

State Board of Administration of Florida  
**Florida Hurricane Catastrophe Fund**

Combined Financial Statements  
Fiscal Years Ended June 30, 2023 and 2022

## Table of Contents

Independent Auditor's Report.....	1
Management's Discussion and Analysis.....	4
Combined Financial Statements:	
Combined Statements of Net Position.....	13
Combined Statements of Revenues, Expenses, and Changes in Net Position .....	14
Combined Statements of Cash Flows.....	15
Notes to the Combined Financial Statements.....	17
Required Supplementary Information - Schedule of Fund's Proportionate Share of Net Pension Liability and Related Ratios (Unaudited) .....	63
Required Supplementary Information - Schedule of Fund Contributions (Unaudited) .....	65
Required Supplementary Information - Schedule of Fund's Proportionate Share of the Total Other Postemployment Benefits Liability (Unaudited).....	66
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	67

## INDEPENDENT AUDITOR'S REPORT

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

**Report on the Audit of the Combined Financial Statements*****Opinions***

We have audited the 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, 2023 and 2022, 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.

In our opinion, the accompanying combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2023 and 2022, and the change in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinions***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Fund, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Emphasis of Matter***

As discussed in Note 1, the combined financial statements of the Fund are intended to present the financial position, changes in financial position, and cash flows of the Fund. They do not purport to, and do not, present fairly the financial position of the State of Florida as of June 30, 2023 and 2022, the changes in its financial position, or, where applicable, its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

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(Continued)

## ***Responsibilities of Management for the Combined Financial Statements***

Management is responsible for the preparation and fair presentation of the combined financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the combined financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for twelve months beyond the combined financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

## ***Auditor's Responsibilities for the Audit of the Combined Financial Statements***

Our objectives are to obtain reasonable assurance about whether the combined financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the combined financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the combined financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the combined financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the combined financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Fund's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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(Continued)

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, schedule of Fund's proportionate share of the net pension liability and related ratios, schedule of fund contributions, and schedule of Fund's proportionate share of the total other postemployment benefits liability on pages 4-12, 63-64, 65 and 66, respectively, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2023 on our consideration of the Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fund's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.



Crowe LLP

Tampa, Florida  
November 1, 2023

# Management's Discussion and Analysis

## Introduction

The information contained in the Management's Discussion and Analysis (MD&A) introduces the basic financial statements and provides an analytical overview of the Florida Hurricane Catastrophe Fund's (the Fund) financial activities and performance for the fiscal years ended June 30, 2023, 2022 and 2021. Please read this information in conjunction with the Fund's combined financial statements and notes to the combined financial statements.

## Overview of the Financial Statements

The statements presented are the combined statements of net position, the combined statements of revenues, expenses, and changes in net position, and the combined statements of cash flows. These statements represent the financial position of the Fund, which is a tax-exempt trust fund (further described in Note 1) that provides a stable and ongoing source of timely reimbursement to Florida's residential property insurers for a portion of their catastrophic hurricane losses. The State Board of Administration Finance Corporation (the Corporation) was created to provide a mechanism for the cost-effective and efficient issuance of bonds necessary to enable the Fund to carry out its purposes. The Corporation is included as a blended component unit of the Fund because it provides services exclusively for the benefit of the Fund. Separate stand-alone audited financial statements of the blended component unit are not available. Combining statements can be found in the notes to the combined financial statements.

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

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

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

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

# Management's Discussion and Analysis

## Financial Summary

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

	<b>Fiscal Years Ended June 30</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>		
<b>Assets</b>			
Current assets	\$ 9,995,006	\$ 5,896,408	\$ 4,974,363
Long-term assets	5,256,341	10,058,964	12,228,577
Total assets	15,251,347	15,955,372	17,202,940
Deferred outflows related to pensions and OPEB	795	668	861
<b>Liabilities</b>			
Current liabilities	9,000,149	1,543,485	3,505,750
Long-term liabilities	3,502,245	3,501,333	3,502,570
Total liabilities	12,502,394	5,044,818	7,008,320
Deferred inflows related to pensions and OPEB	477	1,195	229
<b>Net position</b>			
Net investment in capital assets	35	37	49
Unrestricted	2,749,236	10,909,990	10,195,203
<b>Total net position</b>	<b>\$ 2,749,271</b>	<b>\$ 10,910,027</b>	<b>\$ 10,195,252</b>

## Management's Discussion and Analysis

### Financial Summary (continued)

A summary of the combined statements of revenues, expenses, and changes in net position for the Fund and the Corporation is presented below:

	<b>Fiscal Years Ended June 30</b>		
	<b>2023</b>	<b>2022</b>	<b>2021</b>
	<i>(In Thousands)</i>		
<b>Operating revenues</b>			
Net premium revenue	\$ 1,406,694	\$ 1,211,528	\$ 1,206,183
Net interest on premium adjustments	59	(244)	(254)
Net interest on loss disbursements and adjustments	100	376	15
Other	46	47	43
Total operating revenues	1,406,899	1,211,707	1,205,987
Nonoperating (expenses)/revenues, net	244,816	(477,123)	(42,258)
Total revenues	1,651,715	734,584	1,163,729
<b>Operating expenses</b>			
Hurricane losses	9,795,617	—	1,300,000
Operating expenses	6,837	6,293	6,774
Depreciation	17	16	15
Total operating expenses	9,802,471	6,309	1,306,789
Net income/(loss) before transfers	(8,150,756)	728,275	(143,060)
Transfers to other state agencies	(10,000)	(13,500)	(13,500)
<b>Change in net position</b>	(8,160,756)	714,775	(156,560)
Net position at beginning of year	10,910,027	10,195,252	10,351,812
Net position at end of year	\$ 2,749,271	\$ 10,910,027	\$ 10,195,252



# Management's Discussion and Analysis

## Financial Summary (continued)

The Fund's mission is to provide a stable and ongoing source of timely reimbursement to residential property insurers for a portion of their catastrophic hurricane losses for the purpose of protecting and advancing the state's interest in maintaining insurance capacity through the efficient and effective administration of the Fund. The Fund's combined financial statements reflect the effect of activities throughout the year that can impact the Fund's ability to continue to fulfill its mission.

## Financial Highlights:

- The net position decreased by \$8.2 billion or 75%, which is primarily a result of including the outstanding obligations for Hurricane Ian losses.
- Changes to the Fund's investment portfolio strategy to establish a reserve for hurricanes occurring prior to 2023 and to enhance liquidity in the portfolio, resulted in a 70% increase in current assets and a 48% decrease in long-term assets.
- Total assets decreased by \$0.7 billion as the Fund continues to reimburse insurers for Hurricanes Irma and Michael losses, in addition to Hurricane Ian, which occurred in 2022.
- Current liabilities increased \$7.5 billion to reflect the remaining estimated future reimbursements for Hurricane Ian losses.
- Long-term liabilities, which include the proceeds from the 2020A pre-event bond issuance, have not changed significantly. The funds are held and invested until maturity unless liquidity is needed to reimburse losses to insurers.
- Net premium revenue has increased 16% predominately due to the Fund's exposure base increasing and more insurers selecting the higher coverage level of 90%.
- Operating expenses increased by \$9.8 billion after including the reserve for estimated reimbursements to insurers for Hurricane Ian losses.

# Management’s Discussion and Analysis

## Financial Analysis

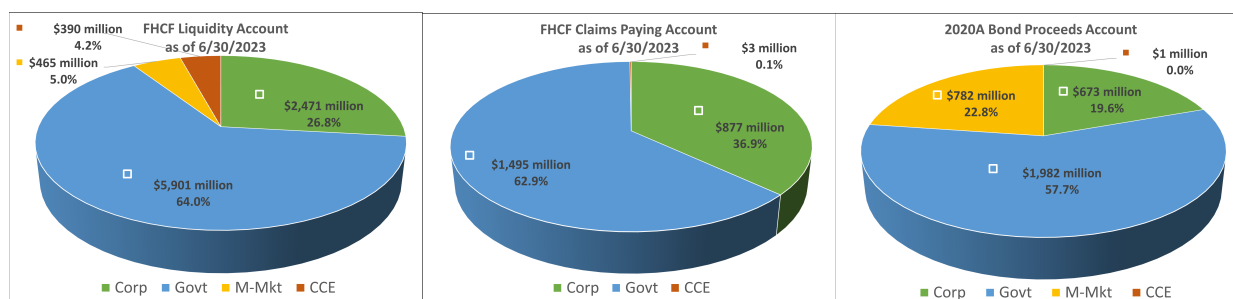
### Net Position

The Fund’s net position decreased by \$8.2 billion or 75%, during fiscal year 2023. This was primarily a result of Hurricane Ian, a Category 4 hurricane, that made landfall in southwest Florida on September 28, 2022. At June 30, 2023, the Fund was reimbursing participating insurers for losses from Hurricanes Irma, Michael and Ian.

Due to the large estimated loss for Hurricane Ian, the Fund experienced a significant decrease to its net position when compared to the prior fiscal year. Even with the decrease in the Fund’s net position, the Fund expects to timely reimburse all participants for covered losses from Hurricane Ian.

### Invested Assets

The largest assets on the Fund’s combined financial statements are the investments, which include accumulated annual premium revenues and 2020A bond proceeds. Considering the significance of Hurricane Ian losses and the need for short-term liquidity, the Fund modified its investment strategy to ensure funds are readily available to provide reimbursements to insurers. The Fund’s investment portfolio is managed by the State Board of Administration of Florida (SBA) with Investment Policy Guidelines (Guidelines) that focus primarily on liquidity, then safety of principal, and finally on competitive returns. This conservative investment policy provides for a high level of liquidity to match insurer loss reimbursement needs on a timely basis. The Fund’s total \$15.1 billion portfolio is comprised of Cash and Cash Equivalents, Money Market Funds, U.S. Treasury and Agency securities (73%) and corporate securities (27%).



Assets of the Fund and the Corporation are held in three separate portfolios. The liquidity account holds funds used to reimburse participating insurers’ losses for events that occurred in prior years. The claims-paying account is the first source of liquidity to pay for any reimbursements for hurricanes occurring in the current contract year and beyond. In addition, expenses of the Fund and any statutorily required appropriations are paid from this fund. The 2020A bond proceeds account includes proceeds from the issuance of revenue bonds in 2020, which can be used to pay claims if additional liquidity is needed. If the bond proceeds are used, the Fund can refinance the debt with issuance of post-event revenue bonds, which are paid back with emergency assessments.

# Management’s Discussion and Analysis

## Financial Analysis (continued)

### Hurricane Losses

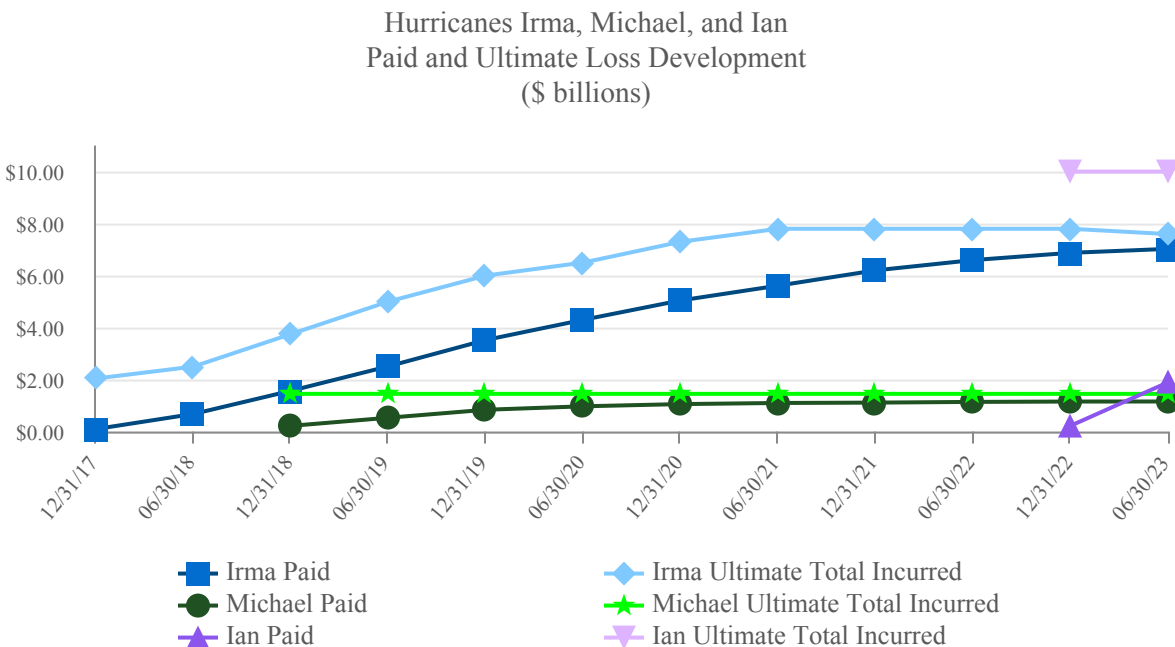
On June 1, 2023, participating insurers receiving reimbursements for Hurricane Irma were required to submit their final proof of loss report. At June 30, 2023, the outstanding obligations for Hurricane Irma are projected as \$0.6 billion based on those final proof of loss reports. The Fund reimburses insurers based on paid losses; however, once the final proof of loss report is filed, the Fund negotiates a final reimbursement with the insurer for any remaining outstanding losses. At June 30, 2023, the Fund had paid insurers \$7.0 billion for Hurricane Irma losses.

