FLORIDA HURRICANE CATASTROPHE FUND

Combined Financial Statements and
Other Financial Information

June 30, 2011 and 2010

(With Independent Auditors' Reports Thereon)

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Other Financial Information

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KPMG LLP
4200 Wells Fargo Center
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Independent Auditors' Report

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

We have audited the accompanying combined statement of net assets of the Florida Hurricane Catastrophe Fund (the Fund) as of June 30, 2011, and the related combined statement of revenue, expenses, and changes in net assets, combined statement of cash flows, and combined reconciliation of operating income to net cash provided by operating activities (hereafter referred to as "combined financial statements") for the year then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. The accompanying combined financial statements of the Fund as of and for the period ending June 30, 2010, were audited by other auditors whose report thereon dated October 15, 2010, was unqualified and included an explanatory paragraph representing that the combined financial statements presented only the Fund and did not purport to, and did not, fairly present the financial position of the State Board of Administration of Florida, the changes in its financial position, and cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2011, and the changes in its financial position and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

The information in the Management's Discussion and Analysis is not a required part of the combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures to such information as of and for the year ended June 30, 2011, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit the information and, accordingly, we express no opinion on it. Other auditors applied certain limited procedures to the accompanying information in the Management's Discussion and Analysis as of and for the periods ending

June 30, 2010 and 2009, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, the other auditors did not audit the information and did not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The June 30, 2011 combining information on pages 28 to 30 is presented for purposes of additional analysis of the combined financial statements rather than to present the financial position and changes in financial position of the Fund's component units individually. The June 30, 2011 combining information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report when considering the results of our audit.

KPMG LLP

November 4, 2011

Our discussion and analysis of the financial performance of the Florida Hurricane Catastrophe Fund (the Fund) provides an overview of the Fund's financial activities for the fiscal years ended June 30, 2011 and 2010. Please read this information in conjunction with the Fund's combined financial statements.

Overview of the Financial Statements

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

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

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

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

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

Financial Summary

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

		Year ended June 30	
	2011	**2010**	**2009**
Current assets	$ 9,340,514	8,754,966	6,782,564
Long-term assets	1,509,580	1,005,148	1,042,276
Total assets	10,850,094	9,760,114	7,824,840
Current liabilities	985,287	1,097,490	1,079,010
Long-term liabilities	5,135,489	5,432,425	4,996,664
Total liabilities	6,120,776	6,529,915	6,075,674
Net assets:			
Invested in capital assets, net of related debt	5	6	3
Unrestricted	4,729,291	3,230,171	1,749,141
Restricted for hurricane mitigation	22	22	22
Total net assets	4,729,318	3,230,199	1,749,166
Total liabilities and net assets	$ 10,850,094	9,760,114	7,824,840

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

	Year ended June 30		
	2011	**2010**	**2009**
Net premium revenue	$ 1,308,877	$ 1,437,911	$ 1,291,599
Net interest on premium adjustments	877	849	230
Net interest on loss disbursement adjustments/advances	2,544	5,182	1,122
Other	30	30	30
Total operating revenues	1,312,328	1,443,972	1,292,981
Total nonoperating revenue (expense)	312,435	302,528	(134,581)
Total revenues	1,624,763	1,746,500	1,158,400
Hurricane losses	110,000	250,000	250,000
Other operating expenses	5,641	5,465	6,222
Depreciation	3	2	2
Total expenses	115,644	255,467	256,224
Income before transfers	1,509,119	1,491,033	902,176
Transfers to other funds	(10,000)	(10,000)	(10,000)
Change in net assets	1,499,119	1,481,033	892,176
Net assets at beginning of year	3,230,199	1,749,166	856,990
Net assets at end of year	$ 4,729,318	$ 3,230,199	$ 1,749,166

Financial Highlights

- The decrease in net premium revenue in 2011 was a result of a number of factors: the decrease in optional coverage available and selected by the companies, which was partially offset by an increase in the optional coverage premium and an increase in the cash build up factor as provided for in Section 215.555 of the Florida Statutes, and a decrease in reported exposure.
- Investment income (loss) included in "total nonoperating revenue (expense)" for the Fund was $(51,120,000) at June 30, 2009, $80,040,000 at June 30, 2010, and $46,590,000 at June 30, 2011. The majority of the decline in investment income in 2009 can be attributed to losses realized upon the sale of various securities in October 2008, which was prompted in large part by the deteriorating financial market conditions and, to a lesser extent, liquidation requirements to pay the Series 2006B Notes maturing between October 2008 and August 2009 (final redemption occurred February 17, 2009). Without these underperforming securities in the portfolio, for which the losses were realized in 2009, along with an increase in premium revenue, the Fund experienced an increase in investment income in 2010. Lower

premium revenue in 2011 contributed somewhat to the decrease in investment income, but for the most part the decrease was due to the decline in interest rates and revisions to the Fund's Investment Policy Statement in 2010 and 2011. The primary goal of the policy is defined by the following priority: (1) liquidity, (2) safety of principal; and (3) competitive return. The Fund's objective is to invest in securities that are highly liquid, relatively short term, and have a credit quality in accordance with the Policy.

