Financial Statements and Other Financial Information

Florida Hurricane Catastrophe Fund
Years Ended June 30, 2010 and 2009
With Reports of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Florida Hurricane Catastrophe Fund

Financial Statements and
Other Financial Information

Years Ended June 30, 2010 and 2009

Contents

Ernst & Young LLP
220 South Sixth Street, Suite 1400
Minneapolis, Minnesota 55402-4509

Tel: +1 612 343 1000
Fax: +1 612 339 1726
www.ey.com

Report of Independent Auditors

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

We have audited the accompanying financial statements of the Florida Hurricane Catastrophe Fund (the Fund) as of and for the years ended June 30, 2010 and 2009. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included 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 financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the 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 accounting principles generally accepted in the United States.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2010 and 2009, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis are not a required part of the financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have issued our report dated October 15, 2010, 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 audits.

Ernst + Young LLP

October 15, 2010

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, 2010 and 2009. Please read this information in conjunction with the Fund’s financial statements.

Overview of the Financial Statements

The statements presented are the statements of net assets, the statements of revenues, expenses, and changes in net assets, and the 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 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 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 statements of cash flows provide information about how the Fund finances and meets the cash flow needs of its activities.

Financial Summary

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

	June 30		
	2010	**2009**	**2008**
Capital assets	**$ 6**	$ 3	$ 4
Other assets	**9,760,108**	7,824,837	9,526,926
Total assets	**9,760,114**	7,824,840	9,526,930
Current liabilities	**1,097,490**	1,079,010	3,990,325
Long-term liabilities	**5,432,425**	4,996,664	4,679,615
Total liabilities	**6,529,915**	6,075,674	8,669,940
Net assets:			
Invested in capital assets, net of related debt	**6**	3	4
Unrestricted	**3,230,171**	1,749,141	856,964
Restricted for hurricane mitigation	**22**	22	22
Total net assets	**$ 3,230,199**	$ 1,749,166	$ 856,990

Financial Summary (continued)

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

	Year Ended June 30		
	2010	**2009**	**2008**
Net premium revenue	**$ 1,437,911**	$ 1,291,599	$ 1,336,775
Net interest on premium adjustments	**849**	230	(1,258)
Net interest on loss disbursement adjustments/advances	**5,182**	1,122	535
Other	**30**	30	143
Total operating revenues	**1,443,972**	1,292,981	1,336,195
Total nonoperating revenue (expense)	**302,528**	(134,581)	295,882
Total revenues	**1,746,500**	1,158,400	1,632,077
Hurricane losses	**250,000**	250,000	700,000
Other operating expenses	**5,465**	6,222	5,636
Depreciation	**2**	2	3
Total expenses	**255,467**	256,224	705,639
Income before transfers	**1,491,033**	902,176	926,438
Transfers to other funds	**(10,000)**	(10,000)	(10,000)
Change in net assets	**1,481,033**	892,176	916,438
Net assets (deficit) at beginning of year	**1,749,166**	856,990	(59,448)
Net assets at end of year	**$ 3,230,199**	$ 1,749,166	$ 856,990

Financial Highlights

- Investment income (loss) included in “total nonoperating revenue (expense)” for the Fund was $241,128,000 at June 30, 2008, $(51,120,000) at June 30, 2009, and $80,040,000 at June 30, 2010. The decrease in investment income from 2008 to 2010 is the result of changing market conditions, combined with the more conservative position the portfolio has taken. 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

Financial Summary (continued)

August 2009 (final redemption occurred February 17, 2009). In 2010, interest rates continued to decline throughout the year. The declining interest rates, combined with the conservative position of the portfolio, have led to an overall decrease in investment income from 2008 to 2010.

- For losses from hurricanes occurring in 2004 and 2005, as of June 30, 2010, the Fund had reimbursed participating insurers over $8.8 billion. The total amount the Fund expects to pay is $9.65 billion, with $3.95 billion for 2004 and $5.70 billion for 2005. "Hurricane losses" expense includes $700 million in 2008, $250 million in 2009, and $250 million in 2010 for the prior years' storms due to estimates revised as a result of ongoing loss development and actuarial analyses.