Many participating insurers continue to receive reimbursements for losses from Hurricane Michael occurring in 2018. At June 30, 2023, the Fund had paid insurers \$1.2 billion in reimbursements for Hurricane Michael losses and the Fund estimates an additional \$0.3 billion will be paid to insurers over the next year. The final proof of loss report for this hurricane is due June 1, 2024, and the Fund will begin a commutation process to negotiate and agree on a final payout to insurers with outstanding losses.

Hurricane Ian occurred in September of 2022, and at June 30, 2023, \$1.9 billion in reimbursements had been paid to insurers. The Fund estimates, based on current reporting by insurers, an additional \$8.1 billion in reimbursements will be paid through 2028.

On August 30, 2023, Hurricane Idalia made landfall near Keaton Beach, Florida, as a Category 3 hurricane. Actual losses, if any, are unknown at this time.

The chart below shows the Fund’s paid losses and ultimate total incurred loss estimates on a bi-annual basis for Hurricanes Irma, Michael, and Ian and highlights the difference in the development for the three events:



# Management’s Discussion and Analysis

## Financial Analysis (continued)

### Long-term Liabilities

In September 2020, the Corporation issued Series 2020A pre-event bonds in the amount of \$3.5 billion to enhance the available liquidity for the Fund and to provide an additional source of liquidity, if needed, to reimburse participating insurers. If a hurricane occurs, the Fund could choose to either use these bond proceeds in the current year while it plans for a post-event debt issuance, or continue to hold the bond proceeds to provide for future season capacity. The maturity schedule of the 2020A Bonds is in the table below:

<b>2020A Pre-Event Taxable Bonds<sup>1</sup></b>		
<i>Payment Dates</i>	<i>Payments Required</i>	<i>Interest Rate</i>
<i>July 1, 2025</i>	<i>\$1,250,000,000</i>	<i>1.26%</i>
<i>July 1, 2027</i>	<i>\$1,000,000,000</i>	<i>1.71%</i>
<i>July 1, 2030</i>	<i>\$1,250,000,000</i>	<i>2.15%</i>

<sup>1</sup> The 2020A Pre-Event Taxable Bonds had the following credit ratings: Moody’s Aa3; Standard and Poor’s AA; and Fitch AA.

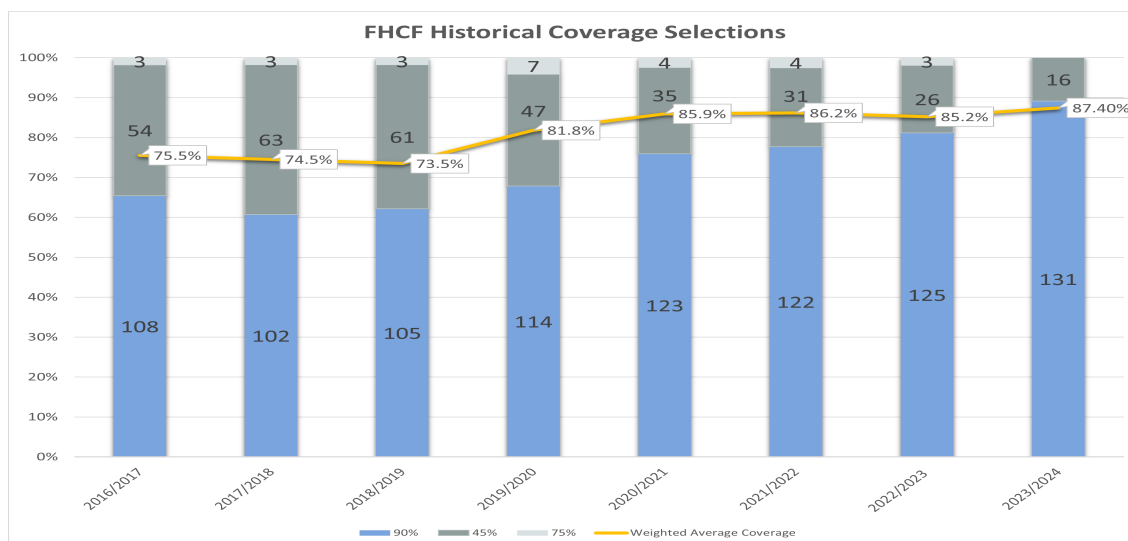
Investments pledged as collateral for the Fund’s outstanding debt at June 30, 2023 were \$3.48 billion. There is no concern about the Fund’s ability to repay the bonds or make scheduled debt service payments as the Fund’s outstanding debt is secured with pledged collateral that includes 1) annual reimbursement premium and investment earnings thereon after providing for the current expenses of the Fund; 2) investment earnings on bond proceeds; and 3) emergency assessments, if any, and the earnings thereon.

### Operating Revenues

The Fund’s total operating revenues primarily consist of premiums received annually from participating insurers, which totaled approximately \$1.4 billion for fiscal year 2023. The net premium revenue for the current fiscal year increased when compared to the prior fiscal year by approximately 16%. Net premium revenue has been increasing annually for the Fund due primarily to insurers choosing the higher coverage level of 90% since 2019. Fiscal year 2023 premium increases are also a result of significant increases in exposure growth. Exposure growth is due to various macro and micro economic factors in Florida which could include population growth, home value increases, and new home builds, but the most significant factor during fiscal year 2023 was inflation. This surge in exposure, coupled with more participating insurers selecting the 90% coverage option, increased the volume and growth in the Fund’s premium revenue. The number of insurers selecting a higher percentage is reflected in the following FHCF Historical Coverage Selections chart:

# Management’s Discussion and Analysis

## Financial Analysis (continued)



## Nonoperating Revenues

Nonoperating revenues predominantly consist of investment income earned on the accumulated annual reimbursement premiums paid by participating insurers. Changes in the nonoperating revenues are mainly driven by changes in investment income, including unrealized gains and losses. Since March of 2022, the Federal Open Market Committee raised its benchmark borrowing rate 10 times to the current range of 5.0%-5.25%. These increases had a significant impact on the market values of the Fund’s holdings in fiscal years 2022 and 2023. During the period, the Fund changed its Guidelines to shorten its portfolio duration and hold its investments to maturity, which allowed temporary unrealized losses to evaporate when investments matured at par. Therefore, fiscal years 2022 and 2023 had investment losses of \$412 million and gains of \$310 million, respectively, primarily due to the interest rate increases and actions taken by the Fund to mitigate these market dynamics without taking substantial realized losses. The table below summarizes the investment income of the Fund in fiscal years 2023, 2022 and 2021:

<b>Fund Investment Income (in thousands)*</b>			
<i>Fiscal Year Ended</i>	2023	2022	2021
<i>Interest Earned on Investments</i>	\$196,989	\$139,410	\$174,638
<i>Realized/Unrealized (Loss)/Gain, Net</i>	\$112,918	\$(551,652)	\$(140,398)
<b>Total</b>	<b>\$309,907</b>	<b>\$(412,242)</b>	<b>\$34,240</b>

\* Amounts are based on Market Value as of June 30 of each fiscal year.

# **Management's Discussion and Analysis**

## **Contacting the Fund's Financial Management**

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

## Combined Statements of Net Position

	<b>Fiscal Years Ended June 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
<b>Assets</b>		
Current assets:		
Short-term investments	\$ 9,815,621	\$ 5,758,583
Premium receivable (net of allowance)	123,350	99,654
Accrued interest	55,989	38,160
Accounts receivable	46	11
Total current assets	9,995,006	5,896,408
Long-term assets:		
Long-term investments	5,256,306	10,058,927
Capital assets, net of accumulated depreciation of \$86 and \$71 for June 30, 2023 and 2022, respectively	35	37
Total long-term assets	5,256,341	10,058,964
Total assets	15,251,347	15,955,372
Deferred outflows of resources:		
Deferred outflows related to pensions and OPEB (note 12)	795	668
<b>Liabilities</b>		
Current liabilities:		
Unpaid hurricane losses	8,969,600	1,512,861
Accrued expenses	598	693
Accrued bond interest expense	29,850	29,850
Compensated absences	91	72
Net pension and OPEB liability (note 12)	10	9
Total current liabilities	9,000,149	1,543,485
Long-term liabilities, net of current portion:		
Bonds payable	3,500,000	3,500,000
Compensated absences	259	208
Net pension and OPEB liability (note 12)	1,986	1,125
Total long-term liabilities	3,502,245	3,501,333
Total liabilities	12,502,394	5,044,818
Deferred inflows of resources:		
Deferred inflows related to pensions and OPEB (note 12)	477	1,195
<b>Net position</b>		
Net investment in capital assets	35	37
Unrestricted	2,749,236	10,909,990
<b>Total net position</b>	<b>\$ 2,749,271</b>	<b>\$ 10,910,027</b>

*See accompanying notes to the combined financial statements.*

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

	Fiscal Years Ended June 30	
	2023	2022
	<i>(In Thousands)</i>	
<b>Operating revenues</b>		
Net premium revenue	\$ 1,406,694	\$ 1,211,528
Net interest on premium adjustments	59	(244)
Net interest on loss disbursements and adjustments	100	376
Other	46	47
Total operating revenues	1,406,899	1,211,707
<b>Operating expenses</b>		
Hurricane losses	9,795,617	—
Administrative and actuarial fees	3,139	2,595
Other professional fees	1,456	1,744
Personnel expenses	1,956	1,790
Depreciation	17	16
Other	286	164
Total operating expenses	9,802,471	6,309
Operating income/(loss)	(8,395,572)	1,205,398
<b>Nonoperating (expenses)/revenues</b>		
Investment income	309,907	(412,242)
Investment advisor fees	(5,183)	(5,284)
Settlement proceeds	—	264
Custodian and bond trustee fees	(208)	(161)
Bond interest expense	(59,700)	(59,700)
Nonoperating (expenses)/revenues, net	244,816	(477,123)
Net income/(loss) before transfers	(8,150,756)	728,275
Transfers to other state agencies	(10,000)	(13,500)
<b>Change in net position</b>	(8,160,756)	714,775
Net position at beginning of year	10,910,027	10,195,252
Net position at end of year	\$ 2,749,271	\$ 10,910,027

*See accompanying notes to the combined financial statements.*



## Combined Statements of Cash Flows

	<b>Fiscal Years Ended June 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
<b>Cash flows from operating activities</b>		
Net premium received	\$ 1,383,058	\$ 1,211,231
Hurricane losses paid	(2,338,878)	(1,053,356)
Loss reimbursement advances and related interest	100	376
Other cash received from customers	—	47
Administrative and actuarial fees	(3,131)	(3,165)
Other professional fees	(1,451)	(1,694)
Personnel expenses	(1,890)	(1,794)
Other cash paid to vendors	(335)	(225)
Net cash provided (used) by operating activities	(962,527)	151,420
<b>Cash flows from investing activities</b>		
Purchases of investments	(104,100,095)	(21,863,875)
Sales and maturities of investments	104,958,596	22,316,286
Interest received	179,160	133,014
Settlement proceeds	—	264
Investment advisor fees	(5,202)	(5,161)
Investment custodian fees	(206)	(177)
Net cash provided by investing activities	1,032,253	580,351
<b>Cash flows from noncapital financing activities</b>		
Transfers to other state agencies	(10,000)	(13,500)
Payments for trustee fees	(3)	(3)
Bond principal paid	—	(650,000)
Bond interest paid	(59,700)	(68,273)
Bank financing - overdraft	(8)	8
Net cash used by noncapital financing activities	(69,711)	(731,768)
<b>Cash flows from capital and related financing activities</b>		
Purchases of capital assets	(15)	(3)
Net increase in cash and cash equivalents	—	—
Cash and cash equivalents at beginning of year	—	—
Cash and cash equivalents at end of year	\$ —	\$ —

## Combined Statements of Cash Flows

	<b>Fiscal Years Ended June 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
<b>Operating revenue (loss)</b>	\$ (8,395,572)	\$ 1,205,398
Adjustments to reconcile operating revenue (loss) to net cash provided (used) by operating activities:		
Depreciation expense	17	16
(Increase) decrease in premium receivable	(23,592)	(1,299)
Increase (decrease) in allowance for uncollectibles	(104)	1,246
(Increase) decrease in accounts receivable	(35)	(11)
(Increase) decrease in excess loss reimbursements receivable	—	5
(Increase) decrease in deposits and prepaid expenses	—	2
Increase (decrease) in compensated absences	70	8
Increase (decrease) in unpaid hurricane losses	7,456,739	(1,053,362)
Increase (decrease) in accrued expenses	(67)	(496)
Increase (decrease) in OPEB liability and deferrals	(1)	5
Increase (decrease) in pension liability and deferrals	18	(92)
<b>Net cash provided (used) by operating activities</b>	<b>\$ (962,527)</b>	<b>\$ 151,420</b>
Noncash investing activities:		
Change in fair value of investments	368,919	(501,312)

*See accompanying notes to the combined financial statements.*

# Notes to the Combined Financial Statements

## **1. Organization**

### **Business**

The Florida Hurricane Catastrophe Fund (the Fund), a tax-exempt trust fund created in November 1993 during a special Florida State legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to most authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. All authorized insurers in Florida, which write policies covered by the Fund, are required to pay an annual premium to the Fund. The annual contract period for coverage is June 1 through May 31. Insurers are required by law to enter into a reimbursement contract and neither the insurer nor the Fund has the ability to modify or cancel the contract during the contract year. In order to calculate the premium due, each insurer must submit its total covered property exposure by September 1 for insured values under covered policies as of June 30.

Premiums are calculated for each of the insurers using rates developed based on hurricane modeling of the trended data from the prior year. The modeling takes into consideration factors such as historical records of hurricane strength and landfall patterns, geographic location, type of business, construction, coverage selected, deductible, and mitigation features. The Fund is administered by the State Board of Administration of Florida (SBA).