- For losses from hurricanes occurring in 2004 and 2005, as of June 30, 2011, the Fund had reimbursed participating insurers over $9.1 billion. The total amount the Fund expects to pay is $9.76 billion, with $3.87 billion for 2004 and $5.89 billion for 2005. "Hurricane losses" expense includes $250 million in 2009, $250 million in 2010, and $110 million in 2011 for the prior years' storms due to estimates revised as a result of ongoing loss development and actuarial analyses.

- "Total nonoperating (expense) revenue" for the year ending June 30, 2009 includes $996,000 of deferred costs of issuance that were expensed upon the early redemption of the 2006B Notes. Given the net carrying cost of the Series 2006B Notes, it was determined that it would be cost effective to redeem the Series 2006B Notes prior to their maturity dates and the 2009 hurricane season. Final redemption of the Series 2006B Notes occurred on February 17, 2009.

- In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of $625 million, which are reported in long-term liabilities. Cash received at bond issuance included a premium of $6.1 million, which will be amortized against interest expense over the life of the bonds. The Series 2008A Revenue Bonds proceeds and their investment earnings will be used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds will come from the 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums (the 1% emergency assessment was increased to 1.3% with the issuance of Series 2010A Revenue Bonds, as explained below).

- To augment the Fund's claims paying resources for the 2008 hurricane season, in August 2008, the Corporation executed a Revenue Bond Put Option Agreement. This agreement gave the Corporation the right to sell at par up to $4 billion of 30-year fixed rate bonds upon the occurrence of hurricane losses in Florida of specified amounts designed to correspond to approximately $16 billion of the Fund losses. Fees for the Put Option of $224 million, reported in "total nonoperating revenue (expense)," were expensed during fiscal year 2009 when the Put Option Agreement expired unexercised in December 2008.

- In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of $675.9 million, which are reported in long-term liabilities. Cash received at bond issuance included a premium of $40.2 million, which will be amortized against interest expense over the life of the bonds. The Series 2010A Revenue Bonds proceeds and their investment earnings will be used by the Fund to make payments to participating insurers for losses resulting from the 2005 hurricane season. The funding for these bonds will come from the emergency assessment. An Order was issued by the Florida Office of Insurance Regulation concurrently with the Series 2010A Revenue Bonds issue to supersede the 1% emergency assessment with a 1.3% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. The increased emergency assessment is effective for all policies issued or renewed on or after January 1, 2011.

- At June 30, 2011, the Fund had the following credit ratings: Moody's, Aa3; Standard and Poor's, AA-; and Fitch, AA. In May 2010, Fitch upgraded the rating to AA from AA-.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Net Assets

June 30, 2011 and 2010

(In thousands)

Assets	2011	2010
Current assets:		
Cash and cash equivalents	$ 136	$ 43
Short-term investments	9,219,564	8,652,314
Emergency assessment funds receivable	115,283	89,805
Emergency assessment interest receivable	4	2
Accrued interest	2,888	1,508
Excess loss payments receivable	1,434	1,616
Premiums receivable, net	1,205	9,678
Total current assets	9,340,514	8,754,966
Long-term assets:		
Long-term investments	1,501,326	992,548
Unamortized bond issuance costs	8,249	12,594
Capital assets, net of accumulated depreciation of $77 and $74 for June 30, 2011 and 2010, respectively	5	6
Total long-term assets	1,509,580	1,005,148
Total assets	$ 10,850,094	$ 9,760,114

Liabilities and Net Assets	2011	2010
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	$ 649,091	$ 783,950
Losses payable	4,713	1,981
Premium refunds payable	266	—
Accrued expenses	800	788
Bonds payable	282,660	269,485
Accrued bond interest expense	47,757	41,286
Total current liabilities	985,287	1,097,490
Long-term liabilities:		
Bonds payable	5,097,715	5,380,375
Premiums on bonds payable	37,647	51,926
Compensated absences, net of current portion	127	124
Total long-term liabilities	5,135,489	5,432,425
Total liabilities	6,120,776	6,529,915
Net assets:		
Unrestricted	4,729,291	3,230,171
Invested in capital assets, net of related debt	5	6
Restricted for hurricane mitigation	22	22
Total net assets	4,729,318	3,230,199
Total liabilities and net assets	$ 10,850,094	$ 9,760,114