- At June 30, 2008, current liabilities reported included $2.755 billion for Series 2006B Notes due to mature in the 2009 fiscal year. Given that all $2.8 billion of the 2006B Notes were non-extended and due to mature during calendar years 2008 and 2009 (last maturity due on August 14, 2009), and given the net carrying cost of the 2006B Notes, it was determined that it would be cost effective to redeem the 2006B Notes prior to their maturity dates and the 2009 hurricane season. Final redemption of the 2006B Notes occurred on February 17, 2009, using the 2006B Note proceeds which were included in invested assets at June 30, 2008. Upon early redemption, $996,000 of deferred costs of issuance were expensed and included in "total nonoperating (expense) revenue."

- 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 2008A Bond 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 2010A Bonds, as explained below).

Financial Summary (continued)

- 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 2010A Bond 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 2010A Bond 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, 2010, 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

Statements of Net Assets

(In Thousands)

	June 30	
	2010	**2009**
Assets		
Current assets:		
Cash and cash equivalents	**$ 43**	$ 191
Short-term investments	**8,652,314**	6,670,686
Emergency assessment funds receivable	**89,805**	90,350
Emergency assessment interest receivable	**2**	27
Accrued interest	**1,508**	13,582
Excess loss payments receivable	**1,616**	7,728
Premiums receivable, net	**9,678**	–
Total current assets	**8,754,966**	6,782,564
Long-term assets:		
Long-term investments	**992,548**	1,029,370
Unamortized bond issuance costs	**12,594**	12,903
Capital assets, net of accumulated depreciation of $74 and $72 for June 30, 2010 and 2009, respectively	**6**	3
Total long-term assets	**1,005,148**	1,042,276
Total assets	**$ 9,760,114**	$ 7,824,840

	June 30	
	2010	**2009**
Liabilities and net assets		
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	**$ 783,950**	$ 775,653
Losses payable	**1,981**	1,283
Premium refunds payable	**–**	37
Accrued expenses	**788**	1,054
Bonds payable	**269,485**	256,655
Accrued bond interest expense	**41,286**	44,328
Total current liabilities	**1,097,490**	1,079,010
Long-term liabilities:		
Bonds payable	**5,380,375**	4,973,940
Premiums on bonds payable	**51,926**	22,583
Compensated absences, net of current portion	**124**	141
Total long-term liabilities	**5,432,425**	4,996,664
Total liabilities	**6,529,915**	6,075,674
Net assets:		
Unrestricted	**3,230,171**	1,749,141
Invested in capital assets, net of related debt	**6**	3
Restricted for hurricane mitigation	**22**	22
Total net assets	**3,230,199**	1,749,166
Total liabilities and net assets	**$ 9,760,114**	$ 7,824,840

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Revenues, Expenses, and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2010	**2009**
Operating revenues:		
Net premium revenue	**$ 1,437,911**	$ 1,291,599
Net interest on premium adjustments	**849**	230
Net interest on loss disbursement adjustments/advances	**5,182**	1,122
Other	**30**	30
Total operating revenues	**1,443,972**	1,292,981
Operating expenses:		
Hurricane losses	**250,000**	250,000
Administrative and actuarial fees	**2,403**	2,538
Other professional fees	**1,831**	2,420
Personnel expenses	**994**	992
Depreciation	**2**	2
Other	**237**	272
Total operating expenses	**255,467**	256,224
Operating income	**1,188,505**	1,036,757
Nonoperating revenue (expense):		
Investment income (loss)	**80,040**	(51,120)
Investment advisor fees	**(1,172)**	(1,161)
Financial option fees	**–**	(224,000)
Securities lending income	**–**	191
Securities lending expense	**–**	(137)
Emergency assessment revenue	**329,330**	336,911
Emergency assessment interest revenue	**11**	52
Custodian and bond trustee fees	**(5)**	(31)
Bond interest expense	**(101,811)**	(189,405)
Bond early extinguishment of debt expense	**–**	(996)
Amortization of bond issuance costs	**(3,865)**	(4,885)
Total nonoperating revenue (expense)	**302,528**	(134,581)
Income before transfers	**1,491,033**	902,176
Transfers to other funds	**(10,000)**	(10,000)
Change in net assets	**1,481,033**	892,176
Net assets at beginning of year	**1,749,166**	856,990
Net assets at end of year	**$ 3,230,199**	$ 1,749,166