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.

### **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.

# Notes to the Combined Financial Statements

## **1. Organization (continued)**

### **Adoption of New Accounting Pronouncements**

In June 2017, the GASB issued Statement No. 87, *Leases*. The guidance increases the usefulness of financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter, and shall be adopted on a prospective basis. The Fund's management has evaluated the impact of this statement and has found no material changes are required as it pertains to the Fund.

In June of 2020, the GASB issued Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITAs). The guidance addresses the accounting for costs related to cloud computing arrangements. The accounting and disclosure guidance provided by this standard closely mirrors the lease guidance provided in Statement No. 87 – Leases; however focuses more on technology arrangements rather than the conveyance of the right to use physical assets. The statement effective date is for reporting periods beginning after June 15, 2022, and is to be adopted retroactively to the earliest period presented. The Fund's management has evaluated the impact of this statement and has found no material changes are required as it pertains to the Fund.

### **Limited Liability of the Fund**

The Fund's obligation to participating insurers, in the event of a hurricane(s) that cause(s) reimbursable losses in a single season, is limited to the actual claims-paying capacity of the Fund up to a statutory limit of \$17 billion. The actual claims-paying capacity is defined in Section 215.555(2)(m), Florida Statutes, as the sum of the balance of the fund as of December 31 of a contract year, plus any reinsurance purchased by the Fund; and the amount the Fund is able to raise through the issuance of revenue bonds up to the statutory limit.

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 actual claims paying capacity. The State of Florida has no legal responsibility to make any contribution to the Fund should its obligations exceed available resources.

### **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 current reimbursement premiums and the investment earnings thereon to pay for prior year hurricane losses may jeopardize the tax-exempt status of any bonds issued under the private letter rulings issued to the Corporation by the Internal Revenue Service (IRS).

# Notes to the Combined Financial Statements

## **2. Significant Accounting Policies**

### **Measurement Focus**

As mentioned in Note 1, the Fund uses the economic resources measurement focus and the accrual basis of accounting.

### **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.

### **Investments**

The Fund's cash is invested in three separate portfolios: (1) liquidity fund, (2) claims-paying fund, and (3) the Corporation's pre-event fund. The liquidity fund portfolio holds funds used to reimburse insurers for losses for hurricanes occurring before 2023. The claims-paying fund is the first source of liquidity to pay for any reimbursements for hurricanes occurring in 2023 and beyond. In addition, expenses of the FHCF and any statutorily required appropriations are paid from this fund. The 2020A bond proceeds fund are bond proceeds from the issuance of revenue bonds in 2020, which can be used to pay claims if cash is exhausted and additional liquidity is needed. If the bond proceeds are used, the FHCF can refinance the debt with issuance of post-event revenue bonds which are paid back with emergency assessments. The Fund's cash is invested according to Investment Policy Guidelines (Guidelines), which set forth the objectives, guidelines, and requirements applicable to the investments of the Fund. The primary goal of the Guidelines is defined by the following priorities: (1) liquidity, (2) safety of principal, and (3) competitive return. Investments are recorded at fair value and the fair values are primarily obtained from independently quoted market prices; certain investments, such as repurchase agreements and money market funds that meet the Security and Exchange Commission's (SEC) requirements to maintain a stable net asset value, are carried at cost, which approximates fair value. The Fund considers all investments with maturity dates of less than one year to be short-term investments. Investments with maturity dates in excess of one year are included in long-term investments. Investment management and advisory services are provided by the SBA. The Guidelines were last amended effective May 11, 2023.

# Notes to the Combined Financial Statements

## **2. Significant Accounting Policies (continued)**

### **Premium Receivable**

At June 30, 2023 and 2022, the Fund's premium receivable totaled \$123.4 million and \$99.7 million, respectively, which includes amounts from previous billings that have not yet been collected, net of any allowances management has established to anticipate uncollectible billings, as well as the amount of estimated premium revenue for one month of the current contract year, which began on June 1. The one month premium receivable is \$114.2 million as of June 30, 2023 and \$97.8 million as of June 30, 2022.

### **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, 2023 and 2022, there are no outstanding loss reimbursement advances.

### **Capital Assets**

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

### **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. See note 12 for the discussion of the Fund's Pension and Other Postemployment Benefits plans and related deferred outflows of resources.

### **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.

### **Bonds Payable**

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

# Notes to the Combined Financial Statements

## **2. Significant Accounting Policies (continued)**

### **Compensated Absences**

Compensated absences represent the Fund's obligation to accrue a liability for employees' rights to receive compensation for future absences, such as vacation and sick leave. The Fund allows vested employees to carry forward any unpaid sick leave indefinitely. The short-term portion of this liability, \$91 thousand in 2023 and \$72 thousand in 2022, is included in the current liabilities reported on the combined statements of net position. The remaining liability estimated to be payable in more than one year is included as compensated absences within long-term liabilities on the combined statements of net position.

### **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. See note 12 for the discussion of the Fund's Pension and Other Postemployment Benefits plans and related deferred inflows of resources.

### **Current Contract Year Premium Revenue**

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

### **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.

### **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.

# Notes to the Combined Financial Statements

## **2. Significant Accounting Policies (continued)**

### **Net Interest on Premium Adjustments**

Participating insurers have the option of paying the billed provisional premium or the insurer's estimated 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. If the insurer's estimated premiums are too low causing an underpayment, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2023, the interest rate was 0.12% for underpayments and overpayments of premium and 5.12% for underpayments on balances that remain unpaid after the final invoice due date. For the contract year ended May 31, 2022, the interest rate was 0.89% for underpayments and overpayments of premium and 5.89% for underpayments on balances that remain unpaid after the final invoice due date.

### **Hurricane Losses**

Hurricane losses represent the estimated ultimate cost of all reported and incurred but not reported (IBNR) claims during the year which includes increases to reserves during the fiscal year for hurricanes occurring in prior fiscal years plus any new reserves for hurricanes occurring in the current fiscal year that exceed the participating insurers' individual company retention levels. The reserves for unpaid claims are estimated primarily by the Fund's independent actuary'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 reviewed quarterly and adjusted as experience develops or new information becomes known, and such adjustments are included in current operating expenses.

### **Emergency Assessment**

Section 215.555(6)(b) of the Florida Statutes provides for an emergency assessment on all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and medical malpractice premiums. A maximum annual assessment of 6% is allowed for losses attributable to any one contract year and a maximum aggregate annual assessment of 10% for all contract years. As of June 30, 2023 and 2022, there were no emergency assessments.

### **Transfers to Other State Agencies**

Pursuant to Section 215.555(7)(c) of the Florida Statutes, the Florida Legislature shall appropriate from the Fund an amount no less than \$10 million 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. Appropriated funds are 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 fiscal years 2023 and 2022, \$10.0 and \$13.5 million, respectively, were appropriated from the Fund.



# Notes to the Combined Financial Statements

## **2. Significant Accounting Policies (continued)**

### **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 post-event debt in March 1998, and a permanent ruling was received in June 2008.

### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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. Deposits and Investments**

### **Custodial Credit Risk**

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

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

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

## Notes to the Combined Financial Statements

### **3. Deposits and Investments (continued)**

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

At June 30, 2023 and 2022, all bank deposits were held at QPDs or were FDIC insured.

### **Investments**

Funds are invested in accordance with Section 215.47, F.S., and the Fund's Guidelines, which includes, but is not limited to, corporate debt securities, certificates of deposit, bonds, commercial paper, U.S. government agency notes, U.S. government Treasury securities, shares of money market funds, international financial institutions and sovereigns, and repurchase agreements.

The fair value of the Fund's investments is as follows:

<b>Investment Type</b>	<b>As of June 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Short-term investments:		
Certificates of deposit	\$ 389,590	\$ —
Commercial paper	1,246,997	1,088,975
Money market funds	36,966	70,519
U.S. Treasury bills	2,838,514	2,170,180
U.S. Treasury notes	3,056,352	661,614
Federal agency discount notes	307,816	49,989
Domestic corporate bonds and notes	1,138,378	1,241,740
International corporate bonds and notes	753,480	475,566
International government bonds and notes	47,528	—
Total short-term investments	9,815,621	5,758,583
Long-term investments:		
U.S. Treasury notes	3,103,122	6,321,639
Domestic corporate bonds and notes	1,260,678	2,155,146
International corporate bonds and notes	868,225	1,535,187
International government bonds and notes	24,281	46,955
Total long-term investments	5,256,306	10,058,927
<b>Total investments</b>	<b>\$ 15,071,927</b>	<b>\$ 15,817,510</b>

# Notes to the Combined Financial Statements

## 3. Deposits and Investments (continued)

### Interest Rate Risk

The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk in each portfolio. In accordance with each of the Guidelines, funds held shall have a maximum dollar weighted average maturity (DWAM) of 60 days, 14 days, and 180 days, with the exception of those for government securities and agency securities, which shall not exceed 365 days, 60 days, and 545 days for the liquidity fund, claims-paying fund, and pre-event fund portfolios, respectively. 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 maturity of the Fund's investments as of June 30, 2023 and 2022, is as follows:

Investment Type	As of June 30, 2023		As of June 30, 2022	
	Total (In Thousands)	Weighted Average Maturity <sup>1</sup> (In Days)	Total (In Thousands)	Weighted Average Maturity (In Days)
Certificates of deposit	\$ 389,590	30	\$ —	—
Commercial paper	1,246,997	9	1,088,975	51
Money market funds	36,966	1	70,519	1
U.S. Treasury bills	2,838,514	15	2,170,180	61
U.S. Treasury notes	6,159,474	375	6,983,253	647
Federal agency discount notes	307,816	7	49,989	7
Domestic corporate bonds and notes	2,399,056	403	3,396,886	559
International corporate bonds and notes	1,621,705	398	2,010,753	612
International government bonds and notes	71,809	417	46,955	586
Total portfolio	<u>\$ 15,071,927</u>		<u>\$ 15,817,510</u>	
Portfolio weighted average maturity		267		497

<sup>1</sup> The aforementioned DWAM generally applies to new purchases in the Portfolios as the Fund transitions from longer held securities prior to the changes made to the Fund's Guidelines in May of 2023.

### Credit Risk

The Guidelines state 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 Standard and Poor's (S&P), Moody's, and/or Fitch and must be a minimum of "A-1" by S&P, "P-1" by Moody's, and/or "F1" by Fitch. For long-term ratings, this has been defined as being obtained from at least two of S&P, Moody's, and/or Fitch and must be a minimum of "A" by S&P, "A2" by Moody's, and/or "A" by Fitch.

## Notes to the Combined Financial Statements

### 3. Deposits and Investments (continued)

The schedule below provides the credit quality ratings by S&P and Moody's Investor Services at June 30, 2023:

Investment type	Fair value	Credit quality ratings	
		S & P	Moody's
	<i>(In Thousands)</i>		
Certificates of deposit <sup>2</sup>	\$ 389,590	Not Rated	Not Rated
Commercial paper	1,177,236	A-1	P-1
Commercial paper <sup>3</sup>	69,761	A-2	P-1
Money market funds	36,966	AAAm	Aaa-mf
U.S. Treasuries <sup>1</sup>	8,997,988	Not Rated	Not Rated
Federal agencies discount notes <sup>4</sup>	307,816	Not Rated	Not Rated
Domestic corporate bonds and notes	244,167	AAA	Aaa
Domestic corporate bonds and notes	228,122	AA	Aaa
Domestic corporate bonds and notes	319,045	AA	Aa
Domestic corporate bonds and notes	399,495	AA	A
Domestic corporate bonds and notes	14,423	A	Aa
Domestic corporate bonds and notes	1,193,804	A	A
International corporate bonds and notes	403,035	AA	Aa
International corporate bonds and notes	415,133	A	Aa
International corporate bonds and notes	803,537	A	A
International government bonds and notes	71,809	AA	Aa
<b>Total investments</b>	<b>\$ 15,071,927</b>		

<sup>1</sup> U.S. guaranteed obligations, which are explicitly guaranteed by the U.S. Government, do not require disclosure of credit quality.

<sup>2</sup> All certificates of deposit, including the \$389,590 "Not Rated" certificates of deposit, had short-term issuer ratings of A-1 for S&P and P-1 for Moody's.

<sup>3</sup> Per Guidelines, the securities presented with an A-2 rating have two additional credit ratings in the highest category of ratings with other NRSROs.

<sup>4</sup> Federal Agency securities are classified as "Not Rated" because they do not have explicit credit ratings on individual securities.

# Notes to the Combined Financial Statements

## 3. Deposits and Investments (continued)

The schedule below provides the credit quality ratings by S&P and Moody's Investor Services at June 30, 2022:

Investment type	Fair value <i>(In Thousands)</i>	Credit quality ratings	
		S & P	Moody's
Commercial paper	\$ 1,088,975	A-1	P-1
Money market funds	70,519	AAAm	Aaa-mf
U.S. Treasuries <sup>1</sup>	9,153,433	Not Rated	Not Rated
Federal agencies discount notes <sup>2</sup>	49,989	Not Rated	Not Rated
Domestic corporate bonds and notes	297,141	AAA	Aaa
Domestic corporate bonds and notes	354,230	AA	Aaa
Domestic corporate bonds and notes	1,083,714	AA	Aa
Domestic corporate bonds and notes	668,362	AA	A
Domestic corporate bonds and notes	14,755	A	Aa
Domestic corporate bonds and notes	978,684	A	A
International corporate bonds and notes	558,691	AA	Aa
International corporate bonds and notes	35,071	AA	A
International corporate bonds and notes	311,605	A	Aa
International corporate bonds and notes	1,105,386	A	A
International government bonds and notes	46,955	AA	Aa
<b>Total investments</b>	<b>\$ 15,817,510</b>		

<sup>1</sup> U.S. guaranteed obligations, which are explicitly guaranteed by the U.S. Government, do not require disclosure of credit quality.