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

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

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Operating revenues:		
Net premium revenue	$ 1,308,877	$ 1,437,911
Net interest on premium adjustments	877	849
Net interest on loss disbursement adjustments/advances	2,544	5,182
Other	30	30
Total operating revenues	1,312,328	1,443,972
Operating expenses:		
Hurricane losses	110,000	250,000
Administrative and actuarial fees	2,486	2,403
Other professional fees	1,759	1,831
Personnel expenses	1,151	994
Depreciation	3	2
Other	245	237
Total operating expenses	115,644	255,467
Operating income	1,196,684	1,188,505
Nonoperating revenue (expense):		
Investment income	46,590	80,040
Investment advisor fees	(1,381)	(1,172)
Emergency assessment revenue	386,670	329,330
Emergency assessment interest revenue	7	11
Custodian and bond trustee fees	(5)	(5)
Bond interest expense	(115,100)	(101,811)
Amortization of bond issuance costs	(4,346)	(3,865)
Total nonoperating revenue	312,435	302,528
Income before transfers	1,509,119	1,491,033
Transfers to other funds	(10,000)	(10,000)
Change in net assets	1,499,119	1,481,033
Net assets at beginning of year	3,230,199	1,749,166
Net assets at end of year	$ 4,729,318	$ 3,230,199

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

Combined Statements of Cash Flows

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Operating activities:		
Premium received	$ 1,318,493	$ 1,429,045
Hurricane losses paid	(241,945)	(234,893)
Net interest on loss disbursements and adjustments	2,544	5,182
Other	30	30
Administrative and actuarial fees	(2,479)	(2,381)
Other professional fees	(1,772)	(2,101)
Personnel expenses	(1,146)	(1,025)
Other operating expenses	(238)	(267)
Net cash provided by operating activities	1,073,487	1,193,590
Investing activities:		
Purchases of investments	(446,807,416)	(504,579,538)
Sales and maturities of investments	445,742,296	502,648,941
Interest received	34,304	77,904
Investment advisor fees	(1,365)	(1,154)
Custodian and bond trustee fees	(5)	(5)
Net cash used by investing activities	(1,032,186)	(1,853,852)
Financing from noncapital activities:		
Transfers to other funds	(10,000)	(10,000)
Emergency assessment funds received	361,194	329,873
Emergency assessment interest received	4	36
Cash received on bond issuance	—	712,604
Bond principal paid	(269,485)	(256,655)
Bond interest paid	(122,919)	(115,739)
Net cash (used by) provided by financing from noncapital activities	(41,206)	660,119
Financing from capital activities:		
Purchases of capital assets	(2)	(5)
Net increase (decrease) in cash and cash equivalents	93	(148)
Cash and cash equivalents at beginning of year	43	191
Cash and cash equivalents at end of year	$ 136	$ 43

See accompanying notes to combined financial statements.

FLORIDA HURRICANE CATASTROPHE FUND

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

Years ended June 30, 2011 and 2010

(In thousands)

	2011	2010
Operating income	$ 1,196,684	$ 1,188,505
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	3	2
Decrease (increase) in premiums receivable, net	8,473	(9,678)
Increase (decrease) in premium refunds payable	266	(37)
(Decrease) increase in unpaid hurricane losses	(134,859)	8,297
Increase in losses payable	2,732	698
Decrease in excess loss payments receivable	182	6,112
Increase (decrease) in accrued expenses	6	(309)
Net cash provided by operating activities	$ 1,073,487	$ 1,193,590

See accompanying notes to combined financial statements.

(1) Organization

(a) Business

The Florida Hurricane Catastrophe Fund (the Fund), a trust fund created in November 1993 during a special Florida Congressional legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to all authorized primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Premiums are calculated for each of the approximately 175 insurers using rates developed based on hurricane modeling of the trended data from the prior year. The modeling takes into consideration factors such as historical records of hurricane strength and landfall patterns, geographic location, type of business, construction, coverage selected, deductible and mitigation features. The Fund is administered by the State Board of Administration of Florida (SBA), which has contracted for administrative and actuarial services.

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

(b) Basis of Presentation

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

The combined financial statements presented herein relate solely to the financial position and changes in financial position of the Fund and are not intended to present the financial position of the SBA or the results of its operations and cash flows. The Fund follows Governmental Accounting Standards Board (GASB) pronouncements and only Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, which do not conflict with or contradict GASB pronouncements.