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2010	**2009**
Operating activities		
Premium received	**$ 1,429,045**	$ 1,292,337
Hurricane losses paid	**(234,893)**	(393,779)
Net interest on loss disbursements and adjustments	**5,182**	1,122
Other	**30**	30
Administrative and actuarial fees	**(2,381)**	(2,615)
Other professional fees	**(2,101)**	(2,130)
Personnel expenses	**(1,025)**	(953)
Other operating expenses	**(267)**	(291)
Net cash provided by operating activities	**1,193,590**	893,721
Investing activities		
Purchases of investments	**(504,579,538)**	(212,076,903)
Sales and maturities of investments	**502,648,941**	213,543,897
Interest received	**77,904**	151,782
Investment advisor fees	**(1,154)**	(1,184)
Custodian and bond trustee fees	**(5)**	(31)
Securities lending	**–**	14
Net cash (used by) provided by investing activities	**(1,853,852)**	1,617,575
Financing from noncapital activities		
Transfers to other funds	**(10,000)**	(10,000)
Emergency assessment funds received	**329,873**	338,211
Emergency assessment interest received	**36**	25
Financial option fees	**–**	(224,000)
Cash received on bond issuance	**712,604**	627,920
Bond principal paid	**(256,655)**	(3,044,430)
Bond interest paid	**(115,739)**	(199,167)
Net cash provided by (used by) financing from noncapital activities	**660,119**	(2,511,441)
Financing from capital activities		
Purchases of capital assets	**(5)**	(1)
Net decrease in cash and cash equivalents	**(148)**	(146)
Cash and cash equivalents at beginning of year	**191**	337
Cash and cash equivalents at end of year	**$ 43**	$ 191

See accompanying notes.

Florida Hurricane Catastrophe Fund

Reconciliations of Operating Income to Net Cash
Used by Operating Activities
(In Thousands)

	Year Ended June 30	
	2010	**2009**
Operating income	**$ 1,188,505**	$ 1,036,757
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**2**	2
(Increase) decrease in premiums receivable, net	**(9,678)**	483
(Decrease) increase in premium refunds payable	**(37)**	26
Increase (decrease) in unpaid hurricane losses	**8,297**	(147,036)
Increase in losses payable	**698**	1,199
Decrease in excess loss payments receivable	**6,112**	2,057
(Decrease) increase in accrued expenses	**(309)**	233
Net cash provided by operating activities	**$ 1,193,590**	$ 893,721

See accompanying notes.

1. Organization

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 200 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, and deductions. 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.

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 statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the Fund finances and meets the cash flow needs of its activities.

The 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, that do not conflict with or contradict GASB pronouncements.

1. Organization (continued)

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 statement 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.

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. Under the accrual basis of accounting, premium revenues are recognized when billed. Expenses are recorded at the time they are incurred.

2. Significant Accounting Policies (continued)

Investments

The Fund invests all funds in relatively low-risk, highly liquid fixed-maturity securities. 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, 2010 and 2009. 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.

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 remit 30 days after the insurance is procured.

Securities Lending

The Fund, under authorization of Section 215.47(16) of the Florida Statutes, engaged in securities lending until June 2009. In a securities lending program, a lender (i.e., the Fund) loans various securities to a borrower for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The market value of the loaned securities was monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. Initial collateral of cash or U.S. government securities was required at a rate of at least 100% of the market value of a loaned security. The obligation recorded as a current liability represented the obligation to return the collateral received. Interest earned on short-term investments purchased with the cash collateral held was recognized as revenue. Lending agent costs and borrower rebate fees were recognized as expenses when incurred. The Fund ceased all securities lending activity in June 2009. In fiscal year 2010, Investment Policy Guidelines were revised and, per the revised policy, securities lending activities are no longer permitted.

2. Significant Accounting Policies (continued)

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. At June 30, 2010, a $9,438,681 premium receivable exists from a company that has entered into receivership. As of June 30, 2010, collectability of this receivable is uncertain.

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, 2010 and 2009, there are no outstanding loss reimbursement advances.

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.

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 by 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 over the life of the bonds.