<sup>2</sup> Federal Agency securities are classified as "Not Rated" because they do not have explicit credit ratings on individual securities.

## Concentration of Credit Risk

Pursuant to the Guidelines, securities of a single issuer (determined by the guarantor and includes both Registered and 144A securities) shall not represent more than 3% of total portfolio market value (excluding government securities, repurchase agreements, money market mutual funds and custodian cash sweep vehicles). Of the maximum 3% single issue constraint, the maximum amount of single issuer 144A securities shall not represent more than 1.5% of total portfolio market value. According to the Guidelines, a single issuer is interpreted to be the aggregate of all affiliated issuers. The maximum single issuer limit can be 5% if timing issues related to delayed delivery transactions are the sole cause of the discrepancy, so long as the percentage is reduced back to 3% within five business days. Repurchase agreements, which are collateralized at least 102% with U.S. government, agency, or agency mortgage-backed securities, are excluded by the SBA in determining compliance with the Guidelines.

# Notes to the Combined Financial Statements

## **3. Deposits and Investments (continued)**

At June 30, 2023 and 2022, the Fund's investments with regards to the maximum single issuer constraints were in compliance with Guidelines and there were no securities with any one issuer representing 5% or more of the Fund's total investments. Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from this requirement.

### **Foreign Currency Risk**

There was no exposure to foreign currency risk during the fiscal years ended June 30, 2023 and 2022.

### **Fair Value Hierarchy**

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

Level 1 - Investments reflect unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Investments reflect prices based on significant observable inputs (including, but not limited to, quoted prices for similar investments, interest rates, foreign exchange rates, volatility and credit spreads), either directly or indirectly. These inputs may be derived principally from, or corroborated by, observable market data through correlation or by other means.

Level 3 - Investments reflect prices based upon unobservable inputs, including situations where there is little market activity, if any, for assets or liabilities.

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

Debt securities classified as Level 1 of the fair value hierarchy are valued using quoted prices at June 30 (or the most recent market close date if the markets are closed on June 30) in active markets from the custodian bank's external pricing vendors, which utilize primary exchanges. The Fund held no securities with Level 1 fair values at June 30, 2023 and 2022.

Debt securities classified as Level 2 are valued using 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 valued using prices from the custodian bank's external pricing vendors or an alternative pricing source, utilizing inputs such as stale prices, cash flow models, or 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. The Fund held no securities with Level 3 fair values at June 30, 2023 and 2022.

## Notes to the Combined Financial Statements

### 3. Deposits and Investments (continued)

The Fund has the following fair value measurements as of June 30, 2023 and June 30, 2022.

Investments by Fair Value Level	Total	As of June 30, 2023		
		Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
<i>(In Thousands)</i>				
<b>Debt securities</b>				
Certificates of deposit	\$ 389,590	\$ —	\$ 389,590	\$ —
Commercial paper	1,246,997	—	1,246,997	—
U.S. treasuries	8,997,988	—	8,997,988	—
Federal agency discount notes	307,816	—	307,816	—
Domestic corporate bonds and notes	2,399,056	—	2,399,056	—
International corporate bonds and notes	1,621,705	—	1,621,705	—
International government bonds and notes	71,809	—	71,809	—
Total debt securities measured at fair value	<u>15,034,961</u>	<u>—</u>	<u>15,034,961</u>	<u>—</u>
<b>Investments carried at amortized cost</b>				
Money market funds	36,966			
<b>Total investments</b>	<u><u>\$ 15,071,927</u></u>			

Investments by Fair Value Level	Total	As of June 30, 2022		
		Fair Value Measurements Using		
		(Level 1)	(Level 2)	(Level 3)
<i>(In Thousands)</i>				
<b>Debt securities</b>				
Commercial paper	\$ 1,088,975	\$ —	\$ 1,088,975	\$ —
U.S. treasuries	9,153,433	—	9,153,433	—
Federal agency discount notes	49,989	—	49,989	—
Domestic corporate bonds and notes	3,396,886	—	3,396,886	—
International corporate bonds and notes	2,010,753	—	2,010,753	—
International government bonds and notes	46,955	—	46,955	—
Total debt securities measured at fair value	<u>15,746,991</u>	<u>—</u>	<u>15,746,991</u>	<u>—</u>
<b>Investments carried at amortized cost</b>				
Money market funds	70,519			
<b>Total investments</b>	<u><u>\$ 15,817,510</u></u>			

## Notes to the Combined Financial Statements

### 4. Capital Assets

A summary of the Fund’s capital assets and the related accumulated depreciation for the years ended June 30, 2023 and 2022 is as follows:

	<b>Equipment</b>	<b>Accumulated Depreciation</b>	<b>Net</b>
		<i>(In Thousands)</i>	
<b>Balance as of June 30, 2021</b>	\$ 123	\$ (74)	\$ 49
Additions and depreciation expense	3	(16)	(13)
Sales or disposals	(18)	18	—
<b>Balance as of June 30, 2022</b>	108	(71)	37
Additions and depreciation expense	15	(17)	(2)
Sales or disposals	(2)	2	—
<b>Balance as of June 30, 2023</b>	\$ 121	\$ (86)	\$ 35

### 5. Unpaid Hurricane Losses

The Fund is paying loss reimbursements for three hurricanes that occurred during the 2017, 2018, and 2022 hurricane seasons as outlined below.

On September 10, 2017, Hurricane Irma made landfall in the Florida Keys as a Category 4 hurricane and made a second Florida landfall as a Category 3 hurricane at Marco Island later that day. As of June 30, 2023 and 2022, the estimated ultimate loss to the Fund for this hurricane was \$7.6 billion and \$7.8 billion, respectively. This reduction in ultimate loss to the Fund was based on Participating Insurer’s final proof of loss reports submitted by June 1, 2023. Participating Insurers in Contract Year 2017 that were receiving reimbursements from the FHCF were required to submit their final proof of loss report to begin a commutation process to negotiate and agree to a final payout to insurers with outstanding reimbursements. Contract Year 2017 commutations are expected to be completed during Fiscal Year 2024.

On October 10, 2018, Hurricane Michael made landfall near Mexico Beach, Florida as a Category 5 hurricane. As of June 30, 2023 and 2022, the estimated ultimate loss to the Fund for this hurricane was \$1.45 billion. Participating Insurers in Contract Year 2018 that were receiving reimbursements from the FHCF are required to submit their final proof of loss report by June 1, 2024. Contract Year 2018 commutations are expected to be completed during Fiscal Year 2025.

On September 28, 2022, Hurricane Ian made landfall in southwest Florida as Category 4 hurricane. As of June 30, 2023, the estimated ultimate loss to the Fund for this hurricane was \$10.0 billion.

As of June 30, 2023, the total estimated ultimate loss to the Fund for Hurricanes Irma, Michael, and Ian is approximately \$19.0 billion.



## Notes to the Combined Financial Statements

### 5. Unpaid Hurricane Losses (continued)

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for fiscal years 2023 and 2022:

	<b>Fiscal Years Ended June 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
Reserve for unpaid hurricane losses at beginning of year	\$ 1,512,861	\$ 2,536,239
Reserve change for hurricane losses occurring in:		
Current year	10,000,000	—
Prior years	(204,383)	—
Net incurred losses during the current year	9,795,617	—
Payments for hurricane losses occurring in:		
Current year	1,893,563	—
Prior years	445,315	1,023,378
Net claim payments during the current year	2,338,878	1,023,378
Reserve for unpaid hurricane losses at end of year	\$ 8,969,600	\$ 1,512,861

The Fund's reserve change for hurricane losses occurring in prior years as of June 30, 2023, was reduced by \$0.2 billion as a result of the final proof of loss reporting from Hurricane Irma and \$0 billion as of June 30, 2022. This reserve is periodically adjusted based on actual results and actuarial analyses.

### 6. Changes in Long-term Liabilities

The following tables provide the long-term liability activity for the years ended June 30, 2023 and 2022 as follows (in thousands):

<b>Long-term liabilities as of June 30, 2023</b>	<b>Beginning balance<sup>1</sup></b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance<sup>1</sup></b>	<b>Amount Due within 1 year</b>
Bonds payable	\$ 3,500,000	\$ —	\$ —	\$ 3,500,000	\$ —
Net pension liability	720	1,196	(304)	1,612	—
Compensated absences	280	183	(113)	350	91
Other postemployment benefits payable	414	138	(168)	384	10

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

<b>Long-term liabilities as of June 30, 2022</b>	<b>Beginning balance<sup>1</sup></b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending balance<sup>1</sup></b>	<b>Amount Due within 1 year</b>
Bonds payable	\$ 4,150,000	\$ —	\$ (650,000)	\$ 3,500,000	\$ —
Net pension liability	1,968	753	(2,001)	720	2
Compensated absences	272	174	(166)	280	72
Other postemployment benefits payable	412	31	(29)	414	7

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

# Notes to the Combined Financial Statements

## 7. Bonds Payable and Debt Service Requirements

As of June 30, 2023 and 2022, there were no post-event bonds outstanding.

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 were available to pay for losses incurred from future covered events. However, the bonds matured on July 1, 2021, when the final principal payment of \$650 million was made.

On September 16, 2020, the Corporation issued \$3.5 billion of pre-event Series 2020A Revenue Bonds to enhance the liquidity of the Fund and to maximize the ability of the Fund to meet future obligations. The proceeds from these bonds may be used to pay for losses incurred from future covered events. Investment earnings on these funds, as well as reimbursement premiums, if necessary, are used to pay the debt service requirements of these bonds. The Series 2020A Revenue Bonds have maturities of \$1.25 billion on July 1, 2025, \$1.0 billion on July 1, 2027, and \$1.25 billion on July 1, 2030 bearing interest rates of 1.258%, 1.705%, and 2.154%, respectively. Interest payments are due each January 1 and July 1 and interest expense for fiscal years ending June 30, 2023 and 2022, was \$59.7 million and \$59.7 million, respectively.

These bonds are parity obligations and were secured under the same Master Trust Indenture as previous pre-event bond issues. They are solely obligations of the Corporation and neither the credit, the revenues nor the taxing power of the State of Florida is pledged to the payment of the bonds. As of June 30, 2023 and 2022, assets having a value of \$3.48 billion and \$3.43 billion, respectively, were pledged as collateral for the Series 2020A Bonds. The market value of the pledged assets is less than the par value at June 30, 2023 and 2022 due to market volatility; however, this does not create an event of default.

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

The following table breaks out annual debt service requirements for the Corporation's revenue bonds by fiscal year as of June 30, 2023 and 2022:

Fiscal year ended June 30	As of June 30, 2023		As of June 30, 2022	
	Principal	Interest	Principal	Interest
	<i>(In Thousands)</i>		<i>(In Thousands)</i>	
2022	\$ —	\$ —	\$ —	\$ 59,700
2023	—	59,700	—	59,700
2024	—	59,700	—	59,700
2025	1,250,000	59,700	1,250,000	59,700
2026	—	43,975	—	43,975
2027	1,000,000	43,975	1,000,000	43,975
2028	—	26,925	—	26,925
2029	—	26,925	—	26,925
2030	1,250,000	26,925	1,250,000	26,925
2031	—	—	—	—
<b>Total</b>	<b>\$ 3,500,000</b>	<b>\$ 347,825</b>	<b>\$ 3,500,000</b>	<b>\$ 407,525</b>

<sup>1</sup> Principal and interest payments due July 1st are shown in the preceding fiscal year.

# Notes to the Combined Financial Statements

## **8. Compensated Absences**

The following table presents compensated absences as of June 30, 2023 and 2022 (in thousands):

<b>Balance as of June 30, 2021</b>	\$ 272
Increases	174
Decreases	(166)
<b>Balance as of June 30, 2022</b>	280 *
Increases	183
Decreases	(113)
<b>Balance as of June 30, 2023</b>	\$ 350 *

\* Includes long-term and current balances, of which \$91 thousand and \$72 thousand is estimated due within one year of June 30, 2023 and 2022, respectively.

## **9. Premium Revenue**

Fiscal year premiums, which are net of any allowances management has established to anticipate uncollectible billings, 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:

<b>Contract Year</b>	<b>Fiscal Years Ended June 30</b>	
	<b>2023</b>	<b>2022</b>
	<i>(In Thousands)</i>	
2023	\$ 114,249 *	\$ —
2022	1,292,777	97,758 *
2021	(699)	1,117,095
2020	330	(2,688)
2019	26	(497)
2018	10	(140)
2017	1	—
<b>Total</b>	<b>\$ 1,406,694</b>	<b>\$ 1,211,528</b>

\* As of June 30, 2023 and 2022, which is in contract year 2023 and 2022, respectively, running June 1 through May 31, an accrual was established for one month's pro-rata portion of the reimbursement premium for each respective contract year.

## **10. Related Parties**

The Fund paid the SBA \$4.1 million and \$1.1 million for the Fund and the Corporation, respectively, in the fiscal year ended June 30, 2023, and \$4.2 million and \$1.1 million for the Fund and the Corporation, respectively, in the fiscal year ended June 30, 2022 for investment management and advisory services.

# Notes to the Combined Financial Statements

## **11. Settlement Proceeds**

On December 1, 2021, the Fund received approximately \$264 thousand as a share of the State's class action suit involving GSE Bonds Antitrust Litigation.