(c) Limited Liability of the Fund

The Fund's obligation to participating insurers, in the event of a hurricane(s) that causes reimbursable losses, is limited to the claims-paying capacity of the Fund. For the purpose of defining claims-paying capacity, the SBA shall use the unrestricted net assets as of December 31 of the applicable contract year, to which is added reported fund losses (including loss adjustment expense) for the then-current contract year, whether paid or unpaid by the Fund, as of December 31; any reinsurance purchased by the Fund (to date, the Fund has never purchased such reinsurance); and the amount the SBA is able to raise through the issuance of revenue bonds up to the statutory annual aggregate fund limit; and from which is subtracted any reinsurance recovered prior to, or recoverable as of, December 31; any obligations paid or expected to be paid with bonding proceeds or receipts from emergency assessments; amounts needed for administration for the then-current State of Florida fiscal year which have not been spent and which are not reflected on the combined statements of net assets; and the amount of undispersed mitigation funds appropriated for the then-current State of Florida fiscal year. Revenue bonds have been issued under authorization of Section 215.555(6) of the Florida Statutes; as such, the SBA has directed the Florida Office of Insurance Regulation to levy an emergency assessment on each insurer writing property and casualty business in this State. The Fund, therefore, has no risk that it will be unable to meet its contractual obligations to participating insurers because its obligation is limited to its ability to pay.

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

(d) Risk Management

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

(2) Significant Accounting Policies

(a) Measurement Focus

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

(b) Investments

The Fund's cash is invested according to an Investment Policy Statement which sets forth the objectives, guidelines and requirements applicable to the investments of the Fund. The primary goal of the policy is defined by the following priority: (1) liquidity, (2) safety of principal; and (3) competitive return. These investments are recorded at fair value, and the fair values are primarily obtained from independent quoted market prices. No investments were recorded at amortized cost as of June 30, 2011 and 2010. The Fund considers all investments with maturity dates of less than one year to be short-term investments. Investments with maturity dates in excess of one year are included in long-term investments. Investment advisory services are provided by the SBA.

(c) Emergency Assessment Receivable

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

(d) Premiums Receivable

Premiums receivable represent amounts from previous billings that have not yet been collected and are net of any allowances management has established to anticipate uncollectible billings. As of June 30, 2011, an additional allowance equal to the premium receivable of $9,438,681 exists for a company that has entered into receivership. As of June 30, 2011, collectability of this receivable is uncertain.

(e) Loss Reimbursement Advances Receivable

Certain companies may qualify for advances from the Fund, which are in essence loans based on a company's potential recoveries from the Fund (i.e., based on incurred losses rather than paid losses). Loss reimbursement advances receivable represent amounts currently outstanding on these advances, including accrued interest. As of June 30, 2011 and 2010, there are no outstanding loss reimbursement advances.

(f) Capital Assets

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

(g) Premium Refunds Payable

Premium refunds payable represent amounts due to participating insurers where provisional or estimated premium payments are in excess of amounts actually owed based upon the current exposure data. Also included are premium amounts received from companies pending exemption. These amounts are returned once an exemption is granted.

(h) Bonds Payable

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

(i) Compensated Absences

Compensated absences represent the Fund's obligation to accrue a liability for employees' rights to receive compensation for future absences, such as vacation and sick leave. The Fund allows vested employees to carry forward any unpaid leave indefinitely. The short-term portion of this liability, $47,000 in 2011 and 2010, is included in accrued expenses on the combined statements of net assets. The remaining liability is included as compensated absences with long-term liabilities on the combined statements of net assets.

(j) Current Contract Year Premium Revenue

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

(k) Prior Contract Year Adjustments

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

(l) Operating Revenues and Expenses

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

(m) Net Interest on Premium Adjustments

Participating insurers have the option of paying the billed provisional premium or estimating premium for the August and October installments. If the provisional or estimated payments are too high, interest is returned to the insurer on the overpayment. Likewise, if estimated premiums are underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2011, the interest rate was 1.05% for overpayments of premium and 6.05% for underestimated payments. For the contract year ended May 31, 2010, the interest rate was 2.00% for overpayments of premium and 7.00% for underestimated payments.

(n) Hurricane Losses

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

(o) Emergency Assessment

For policies issued or renewed on or after January 1, 2007, a 1% emergency assessment has been levied; except, for policies issued or renewed on or after January 1, 2011 where a 1.3% emergency assessment has been levied. The assessment applies to all property and casualty lines of business in the state, including surplus lines, but excluding workers' compensation, federal flood, accident and health insurance, and (for losses prior to 2010) medical malpractice premiums. The emergency assessment revenue is the funding source for repayment of the Series 2006A, 2008A, and 2010A Revenue Bonds.