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 leave indefinitely. The short-term portion of this liability, $47,000 in 2010 and $50,000 in 2009, is included in accrued expenses on the statements of net assets. The remaining liability is included as compensated absences with long-term liabilities on the statements of net assets.

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.

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.

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.

2. Significant Accounting Policies (continued)

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, 2010, the interest rate was 2.00% for overpayments of premium and 7.00% for underestimated payments. For the contract year ended May 31, 2009, there was no interest paid for overpayments of premium and 5.00% for underestimated payments.

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.

Emergency Assessment

For policies issued or renewed on or after January 1, 2007, a 1% 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.

2. Significant Accounting Policies (continued)

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 year 2010 and 2009, $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 2010 has been restricted in the June 30, 2010, net assets for future transfer.

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.

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.

3. Investments

The Fund is authorized to invest in accordance with Section 215.47 of the Florida Statutes, which includes, but is not limited to, certificates of deposit, commercial paper, U.S. government agency notes, U.S. Treasury bills, repurchase agreements, and variable rate notes that enhance the Fund's investment income while maintaining liquidity.

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

	June 30	
	2010	**2009**
Short-term investments:		
Certificates of deposit	**$ 1,574,700**	$ 3,617,741
Commercial paper	**1,657,678**	–
Repurchase agreements	**1,693,630**	836,598
Money market funds	**651,884**	538,946
Domestic corporate bonds and notes, variable rate	**457,863**	1,382,601
International corporate bonds and notes, variable rate	**124,973**	144,531
Federal agencies – discount notes	**1,163,062**	–
Federal agencies	**339,428**	150,269
U.S. treasuries	**888,701**	–
U.S. guaranteed obligations – FDIC guaranteed	**100,395**	–
Total short-term investments	**$ 8,652,314**	$ 6,670,686
Long-term investments:		
Certificates of deposit	**$ –**	$ 29,192
Domestic corporate bonds and notes, variable rate	**26,047**	422,927
Domestic nongovernment mortgage-backed securities	**55,315**	55,034
Federal agencies	**911,186**	–
U.S. treasuries	**–**	522,217
Total long-term investments	**$ 992,548**	$ 1,029,370

3. Investments (continued)

As of June 30, 2010, the Fund held the following investments (in thousands):

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	$ 1,574,700	28
Commercial paper	1,657,678	14
Repurchase agreements	1,693,630	1
Money market funds	651,884	1
Domestic corporate bonds and notes	483,910	114
Domestic nongovernment mortgage-backed securities*	55,315	2,995
International corporate bonds and notes	124,973	13
Federal agencies – discount notes	1,163,062	77
Federal agencies	1,250,614	88
U.S. treasuries	888,701	6
U.S. guaranteed obligations – FDIC guaranteed	100,395	71
Total fair value	$ 9,644,862	
Portfolio weighted average maturity		52

*Weighted Average Life was used since there is no available market, and maturity is uncertain for these securities.

Interest Rate Risk

Liquidity being a primary concern, the investment policy objective is to invest in 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. The dollar weighted average maturity of the portfolio shall not exceed 90 days. For purposes of this calculation, the maturity date is assumed to be the next reset date rather than the stated maturity except in the case of the Domestic nongovernment mortgage-backed securities.

3. Investments (continued)

Credit Risk

Funds are invested in accordance with Section 215.47 of the Florida Statutes, which includes, but is not limited to, certificates of deposit, commercial paper, U.S. government agency notes, U.S. Treasury bills, repurchase agreements, and variable rate notes that enhance the Fund's investment income while maintaining liquidity. The investment policy further states that at the time of purchase, securities with short-term investment ratings must be rated in the highest applicable rating by at least two nationally recognized statistical rating organizations, and securities with long-term ratings must be rated at least A2 by Moody's, A by S&P, and/or A by Fitch. Securities not rated include repurchase agreements, federal agencies, and U.S. treasuries. The investment policy states repurchase agreements must be collateralized at least 102% with U.S. government, agency, or agency mortgage-backed securities. Federal Agencies include securities issued by the Federal National Mortgage Association (FNMA), and Federal Home Loan Mortgage Corporation (FHLMC). U.S. treasuries consist fully of State and Local Government Securities (SLGS), which are a direct obligation of the U.S. government and are backed by the full faith and credit of the U.S. government. Securities purchased in fiscal year 2010 were purchased in accordance with investment policy guidelines in place at the time of purchase. The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2010 (in thousands).