## **12. Pension and Other Postemployment Benefits**

### **Pension Plans**

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

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

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

The 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, 2022 and June 30, 2021, the Department issued a publicly available, audited annual comprehensive financial report (ACFR) 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 ACFRs, which are available online or by contacting the Department.

Copies of these reports, as well as the plans' actuarial valuations, can be obtained from the Department of Management Services, Division of Retirement (Division), Bureau of Research and Education Section, 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](mailto:rep@dms.myflorida.com); or at the Division's website ([www.frs.myflorida.com](http://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.

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

### **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 FRS Pension Plan was created in Chapter 121, Florida Statutes (F.S.), effective December 1, 1970, by consolidating and closing these existing plans to new members: the Teachers’ Retirement System (Chapter 238, F.S.), the State and County Officers and Employees’ Retirement System (Chapter 122, F.S.), and the Highway Patrol Pension Trust Fund (Chapter 321, F.S.). In 1972, the Judicial Retirement System (Chapter 123, F.S.) was closed and consolidated into the FRS. The FRS was created to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide the Investment Plan as a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. The FRS Investment Plan is an integrated defined contribution plan administered by the State Board of Administration. Effective July 1, 2007, the Institute of Food and Agricultural Sciences (IFAS) Supplemental Retirement Program, established under Section 121.40, F.S., was consolidated under the FRS Pension Plan as a closed retirement plan. Participation in the IFAS Supplemental Retirement Program does not constitute membership in the FRS.

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

### **Membership**

FRS membership is compulsory for eligible 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, F.S. or Section 121.122, F.S., or allowed to participate in a nonintegrated defined contribution plan in lieu of FRS membership. Participation by cities, municipalities, special districts, charter schools, and metropolitan planning organizations, although optional, is generally irrevocable after election to participate is made. Members hired into certain positions may be eligible to withdraw from the FRS altogether or elect to participate in the non-integrated retirement programs in lieu of the FRS except faculty of a medical college in a state university who must participate in the State University System Optional Retirement Program (SUSORP). Retirees initially reemployed in regularly established positions on or after July 1, 2010, may not participate in the FRS except for defined contribution plan retirees employed in a regularly established position on or after July 1, 2017. FRS Pension Plan retirees remain ineligible for renewed membership.

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

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

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

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

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

For Regular Class, SMSC, and EOC Members:

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

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

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

Special Risk Class and Special Risk Administrative Support Class Members:

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

### **Benefits**

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

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. Section 121.091, was amended, effective July 1, 2022, to allow DROP participants employed in eligible Special Risk Class law enforcement officer positions on July 1, 2022, and before June 30, 2028, to participate for up to 36 additional months beyond their initial 60-month eligibility period. Monthly retirement benefits remain in the FRS Trust Fund during DROP participation and accrue interest until the member terminates to finalize retirement. As of

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

June 30, 2022 and 2021, the FRS Trust Fund held in trust \$2,668,218,157 and \$2,684,789,035 in accumulated benefits and interest for 31,023 and 34,338 current and prior participants in DROP, respectively.

### **Administration**

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

### **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, 2022 and 2021 was \$180,226,404,807 and \$202,082,182,546, respectively. These funds were reserved to provide for total current and future benefits, refunds, and administration of the FRS Pension Plan.

The following table present FRS retirement employer contribution rates for fiscal years ended June 30, 2023 and 2022. Rates indicated are uniform rates for all FRS members and include UAL contribution rates. These rates do not include a 1.66% contribution rate for the Retiree Health Insurance Subsidy (HIS) Program and a 0.06% assessment for the administration of the FRS Investment Plan and the educational program available to all FRS members. In addition, the July 1, 2022 and the July 1, 2021 statutory employer rates do not include the 3.00% mandatory employee contribution for all membership classes except for members in the DROP.



# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

<b>Membership Class</b>	<b>Uniform employer rates recommended by actuarial valuation for FY 2022-2023</b>	<b>July 1, 2022 Statutory rates (Ch. 121, F.S.)</b>	<b>Uniform employer rates recommended by actuarial valuation for FY 2021-2022</b>	<b>July 1, 2021 Statutory rates (Ch. 121, F.S.)</b>
Regular	10.19 %	10.19 %	9.10 %	9.10 %
Senior Management Service	29.85 %	29.85 %	27.29 %	27.29 %
Special Risk	26.11 %	26.11 %	24.17 %	24.17 %
Special Risk Administrative Support	36.93 %	36.93 %	36.04 %	36.04 %
Elected Officers - Judges	42.05 %	42.05 %	39.19 %	39.19 %
Elected Officers - Legislators/Attorneys/Cabinet	66.07 %	66.07 %	62.01 %	62.01 %
Elected Officers - County	55.28 %	55.28 %	49.70 %	49.70 %
DROP - applicable to members from all of the above classes or plans	16.94 %	16.94 %	16.68 %	16.68 %

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

### **Retiree Health Insurance Subsidy (HIS) Program**

The HIS Program is a non-qualified cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, F.S. The Florida Legislature establishes and amends the contribution requirements and benefit terms of the HIS Program. The benefit is a monthly payment to assist retirees of state-administered retirement systems in paying their health insurance costs and is administered by the Department of Management Services, Division of Retirement. For the fiscal years ended June 30, 2023 and 2022, 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 fiscal years ended June 30, 2023 and 2022, the contribution rate was 1.66% of payroll pursuant to Section 112.363, F.S. The Fund contributed 100% of its statutorily required contributions for the current and preceding two years. HIS contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, the legislature may reduce or cancel HIS payments.

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

#### Pension Amounts for Defined Benefit Pension Plans

##### *Net Pension Liability*

As of June 30, 2023 and 2022, the Fund reported total liabilities of \$1,612,362 and \$719,693, 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 and net pension liability for each plan as well as the Fund's proportion and proportionate share as of the measurement dates of June 30, 2022 and 2021:

	<b>Measurement Date as of June 30, 2022</b>		
	<b>FRS</b>		<b>Total</b>
	<b>Pension Plan</b>	<b>HIS</b>	
Plan total pension liability (A)	\$ 217,434,441,000	\$ 11,126,965,688	
Plan fiduciary net position (B)	180,226,404,807	535,368,479	
Plan net pension liability (A-B)	37,208,036,193	10,591,597,209	
Fund's proportion	0.003394894 %	0.003296840 %	
Fund's proportionate share*	\$ 1,263,174	\$ 349,188	\$ 1,612,362

\*The amount of the Fund's proportionate share due within one year is \$0 for the FRS Pension and \$351 for the HIS Pension.

	<b>Measurement Date as of June 30, 2021</b>		
	<b>FRS</b>		<b>Total</b>
	<b>Pension Plan</b>	<b>HIS</b>	
Plan total pension liability (A)	\$ 209,636,046,000	\$ 12,719,121,120	
Plan fiduciary net position (B)	202,082,182,546	452,617,639	
Plan net pension liability (A-B)	7,553,863,454	12,266,503,481	
Fund's proportion	0.003770471 %	0.003545237 %	
Fund's proportionate share*	\$ 284,816	\$ 434,877	\$ 719,693

\*The amount of the Fund's proportionate share due within one year is \$0 for the FRS Pension and \$2,318 for the HIS Pension.

## Notes to the Combined Financial Statements

### **12. Pension and Other Postemployment Benefits (continued)**

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, 2021 to June 30, 2022	
	FRS Pension Plan	HIS
Fund's proportion at prior measurement date, June 30, 2021	0.003770471 %	0.003545237 %
Fund's proportion at measurement date, June 30, 2022	0.003394894 %	0.003296840 %
Increase / (decrease) in proportion	(0.000375577)%	(0.000248397)%

	Change in Proportionate Share from Measurement Date of June 30, 2020 to June 30, 2021	
	FRS Pension Plan	HIS
Fund's proportion at prior measurement date, June 30, 2020	0.003549182 %	0.003516179 %
Fund's proportion at measurement date, June 30, 2021	0.003770471 %	0.003545237 %
Increase / (decrease) in proportion	0.000221289 %	0.000029058 %

Based on the projected proportion as of June 30, 2023, measurement date, the Fund's total increase in pension liability would be approximately \$53 thousand or 3% higher than what was reported as of the measurement date of June 30, 2022. There are no other known changes between the measurement date of the collective net pension liability and the Fund's reporting date that are expected to have a significant effect on the Fund's proportionate share of the collective net pension liability of either defined benefit pension plan.

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

### *Actuarial Methods and Assumptions*

The FRS Actuarial Assumption Conference is responsible for setting the assumptions used in the funding valuations of the defined benefit pension plan pursuant to section 216.136(10), F.S. The FRS Pension Plan's GASB Statement No. 67 valuation is performed annually. The HIS program has a valuation performed biennially that is updated for GASB reporting in the year a valuation is not performed. The most recent experience study for the FRS Pension Plan was completed in 2019 for the period July 1, 2013 through June 30, 2018; assumption changes adopted by the FRS Actuarial Assumption Conference were incorporated into the July 1, 2022 FRS Valuation. Because the HIS Program is funded on a pay-as-you-go basis, no experience study has been completed for that program. The actuarial assumptions that determined the total pension liability for the HIS Program were based on certain results of the most recent experience study of the FRS Pension Plan.

The total pension liability for each of the defined benefit plans was determined by an actuarial valuation as of the measurement dates of July 1, 2022 and July 1, 2021, using the entry age normal actuarial cost method. Inflation increases for both plans is assumed at 2.40% for the measurement dates of July 1, 2022 and July 1, 2021. Payroll growth, including inflation, for both plans is assumed at 3.25% for both measurement dates.

Both the discount rate and the long-term expected rate of return used for FRS Pension Plan investments is 6.70% (6.80% for measurement date July 1, 2021). The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers will be made at the statutorily required rates. Based on these assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefits payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return and was applied to all periods of projected benefit payments to determine the total pension liability. The 6.70% rate of return assumption was determined by the consulting actuary, Milliman to be reasonable and appropriate per Actuarial Standard of Practice Number 27 (ASOP 27). The 6.70% reported investment return assumption is the same as the investment return assumption chosen by the 2022 FRS Actuarial Assumption Conference for funding policy purposes.

Because the HIS Program uses a pay-as-you-go funding structure, a municipal bond rate of 3.54% and 2.16% for the measurement dates of June 30, 2022 and 2021, respectively, 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 pension plans were based on the PUB-2010 base table, projected generationally with Scale MP-2018.

## Notes to the Combined Financial Statements

### **12. Pension and Other Postemployment Benefits (continued)**

There were no changes of benefits terms for the FRS Pension Plan or HIS that affected the total pension liability since the prior measurement date other than, the extension of the maximum length of the DROP participation by 36 months for Special Risk Class law enforcement officer members. There were no changes between the measurement date and the reporting date which significantly impact the Fund's proportionate share of the net pension liability, deferred outflows, deferred inflows and pension expense for either the FRS Pension Plan or HIS.

The following changes in actuarial assumptions occurred in 2022:

- FRS Pension Plan: The long-term expected rate of return decreased from 6.80% to 6.70%.
- HIS: The municipal rate used to determine total pension liability increased from 2.16% to 3.54%.

The following changes in actuarial assumptions occurred in 2021:

- FRS Pension Plan: The long-term expected rate of return remained the same at 6.80%. The maximum amortization period was reduced from 30 years to 20 years for all current and future amortization bases.
- HIS: The municipal rate used to determine total pension liability decreased from 2.21% to 2.16%.

The long-term expected rate of return of 6.70% for measurement date June 30, 2022, and 6.80% for measurement date June 30, 2021, 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 table:

	<b>Measurement Date As of June 30, 2022</b>		<b>Measurement Date As of June 30, 2021</b>	
	<b>Target Allocation</b>	<b>Long-term expected real rate of return</b>	<b>Target Allocation</b>	<b>Long-term expected real rate of return</b>
Cash	1.0 %	2.6 %	1.0 %	2.1 %
Fixed income	19.8 %	4.4 %	20.0 %	3.8 %
Global equity	54.0 %	8.8 %	54.2 %	8.2 %
Real estate (property)	10.3 %	7.4 %	10.3 %	7.1 %
Private equity	11.1 %	12.0 %	10.8 %	11.7 %
Strategic	3.8 %	6.2 %	3.7 %	5.7 %
Total	<u>100.0 %</u>		<u>100.0 %</u>	

## Notes to the Combined Financial Statements

### **12. Pension and Other Postemployment Benefits (continued)**

#### *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, 2022 and 2021.

Measurement Date as of June 30, 2022					
FRS Pension Plan			HIS		
1% Decrease	Current discount rate	1% Increase	1% Decrease	Current discount rate	1% Increase
5.70%	6.70%	7.70%	2.54%	3.54%	4.54%
\$2,184,572	\$1,263,174	\$492,775	\$399,500	\$349,188	\$307,556

Measurement Date as of June 30, 2021					
FRS Pension Plan			HIS		
1% Decrease	Current discount rate	1% Increase	1% Decrease	Current discount rate	1% Increase
5.80%	6.80%	7.80%	1.16%	2.16%	3.16%
\$1,273,717	\$284,816	\$(541,794)	\$502,759	\$434,877	\$379,262

#### *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

## Notes to the Combined Financial Statements

### **12. Pension and Other Postemployment Benefits (continued)**

The average expected remaining service life of all employees provided with pensions through the pension plans at June 30, 2022 and 2021 were 5.5 years and 5.7 years, respectively, for the FRS Pension Plan and 6.4 years for each year for HIS. The Fund's proportionate share of the components of collective pension expense and deferred outflows and inflows of resources reported in the pension allocation schedules for the fiscal years ended June 30, 2023 (measurement date of June 30, 2022) and June 30, 2022 (measurement date of June 30, 2021) are presented in the following tables for each plan.