(Continued)

(p) Transfers

Pursuant to Section 215.555(7)(c) of the Florida Statutes, the Florida Legislature will appropriate from the Fund an amount no less than $10,000,000 and no more than 35% of the investment income from the prior fiscal year, providing that the actuarial soundness of the Fund is not jeopardized, for the purpose of providing funding for governments, agencies, and educational institutions to support programs intended to improve hurricane preparedness or reduce potential losses in the event of a hurricane. For these purposes, in each of fiscal years 2011 and 2010, $10,000,000 was appropriated from the Fund, and $22,400 was available from prior years. The remaining $22,400 available for transfer in fiscal year 2011 has been restricted in the June 30, 2011 net assets for hurricane mitigation.

(q) Income Taxes

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

(r) Cash Equivalents

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

(s) Use of Estimates

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

(3) Investments

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

	June 30	
	2011	**2010**
Short-term investments:		
Certificates of deposit	$ 1,150,863	$ 1,574,700
Commercial paper	3,083,876	1,657,678
Repurchase agreements	1,700,000	1,693,630
Money market funds	655,690	651,884
Domestic corporate bonds and notes, variable rate	219,093	457,863
International corporate bonds and notes, variable rate	175,079	124,973
Federal agencies – discount notes	880,342	1,163,062
Federal agencies	799,151	339,428
U.S. treasuries	555,470	888,701
U.S. guaranteed obligations – FDIC guaranteed	-	100,395
Total short-term investments	$ 9,219,564	$ 8,652,314
Long-term investments:		
Domestic corporate bonds and notes, variable rate	$ -	$ 26,047
Domestic nongovernment mortgage-backed securities	50,905	55,315
Federal agencies	1,450,421	911,186
Total long-term investments	$ 1,501,326	$ 992,548

As of June 30, 2011, the weighted average maturity of the Fund's investments is as follows (in thousands):

Investment Type		Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	$	1,150,863	61
Commercial paper		3,083,876	37
Repurchase agreements		1,700,000	1
Money market funds		655,690	1
Domestic corporate bonds and notes		219,093	357
Domestic nongovernment mortgaged-backed securities*		50,905	*
International corporate bonds and notes		175,079	16
Federal agencies - discount notes		880,342	57
Federal agencies		2,249,572	177
U.S. treasuries		555,470	36
Total fair value	$	10,720,890	
Portfolio weighted average maturity			84

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

(a) Interest Rate Risk

Liquidity being a primary concern, the investment policy objective is to invest in high quality, highly liquid, relatively short-term investment strategies which are reviewed on an annual basis to ensure the appropriateness of the strategic goal. The Fund utilizes the weighted average maturity method to limit exposure to interest rate risk. In accordance with the policy, no individual security shall have a final maturity date longer than 397 days, with the exception of those for Government Securities and Agency Securities, which shall not exceed 3 years. No more than 20% of total portfolio amortized cost may be invested in fixed rate securities with remaining time to maturity exceeding 397 days. The dollar weighted average maturity to reset of the portfolio shall not exceed 90 days and the dollar weighted average final maturity of the portfolio shall not exceed 180 days. For purposes of this calculation, the maturity date is assumed to be the next reset date rather than the stated maturity except in the case of the Domestic non-government mortgage backed securities.

(b) Credit Risk

Funds are invested in accordance with Section 215.47 of the Florida Statutes and the Fund's Investment Policy Statement which includes, but is not limited to, corporate debt securities such as variable rate notes, bonds and commercial paper, bank instruments such as certificates of deposit and bankers acceptances, U.S. Government Treasury and Agency securities, Municipal securities, shares of Money Market Mutual Funds, and repurchase agreements, that enhance the Fund's investment income while maintaining liquidity and safety of principal.

The investment policy states that all securities must be investment grade at time of purchase. For short-term ratings, this has been defined as the highest applicable rating by at least two of Moody's, S&P, and/or Fitch and must be a minimum of P-1 by Moody's, A-1 by S&P, and/or F1 by Fitch. For long-term ratings, this has been defined as a minimum of A2 by Moody's, A by S&P, and/or A by Fitch. The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2011 (in thousands):

			Credit Quality Ratings	
Investment Type		**Fair Value**	**S & P**	**Moody's**
Certificates of deposit*	$	1,150,863	Not Rated	Not Rated
Commercial paper		3,083,876	A-1	P-1
Repurchase agreements		1,700,000	Not Rated	Not Rated
Money market funds		655,690	AAAm	Aaa
Domestic corporate bonds and notes		219,093	A	A
International corporate bonds and notes**		70,033	AA	Not Rated
International corporate bonds and notes***		105,046	Not Rated	Not Rated
Domestic nongovernment mortgaged-backed securities		50,905	Not Rated	Not Rated
Federal agencies - discount notes		880,342	Not Rated	Not Rated
Federal agencies****		2,249,572	AAA	Aaa
U.S. treasuries		555,470	Not Rated	Not Rated
	$	10,720,890		

*Of the $1,150,863 "not rated" certificates of deposit, $1,050,891 had issuer ratings of A-1 for S&P and P-1 for Moody's.

