund. The member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the FRS Investment Plan and rely upon that account balance for retirement income.

Pension Amounts for the FRS Investment Plan

During the fiscal years ended June 30, 2016, and June 30, 2015, the Fund recognized $7,876 and $8,006 in pension expense related to the FRS Investment Plan, respectively, and employee contributions totaled $6,963 and $7,278. As of June 30, 2016, and June 30, 2015, the Fund reported current liabilities of $985, and $705, respectively, for June employer contributions to be paid to employee accounts in the following month. This liability is included in accrued expenses as a current liability on the Combined Statements of Net Position.

Blended rates paid by the employer for employees participating in the FRS Investment Plan include required contributions paid to the Health Insurance Subsidy (HIS) Program Pension Plan, the unfunded actuarial liability (UAL) contributions to the FRS Pension Plan, disability fees (also paid into the FRS Pension Plan), contributions to defined contribution participant accounts, and administrative fees. Amounts paid into the two defined benefit pension plans are already included in the net pension liability for those plans. Forfeiture amounts for the Fund are not available, as forfeitures are used only to offset the overall administrative cost of the defined contribution plan and the amount attributable to reducing the Fund's administrative expenses is unknown. Schedules of employer contributions on behalf of employees in the FRS Investment Plan for June 30, 2016, and June 30, 2015, fiscal years are presented below:

FRS Investment Plan expenses		**Reporting period ended June 30, 2016**	**Payable at June 30, 2016**
Gross pension employer contribution	$	19,094	3,934
Less contributions to HIS Pension Plan		(3,853)	(387)
Less UAL contributions to FRS Pension Plan		(6,690)	(2,493)
Less disability fees		(582)	(60)
Less administrative fees		(93)	(9)
Net pension expense/liability	$	7,876	985

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

3. Other Postemployment Benefits (OPEB)

The Fund participates in the State Employees Health Insurance Program, a cost-sharing multiple-employer defined benefit postemployment healthcare plan administered by the State of Florida, Department of Management Services, Division of State Group Insurance, to provide group health benefits. Section 110.123, Florida Statutes, provides that retirees may participate in the State’s group health insurance programs and assigns the authority to establish and amend benefit provisions to the Department of Management Services. Although premiums are paid by the retiree, the premium cost to the retiree is implicitly subsidized by the commingling of claims experience in a single risk pool with a single premium determination. An actuarial valuation has been performed for the plan and the Fund’s employees were included in the actuarial analysis. For more information on the plan regarding the funding policy and actuarial methods and assumptions, see the State of Florida’s Comprehensive Annual Financial Report, which is available from the Department of Financial Services. The Fund’s postemployment health benefits payable at June 30, 2016, and June 30, 2015, were $59,030 and $55,436, respectively.

(Continued)

(15) Subsequent Events

The Fund has reviewed and considered the events subsequent to the date of the consolidated financial statements through October 28, 2016, which is the date the consolidated financial statements were available to be issued, and are disclosing the following subsequent events:

- On July 1, 2016, the 2013A Revenue Bonds had principal due of $500,000,000 and was paid using the bond proceeds.
- On September 2, 2016, Hurricane Hermine made landfall east of St. Marks, Florida as a Category 1 hurricane.
- On October 7, 2016, the eye of Hurricane Matthew tracked close to the coast of Florida making its way along the east coast of the United States as a Category 3 hurricane.

(16) 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, 2016 (in thousands):

Assets		Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Current assets:				
Cash and cash equivalents	$	11	—	11
Short-term investments		10,818,319	8,468,859	2,349,460
Investment sales receivable		175,003	175,003	—
Emergency assessment funds receivable		331	—	331
Accrued interest		6,759	5,412	1,347
Prepaid expenses		—	—	—
Total current assets		11,000,423	8,649,274	2,351,149
Long-term assets:				
Long-term investments		5,086,241	4,130,910	955,331
Capital assets, net of accumulated depreciation		6	6	—
Total long-term assets		5,086,247	4,130,916	955,331
Total assets	$	16,086,670	12,780,190	3,306,480
Deferred outflows of resources:				
Deferred outflows related to pensions (note 14)	$	241	241	—

The following table provides the condensed combining liabilities and net position information of the Fund as of June 30, 2016 (in thousands):

Liabilities		**Combined**	**Florida Hurricane Catastrophe**	**State Board of Administration Finance Corporation**
Current liabilities:				
Accrued expenses	$	6,426	6,369	57
Bonds payable		500,000	—	500,000
Payable for securities purchased		74,997	50,000	24,997
Accrued bond interest expense		32,604	—	32,604
Net pension liability (note 14)		13	13	—
Total current liabilities		614,040	56,382	557,658
Long-term liabilities:				
Bonds payable		2,700,000	—	2,700,000
Net pension liability (note 14)		661	661	—
Compensated absences, net of current portion		127	127	—
Other post-employment benefits payable		59	59	—
Total long-term liabilities		2,700,847	847	2,700,000
Total liabilities		3,314,887	57,229	3,257,658
Deferred inflows of resources:				
Deferred inflows related to pensions (note 14)		97	97	—
Net position:				
Net investment in capital assets		6	6	—
Unrestricted		12,771,921	12,723,099	48,822
Total net position	$	12,771,927	12,723,105	48,822

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the year ended June 30, 2016 (in thousands):