		Credit Quality Ratings	
Investment Type	**Fair Value**	**S&P**	**Moody's**
Certificates of deposit	$ 49,983	Not Rated	Aa
Certificates of deposit	29,973	Not Rated	A
Certificates of deposit*	1,494,744	Not Rated	Not Rated
Commercial paper	1,657,678	A-1	P-1
Repurchase agreements	1,693,630	Not Rated	Not Rated
Money market funds	651,884	AAAm	Aaa
Domestic corporate bonds and notes	35,021	AA	A
Domestic corporate bonds and notes	38,883	A	Aa
Domestic corporate bonds and notes	315,211	A	A
Domestic corporate bonds and notes	94,795	A	Not Rated
International corporate bonds and notes	24,994	AA	Not Rated
International corporate bonds and notes**	99,979	Not Rated	Not Rated
Domestic nongovernment mortgage-backed securities	55,315	Not Rated	Not Rated

3. Investments (continued)

Investment Type	Fair Value	Credit Quality Ratings S&P	Credit Quality Ratings Moody's
Federal agencies – discount notes	$ 1,163,062	Not Rated	Not Rated
Federal agencies	1,250,614	AAA	Aaa
U.S. treasuries	888,701	Not Rated	Not Rated
U.S. guaranteed obligations – FDIC guaranteed	100,395	AAA	Aaa
	$ 9,644,862		

*Of the $1,494,744 "not rated" certificates of deposit, $49,993 had a Fitch rating of A, and $324,965 had issuer ratings of A-1 for S&P and P-1 for Moody's.

**The $99,979 "not rated" international corporate bonds and notes had issuer ratings of AA for S&P and Aa for Moody's.

Concentration of Credit Risk

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

At June 30, 2010, 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, 2010, was $900,035,339. Specifically, the Fund held $150,013,500 in domestic corporate bonds and notes, and $750,021,839 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, 2010.

3. Investments (continued)

At June 30, 2010, the single issuer threshold of 3% was exceeded with securities issued by Goldman Sachs, which represented 6.41% of the portfolio's amortized cost. The market value of the Goldman Sachs holdings at June 30, 2010, was $619,794,800. Specifically, the Fund held $94,794,800 in domestic corporate bonds and notes, and $525,000,000 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, 2010.

At June 30, 2010, the single issuer threshold of 3% was exceeded with securities issued by Morgan Stanley, which represented 4.70% of the portfolio's amortized cost. The market value of the Morgan Stanley holdings at June 30, 2010, was $453,903,014. Specifically, the Fund held $35,295,014 in domestic corporate bonds and notes, and $418,608,000 in repurchase agreements issued by Morgan Stanley. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity date of July 1, 2010.

At June 30, 2010, the single issuer threshold of 3% was exceeded with securities issued by Wells Fargo, which represented 7.10% of the portfolio's amortized cost. The market value of the Wells Fargo holdings at June 30, 2010, was $686,904,358. Specifically, the Fund held $35,020,700 in domestic corporate bonds and notes, and $651,883,658 in money market funds. The money market funds at Wells Fargo, of which, $305,686,091 was used to pay debt service on the post-event bonds on July 1, 2010, are held in accordance with the bond documents.

At June 30, 2010, the Fund held $888,701,271 in U.S. Treasury SLGS, which represented 9.19% of the portfolio's amortized cost. 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, 2010, the Fund held $2,413,676,076 in Federal Agency Bonds and Notes which represented 24.95% of the portfolio's amortized cost. Federal Agency Bonds and Notes are fully backed by the U.S. government and are issued by Federal Home Loan Bank, Federal Home Loan Mortgage Association (Freddie Mac), Federal National Mortgage Association (Fannie Mae), and Federal Farm Credit Bureau.

3. Investments (continued)

Custodial Credit Risk

Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. Per the SBA's Custodian Credit Policy, "it is the policy of the Chief Operating Officer of the SBA 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 in the SBA's name, to the extent possible, to protect the assets of the SBA."