**S&P downgraded ratings on these international bonds and notes to "not rated" on August 12, 2011.

***The $105,046 "not rated" international corporate bonds and notes had issuer ratings of AA for S&P and Aa for Moody's.

****S&P downgraded ratings on federal agencies to AA+ on August 8, 2011. Moody's ratings remain unchanged.

(c) Concentration of Credit Risk

Pursuant to the Investment Policy Statement, securities of a single issuer shall not represent more than 3% of total portfolio amortized cost (excluding U.S. treasuries and agencies). The maximum single issuer limit can be 5% if timing issues related to delayed delivery transactions are the sole cause of the discrepancy, so long as the percentage is reduced back to 3% within 7 days. Repurchase agreements, which are collateralized at least 102% with U.S. government, agency or agency mortgage backed securities, are excluded by the SBA in determining compliance with the guidelines. No more than 10% of the portfolios may be invested in an individual money market fund (including any one treasury or agency money market fund). No more than 25% of total portfolio amortized cost may be in a single industry sector except that more than 25% of total portfolio amortized cost may be invested in the financial services industry sector.

At June 30, 2011, the single issuer threshold of 3% was exceeded with securities issued by Bank of America, which represented 9.31% of the portfolio’s total amortized cost. The market value of Bank of America holdings at June 30, 2011 was $1,000,000,000, held in repurchase agreements issued by Bank of America. The Repurchase Agreements, which were fully collateralized, matured at full value on their stated maturity date of July 1, 2011.

At June 30, 2011, the single issuer threshold of 3% was also exceeded with securities issued by Goldman Sachs, which represented 6.70% of the portfolio’s amortized cost. The market value of the Goldman Sachs holdings at June 30, 2011 was $719,092,600. Specifically, the Fund held $219,092,600 in domestic corporate bonds and notes, and $500,000,000 in repurchase agreements issued by Goldman Sachs. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity date of July 1, 2011.

At June 30, 2011, holdings in Abbey National Treasury Services PLC represented 2.56% of the portfolio’s amortized cost. Holdings in Abbey National North America LLC, which manages the commercial paper program, represented 2.43% of the portfolio’s amortized cost. The combined holdings total 4.99% of the portfolio’s amortized cost, which exceeds the 3% threshold. The market value of the Abbey holdings at June 30, 2011 was $536,675,814. Specifically, the Fund held $275,199,900 in certificates of deposits issued by Abbey National Treasury Services PLC, and $261,475,914 in commercial paper issued by Abbey National North America LLC. Of these holdings, $286,486,164 matured on July 1, 2011.

At June 30, 2011, the single issuer threshold of 3% was exceeded with securities issued by Wells Fargo, which represented 6.10% of the portfolio’s amortized cost. The market value of the Wells Fargo holdings at June 30, 2011, was $655,689,946 and was held in money market funds.

At June 30, 2011, the Fund held $555,470,429 in U.S. Treasury 90 day Certificates of Indebtedness which represents 5.17% of the portfolio’s amortized cost. These funds were reinvested in State and Local Government Series Securities (SLGS) on August 2, 2011. SLGS are nonmarketable securities that are only available for purchase by state and local governments and other issuers of tax-exempt securities. SLGS are direct obligations of the U.S. government, backed by the full faith and credit of the U.S. government.

At June 30, 2011, the Fund also held $3,129,913,831 in federal agency bonds and notes which represents 29.19% of the portfolio's amortized cost. Federal agency bonds and notes are sponsored by the U.S. government. Holdings of federal agency bonds and notes as of June 30, 2011 are as follows (in thousands):

Investment Type		Fair Value	% of Portfolio
Federal Agricultural Mortgage Corp	$	185,161,550	1.73%
Federal Farm Credit Bank		686,752,197	6.41%
Federal Home Loan Banks		1,048,323,851	9.78%
Federal Home Loan Mortgage Corp		695,905,851	6.49%
Federal National Mortgage Association		513,770,382	4.79%

(d) Custodial Credit Risk

Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. The Fund does not have a formal investment policy for custodial credit risk. At June 30, 2011, all investments held were either insured or registered and held by the Fund or its agent in the Fund's name.