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating revenues:			
Net premium revenue (net of reinsurance premium)	$ 1,143,359	1,143,359	—
Net interest on premium adjustments	(43)	(43)	—
Other	42	42	—
Total operating revenues	1,143,358	1,143,358	—
Operating expenses:			
Hurricane losses (reduction in losses)	—	—	—
Administrative and actuarial fees	2,449	2,449	—
Other professional fees	1,245	1,239	6
Personnel expenses	1,391	1,391	—
Depreciation	3	3	—
Other	196	181	15
Total operating expenses	5,284	5,263	21
Operating income	1,138,074	1,138,095	(21)
Nonoperating revenue (expense):			
Investment income	71,159	59,110	12,049
Investment advisor fees	(3,332)	(2,799)	(533)
Emergency assessment revenue (expense)	3,063	(14,933)	17,996
Custodian fees	(201)	(168)	(33)
Bond interest expense	(56,091)	—	(56,091)
Bond issuance expense	(3,385)	—	(3,385)
Total nonoperating revenue	11,213	41,210	(29,997)
Income before transfers	1,149,287	1,179,305	(30,018)
Transfers to (from) component units	—	(39,939)	39,939
Transfers to other state agencies	(10,000)	(10,000)	—
Change in net position	1,139,287	1,129,366	9,921
Net position at beginning of year	11,632,640	11,593,739	38,901
Net position at end of year	$ 12,771,927	12,723,105	48,822

The following table provides the condensed combining cash flows information of the Fund for the year ended June 30, 2016 (in thousands):

	Combined	Florida Hurricane Catastrophe Fund	State Board of Administration Finance Corporation
Operating activities:			
Premium received	$ 1,142,958	1,142,958	—
Hurricane losses paid	—	—	—
Other cash received from customers	42	42	—
Administrative and actuarial fees	(2,493)	(2,493)	—
Other professional fees	(1,340)	(1,330)	(10)
Personnel expenses	(1,481)	(1,481)	—
Other cash paid to vendors	(210)	(194)	(16)
Net cash provided (used) by operating activities	1,137,476	1,137,502	(26)
Investing activities:			
Purchases of investments	(111,018,102)	(92,826,297)	(18,191,805)
Sales and maturities of investments	108,687,828	91,716,607	16,971,221
Interest received	51,788	40,923	10,865
Investment advisor fees	(3,299)	(2,778)	(521)
Custodian fees	(209)	(176)	(33)
Net cash (used) by investing activites	(2,281,994)	(1,071,721)	(1,210,273)
Financing from noncapital activities:			
Transfers to other state agencies	(10,000)	(49,939)	39,939
Emergency assessments funds received	4,884	(15,838)	20,722
Cash received at bond issuance	1,200,000	—	1,200,000
Bond interest paid	(46,975)	—	(46,975)
Bond issuance cost	(3,385)	—	(3,385)
Net cash (used) by financing from noncapital activities	1,144,524	(65,777)	1,210,301
Financing from capital activity:			
Purchases of capital assets	(4)	(4)	—
Net increase in cash and cash equivalents	2	—	2
Cash and cash equivalents at beginning of year	9	—	9
Cash and cash equivalents at end of year	$ 11	—	11

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2016 and 2015

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

		Florida Retirement System FY 2014-2015	Florida Retirement System FY 2013-2014	Health Insurance Subsidy Program FY 2014-2015	Health Insurance Subsidy Program FY 2013-2014
Fund's proportion of the net pension liability (asset)		0.002651678%	0.002394824%	0.003242266%	0.003032327%
Fund's proportionate share of the net pension liability (asset)	$	342,500	146,119	330,660	283,530
Fund's covered-employee payroll		741,047	672,572	983,644	900,947
Fund's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll		46.22%	21.73%	33.62%	31.47%
Plan fiduciary net position as a percentage of the total pension liability		92.00	96.09	0.50	0.99

* Fiscal year 2015 was the first year of implementation; therefore, only two years are shown.
The amounts presented were determined using a measurement dates of June 30, 2015 and June 30, 2014.

FLORIDA HURRICANE CATASTROPHE FUND

Required Supplementary Information (Unaudited)

June 30, 2016 and 2015

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

		Florida Retirement System		
		FY 2015–2016	**FY 2014–2015**	**FY 2013–2014**
Contractually required contributions	$	69,114	64,650	52,457
Fund's contributions in relation to the contractually required contributions		(69,114)	(64,650)	(52,457)
Contribution deficiency (excess)	$	—	—	—
Fund's covered-employee payroll	$	804,696	741,047	672,572
Contributions as a percentage of covered-employee payroll		8.59%	8.72%	7.80%

		Health Insurance Subsidy Program		
		FY 2015–2016	**FY 2014–2015**	**FY 2013–2014**
Contractually required contributions	$	17,215	12,394	10,388
Fund's contributions in relation to the contractually required contributions		(17,215)	(12,394)	(10,388)
Contribution deficiency (excess)	$	—	—	—
Fund's covered-employee payroll	$	1,036,792	983,644	900,947
Contributions as a percentage of covered-employee payroll		1.66%	1.26%	1.15%

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

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

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of the Florida Hurricane Catastrophe Fund (the Fund), which comprise the combined statements of net position as of June 30, 2016 and 2015, 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 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

KPMG LLP

Minneapolis, Minnesota
October 28, 2016