Also according to SBA policy, "to the extent possible, negotiated trust and custody contracts shall require that all deposits, investments and collateral be held in accounts in the SBA's name, separate and apart from the assets of the custodian banks."

At June 30, 2010, all investments held were either insured or registered and held by the Fund or its agent in the Fund's name.

Foreign Currency Risk

No exposure to foreign currency risk existed at June 30, 2010 or 2009.

Securities Lending Transactions

In January 2010, the Fund's Investment Policy Guidelines were updated and now prohibit securities lending transactions. Therefore, there were no securities on loan at June 30, 2010. The Fund did participate in securities lending transactions during fiscal year 2009, but ceased securities lending activity in June 2009. Therefore, no securities were on loan at June 30, 2009.

4. Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2010 and 2009, is as follows (in thousands):

	Equipment	Accumulated Depreciation	Net
Balance as of June 30, 2008	$ 77	$ (73)	$ 4
Additions	1	(2)	(1)
Sales or disposals	(3)	3	–
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**

5. Hurricane Losses

The state of Florida was not hit by any hurricanes during the 2006, 2007, 2008, and 2009 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.

5. Hurricane Losses (continued)

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2010 and 2009 (in thousands):

	Year Ended June 30	
	2010	**2009**
Reserve for unpaid hurricane losses at beginning of year	**$ 775,653**	$ 922,689
Add provision for hurricane losses occurring in:		
Current year	**–**	–
Prior years	**250,000**	250,000
Net incurred losses during the current year	**250,000**	250,000
Deduct payments for claims occurring in:		
Current year	**–**	–
Prior years	**241,703**	397,036
Net claim payments during the current year	**241,703**	397,036
Reserve for unpaid hurricane losses at end of year	**$ 783,950**	$ 775,653

The Fund's reserve for prior years' unpaid hurricane losses, at June 30, 2010 and 2009, was increased by $250 million each year as a result of ongoing loss development and actuarial analyses.

6. Bonds Payable

Post-Event Bonds – The Fund is expecting to pay loss reimbursements of $3.95 billion to participating insurers for the calendar year 2004 hurricanes and $5.70 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, 2010, $848,940,000 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 4.00% to 5.25% as follows (in thousands):

2010	$ 30,000	4.00%
2010	239,485	5.00
2011	282,660	5.00
2012	140,865	5.00
2012	155,930	5.25
	$ 848,940	

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of $625 million. The 2008A bond 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	

6. Bonds Payable (continued)

In May 2010, the Corporation issued post-event Series 2010A Revenue Bonds in the amount of $675.9 million. The 2010A Bond 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 2010A 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 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 final maturity date for these notes will be October 15, 2012.

At June 30, 2008, the Corporation had $2.8 billion in Series 2006B pre-event notes outstanding. Given that all $2.8 billion of the 2006B Notes were non-extended and due to mature by August 14, 2009, and given the net carrying cost of the 2006B Notes, it was determined that it would be cost-effective to redeem the 2006B Notes prior to their maturity dates and the 2009 hurricane season. Final redemption of 2006B Notes occurred on February 17, 2009.

Costs of Issuance – In connection with the issuance of the 2008A Bonds and the 2010A 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.

6. Bonds Payable (continued)

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 2006A Bonds, 2007A Notes, 2008A Bonds, and 2010A Bonds, respectively. Expense for amortization of costs of issuance recognized in fiscal year ended June 30, 2009 was $1,165,869, $1,161,497, $2,062,910, and $495,169 for the 2006A Bonds, 2006B Notes, 2007A Notes, and 2008A Bonds, respectively.

7. Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2008	$	155
Increases		107
Decreases		(71)
Balance as of June 30, 2009		191*
Increases		**93**
Decreases		**(113)**
Balance as of June 30, 2010	**$**	**171***

* Includes long-term and current balances, of which $47,000 and $50,000 is estimated due within one year of June 30, 2010 and 2009, respectively.

8. Premium Revenue

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

	Year Ended June 30	
	2010	**2009**
Contract year 2009	**$ 1,457,987**	$ –
Contract year 2008	**3,477**	1,293,067
Contract year 2007	**(19,275)**	(1,932)
Contract year 2006	**(4,278)**	470
Contract year 2005	**–**	(349)
Contract year 2004	**–**	343
	$ 1,437,911	$ 1,291,599

9. Related Parties

The Fund paid the SBA approximately $627,862 for the Fund and $527,390 for the Corporation in the fiscal year ended June 30, 2010, and $415,516 for the Fund and $728,859 for the Corporation in the fiscal year ended June 30, 2009, for investment advisory services.