(e) Foreign Currency Risk

No exposure to foreign currency risk existed at June 30, 2011.

(4) Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2011 and 2010, is as follows (in thousands):

		Equipment		Accumulated depreciation		Net
Balance as of June 30, 2009	$	75	$	(72)	$	3
Additions		5		(2)		3
Sales or disposals		—		—		—
Balance as of June 30, 2010		80		(74)		6
Additions		2		(3)		(1)
Sales or disposals		—		—		—
Balance as of June 30, 2011	$	82	$	(77)	$	5

(5) Hurricane Losses

The State of Florida was not hit by any hurricanes during the 2006, 2007, 2008, 2009, and 2010 hurricane seasons.

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

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

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2011 and 2010 (in thousands):

	Year ended June 30	
	2011	**2010**
Reserve for unpaid hurricane losses at beginning of year	$ 783,950	$ 775,653
Add provision for hurricane losses occurring in:		
Current year	—	—
Prior years	110,000	250,000
Net incurred losses during the current year	110,000	250,000
Deduct payments for claims occurring in:		
Current year	—	—
Prior years	244,859	241,703
Net claim payments during the current year	244,859	241,703
Reserve for unpaid hurricane losses at end of year	$ 649,091	$ 783,950

The Fund's reserve for prior years' unpaid hurricane losses, at June 30, 2011 and 2010, was increased by $110 million and $250 million, respectively, as a result of ongoing loss development and actuarial analyses.

(6) Bonds Payable

Long-term liability activity for the years ended June 30, 2011 and 2010 was as follows (in thousands):

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

Long-term liabilities as of June 30, 2010	Beginning balance	Additions	Reductions	Ending balance
Long-term bonds	$ 4,973,940	$ 675,920	$ (269,485)	$ 5,380,375

Post-event Bonds – The Fund is expecting to pay loss reimbursements of $3.87 billion to participating insurers for the calendar year 2004 hurricanes and $5.89 billion for the calendar year 2005 hurricanes. This resulted in deficit unrestricted net assets as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of $1,350,025,000 during the year ended

June 30, 2006. The funding for these bonds comes from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. At June 30, 2011, $579,455,000 of these bonds were outstanding, which are stated to mature without right of prior redemption on July 1 of the following years and bear interest at rates ranging from 5.00% to 5.25% as follows (in thousands):

2011	$	282,660	5.00%
2012		140,865	5.00
2012		155,930	5.25
	$	579,455	

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

2013	$	66,865	4.125%
2013		233,135	5.000
2014		106,610	4.250
2014		218,390	5.000
	$	625,000	

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

2015	$	15,775	3.50%
2015		5,765	4.00
2015		320,915	5.00
2016		17,990	3.75
2016		315,475	5.00
	$	675,920	

Pre-Event Notes – To maximize the ability of the Fund to meet future obligations, the Corporation in October 2007 issued pre-event Series 2007A Floating Rate Notes in the amount of $3.5 billion. The proceeds from these notes will be used to pay for losses incurred from future covered events. Investment earnings on these funds, as well as reimbursement premiums, if necessary, are used to pay the debt service requirements of these notes. The single maturity date for these notes will be October 15, 2012.

Costs of Issuance – In connection with the issuance of the Series 2008A Revenue Bonds and the Series 2010A Revenue Bonds, the Corporation incurred issuance costs of $3,196,094, and $3,556,326, respectively, which have been capitalized and will be amortized over the life of the notes/bonds payable.

Expense for amortization of costs of issuance recognized in fiscal year ended June 30, 2011, was $1,165,869, $2,062,910, $540,185, and $576,702 for the Series 2006A Revenue Bonds, Series 2007A Notes, Series 2008A Revenue Bonds, and Series 2010A Revenue Bonds, respectively. Expense for amortization of costs of issuance recognized in fiscal year ended June 30, 2010, was $1,165,869, $2,062,910, $540,185, and $96,117 for the Series 2006A Revenue Bonds, Series 2007A Notes, Series 2008A Revenue Bonds, and Series 2010A Revenue Bonds, respectively.

(7) Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2009	$	191
Increases		93
Decreases		(113)
Balance as of June 30, 2010		171*
Increases		139
Decreases		(136)
Balance as of June 30, 2011	$	174*

* Includes long-term and current balances, of which $47,000 is estimated due within one year of June 30, 2011 and 2010.