<b>FRS Pension Plan</b>				
	<b>Recognized in expense reporting period ending 6/30/2023</b>	<b>Recognition period</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Service cost	\$ 89,479	Current	\$ —	\$ —
Interest cost	475,697	Current	—	—
Effect of plan changes	3,371	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	26,167	5.5 to 6.4 years	59,993	—
Effect of assumptions changes or inputs	102,662	5.5 to 6.4 years	155,565	—
Member contributions	(26,114)	Current	—	—
Projected investment earnings	(457,867)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	12,283	5.5 to 6.4 years	66,774	(95,584)
Net difference between projected and actual investment earnings	(36,776)	5 years	83,408	—
Contributions subsequent to the measurement date	—	1 year	168,897	—
Administrative expenses	764	Current	—	—
<b>Total</b>	<b>\$ 189,666</b>		<b>\$ 534,637</b>	<b>\$ (95,584)</b>

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

<b>Health Insurance Subsidy</b>				
	<b>Recognized in expense reporting period ending 6/30/2023</b>	<b>Recognition period</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Service cost	\$ 9,588	Current	\$ —	\$ —
Interest cost	9,078	Current	—	—
Effect of plan changes	172	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	2,514	6.4 to 7.2 years	10,599	(1,536)
Effect of assumptions changes or inputs	(3,148)	6.4 to 7.2 years	20,016	(54,019)
Member contributions	(2)	Current	—	—
Projected investment earnings	(351)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	498	6.4 to 7.2 years	15,345	(25,538)
Net difference between projected and actual investment earnings	207	5 years	506	—
Contributions subsequent to the measurement date	—	1 year	22,280	—
Administrative expenses	6	Current	—	—
<b>Total</b>	<b>\$ 18,562</b>		<b>\$ 68,746</b>	<b>\$ (81,093)</b>
<b>Total for all defined benefit pension plans</b>	<b>\$ 208,228</b>		<b>\$ 603,383</b>	<b>\$ (176,677)</b>

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, 2024. As of June 30, 2023 reporting period, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:



## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

<u>Reporting period ending June 30</u>	<u>FRS Pension Plan Expense</u>	<u>HIS Expense</u>
2024	\$ 76,713	\$ (7,095)
2025	22,698	(3,593)
2026	(33,442)	(2,214)
2027	202,196	(5,264)
2028	1,991	(11,316)
Thereafter	—	(5,145)
Total	<u>\$ 270,156</u>	<u>\$ (34,627)</u>

	<u>FRS Pension Plan</u>			
	<u>Recognized in expense reporting period ending 6/30/2022</u>	<u>Recognition period</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Service cost	\$ 99,860	Current	\$ —	\$ —
Interest cost	517,051	Current	—	—
Effect of plan changes	—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	26,913	5.7 to 6.4 years	48,818	—
Effect of assumptions changes or inputs	100,954	5.7 to 6.4 years	194,885	—
Member contributions	(28,525)	Current	—	—
Projected investment earnings	(404,865)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	35,341	5.7 to 6.4 years	101,677	(15,131)
Net difference between projected and actual investment earnings	(312,299)	5 years	—	(993,651)
Contributions subsequent to the measurement date	—	1 year	144,866	—
Administrative expenses	820	Current	—	—
Total	<u>\$ 35,250</u>		<u>\$ 490,246</u>	<u>\$ (1,008,782)</u>

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

Health Insurance Subsidy				
	Recognized in expense reporting period ending 6/30/2022	Recognition period	Deferred outflows of resources	Deferred inflows of resources
Service cost	\$ 9,950	Current	\$ —	\$ —
Interest cost	9,882	Current	—	—
Effect of plan changes	—	Current	—	—
Effect of economic/demographic gains or losses (difference between expected and actual experience)	3,003	6.4 to 7.2 years	14,552	(182)
Effect of assumptions changes or inputs	8,170	6.4 to 7.2 years	34,172	(17,918)
Member contributions	(2)	Current	—	—
Projected investment earnings	(325)	Current	—	—
Changes in proportion and differences between contributions and proportionate share of contributions	6,733	6.4 to 7.2 years	21,651	(3,053)
Net difference between projected and actual investment earnings	181	5 years	453	—
Contributions subsequent to the measurement date	—	1 year	19,949	—
Administrative expenses	7	Current	—	—
Total	<u>\$ 37,599</u>		<u>\$ 90,777</u>	<u>\$ (21,153)</u>
Total for all defined benefit pension plans	<u>\$ 72,849</u>		<u>\$ 581,023</u>	<u>\$ (1,029,935)</u>

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, 2023. As of June 30, 2022 reporting period, other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension expense will be recognized as follows:

Reporting period ending June 30	FRS Pension	
	Plan Expense	HIS Expense
2023	\$ (101,060)	\$ 13,477
2024	(130,866)	5,904
2025	(189,866)	9,613
2026	(251,725)	11,116
2027	10,115	7,936
Thereafter	—	1,629
Total	<u>\$ (663,402)</u>	<u>\$ 49,675</u>

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

### ***Payables to the Defined Benefit Pension Plans***

The Fund reported payables of \$19,431 to the FRS Pension Plan and \$2,563 to the HIS Program as of June 30, 2023 for legally required contributions to the plans. In addition, administrative fees owed for employees in the defined benefit FRS Pension Plan totaled \$84. The payables are included in accrued expenses as a current liability in the Combined Statements of Net Position.

The Fund reported payables of \$13,273 to the FRS Pension Plan and \$1,730 to the HIS Program as of June 30, 2022 for legally required contributions to the plans. In addition, administrative fees owed for employees in the defined benefit FRS Pension Plan totaled \$47. The payables are included in accrued expenses as a current liability in the Combined Statements of Net Position.

### **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 contribution requirements and 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, 2022, those employer rates went up by 3.0% for each retirement class. Effective July 1, 2011, there is a mandatory employee contribution of 3.00%. The FRS Investment Plan member directs the investment from the options offered under the plan. Costs of administering the plan, including the FRS Financial Guidance Program, are funded through an employer assessment of 0.06% of payroll and by forfeited benefits of plan members. After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the FRS Investment Plan, receive a lump-sum distribution, or leave the funds invested for future distribution. Upon receiving a distribution, other than a de minimis distribution or required minimum distribution, the member is a retiree. Disability coverage is provided for total and permanent disability (non-duty or line of duty); the employer pays an employer contribution to fund the disability benefit which is deposited in the FRS Trust Fund. The member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the FRS Investment Plan and rely upon that account balance for retirement income. Survivor benefit coverage is provided to the surviving spouse or dependent children of members who die in line of duty; the employer pays an employer contribution to fund the survivor benefit which is deposited in the FRS Trust Fund. The member's account balance must be transferred to the FRS Pension Plan when approved for survivor benefits to receive guaranteed lifetime monthly benefits under the FRS Pension Plan for the surviving spouse or on behalf of the dependent children until the youngest unmarried dependent child reaches age 18, or up to age 25 if unmarried and enrolled as a full-time student.

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

### ***Pension Amounts for the FRS Investment Plan***

During the fiscal years ended June 30, 2023 and 2022, the Fund recognized \$8,791 and \$9,675 in net pension expense related to the FRS Investment Plan, respectively, and employee contributions totaled \$4,186 and \$7,595, and administrative fees totaled \$84 and \$152, respectively. As of June 30, 2023 and 2022, the Fund reported current liabilities of \$960 and \$295, respectively, for June employer contributions to be paid to employee accounts in the following month. Administrative fees owed were \$9 and \$5, respectively, for FRS Investment Plan participants. These liabilities are 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.

### **Other Postemployment Benefits (OPEB)**

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

### ***General Information about the OPEB Plan***

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

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

employees. As a result, the Fund subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because retiree healthcare costs are generally greater than active employee healthcare costs.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. The OPEB Plan contribution requirements and benefit terms necessary for funding the OPEB Plan each year is on a pay-as-you-go basis as established by the Florida Legislature. The Fund's benefit payments are approved in the Fund's budget each fiscal year as adopted by SBA Trustees.

### ***Benefits Provided***

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

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

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

### ***Employees Covered by Benefit Terms***

At valuation date July 1, 2022, there were 183,991 employees covered by the OPEB Plan, as shown in the following table:

Active Plan Members	127,265
No Coverage Active Members	22,773
Retired and Inactive Members	33,953
Total eligible members	<u>183,991</u>

There are currently zero inactive plan members entitled to but not yet receiving benefits because the OPEB plan did not provide a vested termination benefit prior to July 1, 2022. However, in subsequent years, there may be plan members included in this category. House Bill 5009 was passed in the 2022 legislative session and establishes the right of any current state employee who terminates employment after July 1, 2022 with at least six years of credited service to participate in the State Group Insurance plan indefinitely after termination. Participants must elect to participate within two years of termination. This change goes into effect after the June 30, 2022 measurement date and the resulting change in benefits will be accounted for in future valuations of the Plan.

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

#### *Contributions*

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

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

#### *Total OPEB Liability*

The total OPEB liability reported as of June 30, 2023, was determined by an actuarial valuation as of July 1, 2022.

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State of Florida's OPEB plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

The Fund is allocated a share of the State's OPEB liability, deferred outflows, deferred inflows and expense based on the number of full-time equivalent positions funded. As of June 30, 2023, the State reported a total OPEB liability of \$7,843,255,855 of which the Fund reported \$384,044 for its proportionate share of the total OPEB liability measured as of June 30, 2022. The table below presents the Fund's proportion and change in proportion since the prior measurement date:

	<b>Fund Proportion</b>
Proportion at prior measurement date, June 30, 2021	0.003933871 %
Proportion at measurement date, June 30, 2022	0.004896483 %
Increase / (decrease) in proportion	0.000962612 %

As of June 30, 2022, the State reported a total OPEB liability of \$10,540,636,644 of which the Fund reported \$414,655 for its proportionate share of the total OPEB liability measured as of June 30, 2021. The table below presents the Fund's proportion and change in proportion since the prior measurement date:

	<b>Fund Proportion</b>
Proportion at prior measurement date, June 30, 2020	0.004003301 %
Proportion at measurement date, June 30, 2021	0.003933871 %
Increase / (decrease) in proportion	(0.000069430)%

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

#### *Actuarial Assumptions and Other Inputs - Reporting Period Ended June 30, 2023*

Actuarial valuations for the OPEB Plan are conducted biennially. The July 1, 2022, OPEB valuation is the most recent actuarial valuation. This valuation is applicable to the reporting period ended June 30, 2023. The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Valuation date	7/1/2022.
Measurement date	6/30/2022.
Actuarial cost method	Entry age normal.
Amortization method	The recognition periods for the changes in assumption, experience and proportionate share are 8 years.
Actuarial value of assets	N/A - no plan assets.
Inflation	2.6%.
Salary increases	Varies by FRS Class.
Discount rate	4.09%.
Healthcare cost trend rates	For fiscal year 2022-2023, both Pre-Medicare and Post-Medicare rates are 10.31% and 7.53% for PPO and HMO plans, respectively. Rates for each plan are projected to decrease sharply to 8.10% and 6.44% in fiscal year 2023-2024, before increasing slightly the next two fiscal years, reaching 8.28% and 6.50%, respectively, for fiscal year 2025-2026. The rates for both plans then decrease gradually to 4.04% in fiscal year 2075-2076 and thereafter.
Retirees' share of benefit-related costs	100% of projected health insurance premiums for retirees.
Medical aging factors	4% per year prior to age 65; 3% per year between ages 65 and 75; 2% per year between ages 75 and 85; 0% per year thereafter.
Mortality	Pub-2010 Mortality tables with fully generational mortality improvement using Scale MP-2018.
Marital status	80% assumed married, with male spouses 3 years older than female spouses.
Health care participation (HMO)	43% participation assumed (47% of those who have elected active coverage, 3.7% of those who have not), with 25% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.
Health care participation (PPO)	43% participation assumed (47% of those who have elected active coverage, 3.7% of those who have not), with 35% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

The discount rate of 4.09% was based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index as of the measurement date of June 30, 2022.

All the demographic actuarial assumptions used in the July 1, 2022 OPEB valuation remain consistent with the assumptions used in the July 1, 2021 FRS Actuarial Valuation with adjustments for demographic differences. The demographic assumptions were based on the 2019 Experience Study prepared by Milliman. Updated assumptions for the July 1, 2021 FRS Actuarial Valuation were approved by the 2021 FRS Actuarial Assumption Conference in October 2021. Individual member salary increase assumptions are based on a 2.6% inflation assumption. Mortality rates are based on Pub-2010 mortality tables that incorporate fully generational mortality improvement using Scale MP-2018.

The healthcare trend rates are a key assumption used in determining the costs of the plan. The trend rates for the first four years used in the July 1, 2022 OPEB valuation were consistent with the Report on the Financial Outlook for the Fiscal Years Ending June 30, 2022 through June 30, 2027 as presented on August 10, 2022 at the Self-Insurance Estimating Conference. The Getzen Model was used to generate the long-term healthcare trends.

Retirees participating in the group insurance plans offered by the State of Florida (and the Fund) are required to contribute 100% of the premiums.