(8) Premium Revenue

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

	Year ended June 30	
	2011	**2010**
Contract year 2010	$ 1,314,000	$ —
Contract year 2009	1,294	1,457,987
Contract year 2008	(3,700)	3,477
Contract year 2007	(2,415)	(19,275)
Contract year 2006	(192)	(4,278)
Contract year 2005	(110)	—
	$ 1,308,877	$ 1,437,911

(9) Related Parties

The Fund paid the SBA approximately $835,713 for the Fund and $527,234 for the Corporation in the fiscal year ended June 30, 2011, and $627,862 for the Fund and $527,390 for the Corporation in the fiscal year ended June 30, 2010, for investment advisory services.

OTHER FINANCIAL INFORMATION

FLORIDA HURRICANE CATASTROPHE FUND

Combining Statement of Net Assets

June 30, 2011

(In thousands)

Assets	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Current assets:			
Cash and cash equivalents	$ 136	$ 1	$ 135
Short-term investments	9,219,564	4,941,645	4,277,919
Emergency assessment funds receivable	115,283	—	115,283
Emergency assessment interest receivable	4	—	4
Accrued interest	2,888	1,631	1,257
Excess loss payments receivable	1,434	1,434	—
Premium receivable, net	1,205	1,205	—
Total current assets	9,340,514	4,945,916	4,394,598
Long-term assets:			
Long-term investments	1,501,326	973,228	528,098
Unamortized bond issuance costs	8,249	—	8,249
Capital assets, net of accumulated depreciation	5	5	—
Total long-term assets	1,509,580	973,233	536,347
Total assets	$ 10,850,094	$ 5,919,149	$ 4,930,945

Liabilities and Net Assets	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Current liabilities:			
Hurricane losses:			
Unpaid hurricane losses	$ 649,091	$ 649,091	$ —
Losses payable	4,713	4,713	—
Premium refunds payable	266	266	—
Accrued expenses	800	744	56
Bonds payable	282,660	—	282,660
Accrued bond interest expense	47,757	—	47,757
Total current liabilities	985,287	654,814	330,473
Long-term liabilities:			
Bonds payable	5,097,715	—	5,097,715
Premiums on bonds payable	37,647	—	37,647
Compensated absences, net of current portion	127	127	—
Total long-term liabilities	5,135,489	127	5,135,362
Total liabilities	6,120,776	654,941	5,465,835
Net assets (deficit):			
Unrestricted	4,729,291	5,264,181	(534,890)
Invested in capital assets, net of related debt	5	5	—
Restricted for hurricane mitigation	22	22	—
Total net assets (deficit)	4,729,318	5,264,208	(534,890)
Total liabilities and net assets	$ 10,850,094	$ 5,919,149	$ 4,930,945

See accompanying independent auditors' report.

FLORIDA HURRICANE CATASTROPHE FUND

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

Year ended June 30, 2011

(In thousands)

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Operating revenues:			
Net premium revenue	$ 1,308,877	$ 1,308,877	$ —
Net interest on premium adjustments	877	877	—
Net interest on loss disbursement adjustments/advances	2,544	2,544	—
Other	30	30	—
Total operating revenues	1,312,328	1,312,328	—
Operating expenses:			
Hurricane losses	110,000	110,000	—
Administrative and actuarial fees	2,486	2,486	—
Other professional fees	1,759	1,730	29
Personnel expenses	1,151	1,151	—
Depreciation	3	3	—
Other	245	208	37
Total operating expenses	115,644	115,578	66
Operating income (loss)	1,196,684	1,196,750	(66)
Nonoperating revenue (expense):			
Investment income	46,590	30,837	15,753
Investment advisor fees	(1,381)	(854)	(527)
Emergency assessment revenue	386,670	—	386,670
Emergency assessment interest revenue	7	—	7
Custodian and bond trustee fees	(5)	(2)	(3)
Bond interest expense	(115,100)	—	(115,100)
Amortization of bond issuance costs	(4,346)	—	(4,346)
Total nonoperating revenue	312,435	29,981	282,454
Income before transfers	1,509,119	1,226,731	282,388
Transfers from (to) component units	—	241,208	(241,208)
Transfers to other funds	(10,000)	(10,000)	—
Total transfers	(10,000)	231,208	(241,208)
Change in net assets	1,499,119	1,457,939	41,180
Net assets (deficit) at beginning of year	3,230,199	3,806,270	(576,071)
Net assets (deficit) at end of year	$ 4,729,318	$ 5,264,209	$ (534,891)

See accompanying independent auditors' report.

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

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

We have audited the combined financial statements of the Florida Hurricane Catastrophe Fund (the Fund) as of and for the year ended June 30, 2011, and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

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

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

KPMG LLP

November 4, 2011