Changes since the Prior Valuation:

- Discount Rate – As required under GASB 75, the discount rate was updated to utilize the mandated discount rate based on a 20-year S&P Municipal Bond Rate Index as of the measurement date. The discount rate increased from 2.18% to 4.09%.
- Census Data – The census data reflects changes in status for the twenty-four (24) month period since July 1, 2020.
- Claims Costs and Premium Rates – The assumed claims and premiums reflect the actual claims information that were provided by DSGI as well as the premiums that are actually being charged to participants. The recent claims experience along with changes in the demographics of the population resulted in lower claims costs and lower premium rates than expected. The net result as of June 30, 2022, was a slight increase in the liability.
- Trend Rate – Medical trend rates were updated to be consistent with the August 2022 Report on Financial Outlook of the Plan, along with information from the Getzen Model and the use of actuarial judgement. The impact of the trend rate changes is a small increase in the liability, due primarily to higher trend rates in the first several years.



## Notes to the Combined Financial Statements

### **12. Pension and Other Postemployment Benefits (continued)**

#### ***Actuarial Assumptions and Other Inputs - Reporting Period Ended June 30, 2022***

The July 1, 2020, OPEB valuation is the most recent actuarial valuation. This valuation, along with standard roll forward procedures, is applicable to the reporting period ended June 30, 2022. The total OPEB liability was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Valuation date	7/1/2020.
Measurement date	June 30, 2021.
Actuarial cost method	Entry age normal.
Amortization method	The recognition periods for the changes in assumption, experience and proportionate share are 8 years.
Actuarial value of assets	N/A - no plan assets.
Inflation	2.6%.
Salary increases	Varies by FRS Class.
Discount rate	2.18%.
Healthcare cost trend rates	7.95% and 6.02% for PPO and HMO plans, respectively for fiscal year 2021-2022. Both Pre-Medicare and Post-Medicare rates for each plan are projected to dip slightly in fiscal year 2022-2023 before increasing in the next fiscal year to 8.19% for the PPO plan and returning to 6.02% for the HMO plan. The rates for each plan then decrease gradually to 4.04% in fiscal year 2075-2076 and thereafter.
Retirees' share of benefit-related costs	100% of projected health insurance premiums for retirees.
Medical aging factors	4% per year prior to age 65; 3% per year between ages 65 and 75; 2% per year between ages 75 and 85; 0% per year thereafter.
Mortality	Pub-2010 Mortality tables with fully generational improvement using Scale MP-2018.
Marital status	80% assumed married, with male spouses 3 years older than female spouses.
Health care participation (HMO)	43% participation assumed (47% of those who have elected active coverage, 3.7% of those who have not), with 25% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.
Health care participation (PPO)	43% participation assumed (47% of those who have elected active coverage, 3.7% of those who have not), with 35% electing spouse coverage. Members who elected no coverage as actives are assumed to elect coverage in the same proportion as active members with coverage.

# Notes to the Combined Financial Statements

## **12. Pension and Other Postemployment Benefits (continued)**

The discount rate of 2.18% was based on the Standard & Poor's Municipal Bond 20 Year High Grade Rate Index as of the measurement date of June 30, 2021.

The demographic actuarial assumptions for retirement, disability, withdrawal and salary merit scales used in the July 1, 2020 OPEB valuation are consistent with the assumptions used in the July 1, 2019 Actuarial Valuation of the FRS. The demographic assumptions were based on the 2019 Experience Study prepared by Milliman on December 20, 2019. Updated assumptions for the FRS July 1, 2019 Actuarial Valuation were approved by the 2019 FRS Actuarial Assumption Conference in October 2019. An updated retiree medical election percentage was used to align with plan experience from 2016 through 2020. Mortality rates are based on Pub-2010 mortality tables that incorporate fully generational mortality improvement using Scale MP-2018.

The healthcare trend rates for the first five years used in the July 1, 2020 OPEB valuation were consistent with the Report on the Financial Outlook for the Fiscal Years Ending June 30, 2020 through June 30, 2025 as presented on August 5, 2020 at the Self-Insurance Estimating Conference. The Getzen Model was used to generate the long-term healthcare trends.

Retirees participating in the group insurance plans offered by the State of Florida (and the Fund) are required to contribute 100% of the premiums.

Changes since the Prior Valuation:

- Discount Rate – The discount rate was updated to utilize the mandated discount rate based on a 20-year S&P Municipal Bond Rate Index as of the measurement date, as required under GASB 75. The discount rate decreased from 2.66% to 2.18%.
- Retirement – Retirement rates were updated based on those used in the actuarial valuation of the Florida Retirement System (FRS) conducted by Milliman as of July 1, 2019, with certain adjustments made to reflect the difference in the underlying populations. Rates were previously those used in Milliman's actuarial valuation of FRS as of July 1, 2015. This change decreased the total OPEB liability by about 7%.
- Termination, Disability and Salary Scale – Termination, disability and salary scale rates were updated to those used in the actuarial valuation of the FRS conducted by Milliman as of July 1, 2019. Previously, rates were those used in Milliman's actuarial valuation of FRS as of July 1, 2015. This change increased the total OPEB liability by about 3%, 0.5% and 0.2%, respectively.
- Active Medical Plan Elections – Most actively employed participants in the Plan are health plan subscribers. Those participants are assumed to continue their current health coverage into retirement at a rate of 47%. For those who are not currently covered under the health plan, 3.7% are assumed to elect medical coverage in retirement. The resulting overall participation rate is 43%. Previously, the overall participation rate was 50%. This assumption is based on guidance provided by the DSGI on June 23, 2021. This change resulted in an 8% decrease in the total OPEB liability.

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

#### *Sensitivity of the Fund's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate*

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

<b>Measurement Date as of June 30, 2022</b>	<b>1% Decrease (3.09%)</b>	<b>Current Discount Rate (4.09%)</b>	<b>1% Increase (5.09%)</b>
Fund's proportionate share of the total OPEB liability	\$444,242	\$384,044	\$335,229

<b>Measurement Date as of June 30, 2021</b>	<b>1% Decrease (1.18%)</b>	<b>Current Discount Rate (2.18%)</b>	<b>1% Increase (3.18%)</b>
Fund's proportionate share of the total OPEB liability	\$490,619	\$414,655	\$354,481

#### *Sensitivity of the Fund's Proportionate Share of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

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

<b>Measurement Date as of June 30, 2022</b>	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rates*</b>	<b>1% Increase</b>
	\$330,048	\$384,044	\$451,351
*Please refer to the Healthcare Cost Trend Rates information presented above in the Actuarial Assumptions and Other Inputs – Reporting Period Ended June 30, 2023.			

<b>Measurement Date as of June 30, 2021</b>	<b>1% Decrease</b>	<b>Healthcare Cost Trend Rates*</b>	<b>1% Increase</b>
	\$345,754	\$414,655	\$502,859
*Please refer to the Healthcare Cost Trend Rates information presented above in the Actuarial Assumptions and Other Inputs – Reporting Period Ended June 30, 2022.			

## Notes to the Combined Financial Statements

### 12. Pension and Other Postemployment Benefits (continued)

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

For the fiscal year ended June 30, 2023, the Fund recognized OPEB expense of \$9,157, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b>Reporting Date as of June 30, 2023</b>		
<b>Description</b>	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Change of assumptions or other inputs	\$ 44,407	\$ (250,925)
Difference between expected and actual experience	—	(42,002)
Changes in proportion and differences between Fund benefit payments and proportionate share of benefit payments	137,719	(6,904)
Transactions subsequent to the measurement date	9,898	—
<b>Total</b>	<b>\$ 192,024</b>	<b>\$ (299,831)</b>

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date as shown in the table above will be recognized as a reduction of the total OPEB liability in the reporting period ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Fiscal Year Ending June 30</b>	<b>Amount</b>
2024	\$ (29,103)
2025	(29,103)
2026	(22,350)
2027	(17,381)
2028	(7,761)
Thereafter	(12,007)
<b>Total</b>	<b>\$ (117,705)</b>

For the fiscal year ended June 30, 2022, the Fund recognized OPEB expense of \$13,277, and reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

<b>Reporting Date as of June 30, 2022</b>		
<b>Description</b>	<b>Deferred Outflows</b>	<b>Deferred Inflows</b>
Change of assumptions or other inputs	\$ 44,596	\$ (137,328)
Difference between expected and actual experience	—	(19,709)
Changes in proportion and differences between Fund benefit payments and proportionate share of benefit payments	35,170	(8,055)
Transactions subsequent to the measurement date	7,390	—
<b>Total</b>	<b>\$ 87,156</b>	<b>\$ (165,092)</b>

## Notes to the Combined Financial Statements

### **12. Pension and Other Postemployment Benefits (continued)**

Amounts reported as deferred outflows of resources related to OPEB resulting from transactions subsequent to the measurement date as shown in the table above was recognized as a reduction of the total OPEB liability in the reporting period ended June 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB were recognized in OPEB expense as follows:

<b>Fiscal Year Ending June 30</b>	<b>Amount</b>
2023	\$ (18,475)
2024	(18,476)
2025	(18,475)
2026	(13,824)
2027	(9,976)
Thereafter	(6,100)
Total	<u>\$ (85,326)</u>

### **13. Subsequent Events**

The Fund has reviewed and considered the events subsequent to the date of the combined financial statements through November 1, 2023, which is the date the combined financial statements were available to be issued, and are disclosing the following subsequent event. On August 30, 2023, Hurricane Idalia made landfall near Keaton Beach, Florida, as a Category 3 hurricane. Actual losses, if any, are unknown at this time.

### **14. 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, liabilities, and net position information of the Fund as of June 30, 2023:

## Notes to the Combined Financial Statements

### 14. Condensed Combining Information (continued)

	<b>Combined</b>	<b>Florida Hurricane Catastrophe Fund</b>	<b>State Board of Administration Finance Corp</b>
<b>Assets</b>	<i>(In Thousands)</i>		
<b>Current assets:</b>			
Short-term investments	\$ 9,815,621	\$ 7,069,124	\$ 2,746,497
Premium receivable (net of allowance)	123,350	123,350	—
Accrued interest	55,989	50,829	5,160
Accounts receivable	46	46	—
<b>Total current assets</b>	<b>9,995,006</b>	<b>7,243,349</b>	<b>2,751,657</b>
<b>Long-term assets:</b>			
Long-term investments	5,256,306	4,532,796	723,510
Capital assets, net of accumulated depreciation	35	35	—
<b>Total long-term assets</b>	<b>5,256,341</b>	<b>4,532,831</b>	<b>723,510</b>
<b>Total assets</b>	<b>15,251,347</b>	<b>11,776,180</b>	<b>3,475,167</b>
<b>Deferred outflows of resources:</b>			
Deferred outflows related to pensions and OPEB (note 12)	795	795	—
<b>Liabilities</b>			
<b>Current liabilities:</b>			
Unpaid hurricane losses	8,969,600	8,969,600	—
Accrued expenses	598	499	99
Accrued bond interest expense	29,850	—	29,850
Compensated absences	91	91	—
Net pension and OPEB liability (note 12)	10	10	—
<b>Total current liabilities</b>	<b>9,000,149</b>	<b>8,970,200</b>	<b>29,949</b>
<b>Long-term liabilities, net of current portion:</b>			
Bonds payable	3,500,000	—	3,500,000
Compensated absences	259	259	—
Net pension and OPEB liability (note 12)	1,986	1,986	—
<b>Total long-term liabilities</b>	<b>3,502,245</b>	<b>2,245</b>	<b>3,500,000</b>
<b>Total liabilities</b>	<b>12,502,394</b>	<b>8,972,445</b>	<b>3,529,949</b>
<b>Deferred inflows of resources:</b>			
Deferred inflows related to pensions and OPEB (note 12)	477	477	—
<b>Net position</b>			
Net investment in capital assets	35	35	—
Unrestricted	2,749,236	2,804,018	(54,782)
<b>Total net position</b>	<b>\$ 2,749,271</b>	<b>\$ 2,804,053</b>	<b>\$ (54,782)</b>

## Notes to the Combined Financial Statements

### 14. Condensed Combining Information (continued)

The following table provides the condensed combining revenues, expenses, and changes in net position information of the Fund for the fiscal year ended June 30, 2023:

	<b>Combined</b>	<b>Florida Hurricane Catastrophe Fund</b>	<b>State Board of Administration Finance Corp</b>
	<i>(In Thousands)</i>		
<b>Operating revenues</b>			
Net premium revenue	\$ 1,406,694	\$ 1,406,694	\$ —
Net interest on premium adjustments	59	59	—
Net interest on loss disbursements and adjustments	100	100	—
Other	46	46	—
Total operating revenues	<u>1,406,899</u>	<u>1,406,899</u>	<u>—</u>
<b>Operating expenses</b>			
Hurricane losses	9,795,617	9,795,617	—
Administrative and actuarial fees	3,139	3,139	—
Other professional fees	1,456	1,449	7
Personnel expenses	1,956	1,956	—
Depreciation	17	17	—
Other	286	286	—
Total operating expenses	<u>9,802,471</u>	<u>9,802,464</u>	<u>7</u>
Operating income/(loss)	<u>(8,395,572)</u>	<u>(8,395,565)</u>	<u>(7)</u>
<b>Nonoperating (expenses)/revenue</b>			
Investment income	309,907	235,693	74,214
Investment advisor fees	(5,183)	(4,081)	(1,102)
Custodian and bond trustee fees	(208)	(170)	(38)
Bond interest expense	(59,700)	—	(59,700)
Nonoperating (expenses)/revenue, net	<u>244,816</u>	<u>231,442</u>	<u>13,374</u>
Net income/(loss) before transfers	<u>(8,150,756)</u>	<u>(8,164,123)</u>	<u>13,367</u>
Transfers to (from) component units	—	(29,010)	29,010
Transfers to other state agencies	<u>(10,000)</u>	<u>(10,000)</u>	<u>—</u>
<b>Change in net position</b>	<u>(8,160,756)</u>	<u>(8,203,133)</u>	<u>42,377</u>
Net position at beginning of year	<u>10,910,027</u>	<u>11,007,186</u>	<u>(97,159)</u>
Net position at end of year	<u>\$ 2,749,271</u>	<u>\$ 2,804,053</u>	<u>\$ (54,782)</u>

## Notes to the Combined Financial Statements

### 14. Condensed Combining Information (continued)

The following table provides the condensed combining cash flows information of the Fund for the fiscal year ended June 30, 2023:

	<b>Combined</b>	<b>Florida Hurricane Catastrophe Fund</b>	<b>State Board of Administration Finance Corp</b>
	<i>(In Thousands)</i>		
<b>Cash flows from operating activities</b>			
Net premium received	\$ 1,383,058	\$ 1,383,058	\$ —
Hurricane losses paid	(2,338,878)	(2,338,878)	—
Loss reimbursement advances and related interest	100	100	—
Administrative and actuarial fees	(3,131)	(3,131)	—
Other professional fees	(1,451)	(1,444)	(7)
Personnel expenses	(1,890)	(1,890)	—
Other cash paid to vendors	(335)	(335)	—
Net cash provided (used) by operating activities	<u>(962,527)</u>	<u>(962,520)</u>	<u>(7)</u>
<b>Cash flows from investing activities</b>			
Purchases of investments	(104,100,095)	(96,876,347)	(7,223,748)
Sales and maturities of investments	104,958,596	97,738,772	7,219,824
Interest received	179,160	143,400	35,760
Investment advisor fees	(5,202)	(4,101)	(1,101)
Investment custodian fees	(206)	(171)	(35)
Net cash provided by investing activities	<u>1,032,253</u>	<u>1,001,553</u>	<u>30,700</u>
<b>Cash flows from noncapital financing</b>			
Transfers to other state agencies	(10,000)	(39,010)	29,010
Payments for trustee fees	(3)	—	(3)
Bond interest paid	(59,700)	—	(59,700)
Bank financing - overdraft	(8)	(8)	—
Net cash used by noncapital financing activities	<u>(69,711)</u>	<u>(39,018)</u>	<u>(30,693)</u>
<b>Cash flows from capital and related financing activities</b>			
Purchases of capital assets	<u>(15)</u>	<u>(15)</u>	<u>—</u>
Net increase in cash and cash equivalents	—	—	—
Cash and cash equivalents at beginning of year	—	—	—
Cash and cash equivalents at end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>



## Required Supplementary Information

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

#### Florida Retirement System Pension Plan<sup>1</sup>

Fiscal year ended <sup>2</sup>	Measurement Date	Fund's proportion of the net pension liability	Fund's proportionate share of the net pension liability	Fund's covered payroll <sup>2</sup>	Fund's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
6/30/2023	6/30/2022	0.003394894 %	\$ 1,263,174	\$ 1,201,452	105.14 %	82.89 %
6/30/2022	6/30/2021	0.003770471 %	284,816	1,255,101	22.69 %	96.40 %
6/30/2021	6/30/2020	0.003549182 %	1,538,268	1,220,376	126.05 %	78.85 %
6/30/2020	6/30/2019	0.003639034 %	1,253,233	1,140,851	109.85 %	82.61 %
6/30/2019	6/30/2018	0.003553773 %	1,070,415	1,081,584	98.97 %	84.26 %
6/30/2018	6/30/2017	0.003265072 %	965,786	1,038,160	93.03 %	83.89 %
6/30/2017	6/30/2016	0.002834117 %	715,617	1,036,792	69.02 %	84.88 %
6/30/2016	6/30/2015	0.002651678 %	342,500	983,644	34.82 %	92.00 %
6/30/2015	6/30/2014	0.002394824 %	146,119	900,947	16.22 %	96.09 %

<sup>1</sup> Changes in actuarial assumptions: For the fiscal year ended June 30, 2023, the inflation rate assumption remained at 2.40%, after being reduced from 2.60% to 2.40% in the fiscal year ended June 30, 2021. For all fiscal years prior to 2021, the inflation rate assumption was 2.60%. The overall payroll growth assumption remained at 3.25%, effective for fiscal years ended June 30, 2015 through June 30, 2023. The long-term expected rate of return assumption, effective for each fiscal year ended June 30, was as follows:

6/30/2023	6.70 %	6/30/2020	6.90 %	6/30/2017	7.60 %
6/30/2022	6.80 %	6/30/2019	7.00 %	6/30/2016	7.65 %
6/30/2021	6.80 %	6/30/2018	7.10 %	6/30/2015	7.65 %

For fiscal year ended June 30, 2020, the mortality assumptions changed from the Generational RP-2000 with Projection Scale BB tables to the PUB-2010 base table, projected generationally with Scale MP-2018.

<sup>2</sup> The Florida Retirement System pension plan information and net pension liability is reported on a one year lag. For example pension plan information reported for the fiscal year ended June 30, 2023, is as of measurement date June 30, 2022. Covered payroll used to calculate the proportionate share of the net pension liability as a percentage of covered payroll for each fiscal year presented above is actually the covered payroll of the prior fiscal year.

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

## Required Supplementary Information

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

#### Retiree Health Insurance Subsidy<sup>1</sup>

Fiscal year ended <sup>2</sup>	Measurement Date	Fund's proportion of the net pension liability	Fund's proportionate share of the net pension liability	Fund's covered payroll <sup>2</sup>	Fund's proportionate share of the net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
6/30/2023	6/30/2022	0.003296840 %	\$ 349,188	\$ 1,201,452	29.06 %	4.81 %
6/30/2022	6/30/2021	0.003545237 %	434,877	1,255,101	34.65 %	3.56 %
6/30/2021	6/30/2020	0.003516179 %	429,320	1,220,376	35.18 %	3.00 %
6/30/2020	6/30/2019	0.003411176 %	381,676	1,140,851	33.46 %	2.63 %
6/30/2019	6/30/2018	0.003311502 %	350,493	1,081,584	32.41 %	2.15 %
6/30/2018	6/30/2017	0.003257066 %	348,260	1,038,160	33.55 %	1.64 %
6/30/2017	6/30/2016	0.003358544 %	391,424	1,036,792	37.75 %	0.97 %
6/30/2016	6/30/2015	0.003242266 %	330,660	983,644	33.62 %	0.50 %
6/30/2015	6/30/2014	0.003032327 %	283,530	900,947	31.47 %	0.99 %

<sup>1</sup> Changes in actuarial assumptions: For the fiscal year ended June 30, 2023, the inflation rate assumption remained at 2.40%, after being reduced from 2.60% to 2.40% in the fiscal year ended June 30, 2021. Also, in the fiscal year ending June 30, 2021, the mortality assumption was changed from the Generational RP-2000 with Projection Scale BB tables to the PUB-2010 base table, projected generationally with Scale MP-2018. The overall payroll growth assumption remained at 3.25%, effective for fiscal years ended June 30, 2015 through June 30, 2023. The municipal bond rate used to determine total pension liability effective for each fiscal year ended June 30, was as follows:

6/30/2023	3.54 %	6/30/2020	3.50 %	6/30/2017	2.85 %
6/30/2022	2.16 %	6/30/2019	3.87 %	6/30/2016	3.80 %
6/30/2021	2.21 %	6/30/2018	3.58 %	6/30/2015	4.29 %

<sup>2</sup> The Retiree Health Insurance Subsidy pension plan information and net pension liability is reported on a one year lag. For example, pension plan information reported for the fiscal year ended June 30, 2023, is as of measurement date June 30, 2022. Covered payroll used to calculate the proportionate share of the net pension liability as a percentage of covered payroll for each fiscal year presented above is actually the covered payroll as of the pension plan measurement date (i.e., the prior fiscal year).

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

# Required Supplementary Information

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

### Florida Retirement System Pension Plan

Fiscal Year Ended	Statutorily required contributions (a)	Fund's contributions in relation to the statutorily required contributions (b)	Contribution deficiency (excess) (a-b)	Fund's covered payroll (c)	Contributions as a percentage of covered payroll (b/c)
6/30/2023	\$ 168,897	\$ 168,897	\$ —	\$ 1,343,759	12.57 %
6/30/2022	144,866	144,866	—	1,201,452	12.06 %
6/30/2021	143,639	143,639	—	1,255,101	11.44 %
6/30/2020	117,924	117,924	—	1,220,376	9.66 %
6/30/2019	112,836	112,836	—	1,140,851	9.89 %
6/30/2018	101,280	101,280	—	1,081,584	9.36 %
6/30/2017	84,998	84,998	—	1,038,160	8.19 %
6/30/2016	69,114	69,114	—	1,036,792	6.67 %
6/30/2015	64,650	64,650	—	983,644	6.57 %
6/30/2014	52,457	52,457	—	900,947	5.82 %

### Retiree Health Insurance Subsidy

Fiscal Year Ended	Statutorily required contributions (a)	Fund's contributions in relation to the statutorily required contributions (b)	Contribution deficiency (excess) (a-b)	Fund's covered payroll (c)	Contributions as a percentage of covered payroll (b/c)
6/30/2023	\$ 22,280	\$ 22,280	\$ —	\$ 1,343,759	1.66 %
6/30/2022	19,949	19,949	—	1,201,452	1.66 %
6/30/2021	20,839	20,839	—	1,255,101	1.66 %
6/30/2020	20,262	20,262	—	1,220,376	1.66 %
6/30/2019	18,942	18,942	—	1,140,851	1.66 %
6/30/2018	17,958	17,958	—	1,081,584	1.66 %
6/30/2017	17,237	17,237	—	1,038,160	1.66 %
6/30/2016	17,215	17,215	—	1,036,792	1.66 %
6/30/2015	12,394	12,394	—	983,644	1.26 %
6/30/2014	10,388	10,388	—	900,947	1.15 %

## Required Supplementary Information

### Schedule of Fund's Proportionate Share of the Total Other Postemployment Benefits Liability - Last 10 Fiscal Years\*

Fiscal year ended <sup>1</sup>	OPEB Plan Measurement Date	Fund's proportion of the total OPEB liability	Fund's proportionate share of the total OPEB liability <sup>2</sup>	Fund's covered employee payroll	Fund's proportionate share of the total OPEB liability as a percentage of covered employee payroll
6/30/2023	6/30/2022	0.00489648 %	\$ 384,044	\$ 1,227,746	31.28 %
6/30/2022	6/30/2021	0.00393387 %	414,655	1,284,242	32.29 %
6/30/2021	6/30/2020	0.00400330 %	411,941	1,222,905	33.69 %
6/30/2020	6/30/2019	0.00400292 %	506,699	1,141,601	44.38 %
6/30/2019	6/30/2018	0.00388884 %	410,333	1,081,584	37.94 %
6/30/2018	6/30/2017	0.00370228 %	400,257	1,038,160	38.55 %

Notes:

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75 to pay related benefits. There were no changes to benefit terms during any reporting period.

1. The total other postemployment benefits liability (OPEB) information is reported on a one year lag. For example, OPEB information reported for the fiscal year ended June 30, 2023, is as of measurement date June 30, 2022.
2. Changes in actuarial assumptions: Generally, a decrease in the 20-year tax-exempt general obligation municipal bond rate used to determine the total OPEB liability increases the Fund's proportionate share of the total OPEB liability, and an increase in the bond rate decreases the Fund's proportionate share of the total OPEB liability. The municipal bond rates used to determine the total OPEB liability were as follows in each fiscal year:

6/30/2023	4.09%	6/30/2020	2.79%
6/30/2022	2.18%	6/30/2019	3.87%
6/30/2021	2.66%	6/30/2018	3.58%

Other changes in actuarial assumptions were as follows:

For fiscal year ended June 30, 2023, claims costs and premium rates were updated with information provided by the Division of State Group Insurance as well as the premiums that are actually being charged to participants. The net result was a slight increase in the liability. The medical trend assumption was based on the Getzen Model, along with information from the August 2022 Report on Financial Outlook of the Plan. The impact of the trend rate changes is a small increase in the liability, due primarily to higher trend rates in the first several years.

For fiscal year ended June 30, 2022, retirement rates were updated to those used in the FRS Actuarial Valuation conducted by Milliaman as of July 1, 2019, from the previously used rates from July 1, 2015. This decreased the total OPEB liability by about 7%. Active medical plan election participation rate assumptions changed from 50% to 43%, resulting in a decrease in total OPEB liability of about 8%.

For fiscal year ended June 30, 2021, the excise tax that was to go into effect in 2022 was repealed. The impact of this change was a decrease in liabilities of about 13%.

For the fiscal year ended June 30, 2020, the OPEB valuation conducted as of July 1, 2019, reflected the full impact of the Excise Tax that was to go into effect in 2022. The impact of this change was an increase in liabilities of about 12%. Mortality rates were changed to use Pub-2010 mortality tables with fully generational improvement using Scale MP-2018. Mortality rates were previously based on FP-2000 mortality tables with fully generational improvement using Scale BB. This change decreased liabilities by about 5%.

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

INDEPENDENT AUDITOR'S 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), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Fund's basic financial statements, and have issued our report thereon dated November 1, 2023.

#### **Report on 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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control.

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

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

#### **Report on 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 financial statements. 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*.

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(Continued)

## 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Crowe LLP". The letters are stylized and connected, with a large, sweeping 'C' at the beginning.

Crowe LLP

Tampa, Florida  
November 1, 2023