Other Financial Information

Ernst & Young LLP
220 South Sixth Street, Suite 1400
Minneapolis, Minnesota 55402-4509

Tel: +1 612 343 1000
Fax: +1 612 339 1726
www.ey.com

Report of Independent Auditors on Other Financial Information

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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining statement of net assets, as of June 30, 2010, and combining statement of revenues, expenses, and changes in net assets for the year then ended, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

October 15, 2010

Florida Hurricane Catastrophe Fund

Combining Statement of Net Assets

(In Thousands)

June 30, 2010

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Assets			
Current assets:			
Cash and cash equivalents	$ 43	$ 12	$ 31
Short-term investments	8,652,314	4,004,650	4,647,664
Emergency assessment funds receivable	89,805	–	89,805
Emergency assessment interest receivable	2	–	2
Accrued interest	1,508	806	702
Excess loss payments receivable	1,616	1,616	–
Premium receivable, net	9,678	9,678	–
Total current assets	8,754,966	4,016,762	4,738,204
Long-term assets:			
Long-term investments	992,548	576,273	416,275
Unamortized bond issuance costs	12,594	–	12,594
Capital assets, net of accumulated depreciation	6	6	–
Total long-term assets	1,005,148	576,279	428,869
Total assets	$ 9,760,114	$ 4,593,041	$ 5,167,073

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	Combined		Florida Hurricane Catastrophe Fund		Florida Hurricane Catastrophe Fund Finance Corporation
Liabilities and net assets					
Current liabilities:					
Hurricane losses:					
Unpaid hurricane losses	$	783,950	$	783,950	$ –
Losses payable		1,981		1,981	–
Accrued expenses		788		716	72
Bonds payable		269,485		–	269,485
Accrued bond interest expense		41,286		–	41,286
Total current liabilities		1,097,490		786,647	310,843
Long-term liabilities:					
Bonds payable		5,380,375		–	5,380,375
Premiums on bonds payable		51,926		–	51,926
Compensated absences, net of current portion		124		124	–
Total long-term liabilities		5,432,425		124	5,432,301
Total liabilities		6,529,915		786,771	5,743,144
Net assets (deficit):					
Unrestricted		3,230,171		3,806,242	(576,071)
Invested in capital assets, net of related debt		6		6	–
Restricted for hurricane mitigation		22		22	–
Total net assets (deficit)		3,230,199		3,806,270	(576,071)
Total liabilities and net assets	$	9,760,114	$	4,593,041	$ 5,167,073

Florida Hurricane Catastrophe Fund

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

(In Thousands)

Year Ended June 30, 2010

	Combined	**Florida Hurricane Catastrophe Fund**	**Florida Hurricane Catastrophe Fund Finance Corporation**
Operating revenues:			
Net premium revenue	$ 1,437,911	$ 1,437,911	$ –
Net interest on premium adjustments	849	849	–
Net interest on loss disbursement adjustments/advances	5,182	5,182	–
Other	30	30	–
Total operating revenues	1,443,972	1,443,972	
Operating expenses:			
Hurricane losses	250,000	250,000	–
Administrative and actuarial fees	2,403	2,403	–
Other professional fees	1,831	1,814	17
Personnel expenses	994	994	–
Depreciation	2	2	–
Other	237	193	44
Total operating expenses	255,467	255,406	61
Operating income (loss)	1,188,505	1,188,566	(61)
Nonoperating revenue (expense):			
Investment income	80,040	54,943	25,097
Investment advisor fees	(1,172)	(645)	(527)
Emergency assessment revenue	329,330	–	329,330
Emergency assessment interest revenue	11	–	11
Custodian and bond trustee fees	(5)	(2)	(3)
Bond interest expense	(101,811)	–	(101,811)
Amortization of bond issuance costs	(3,865)	–	(3,865)
Total nonoperating revenue	302,528	54,296	248,232
Income before transfers	1,491,033	1,242,862	248,171
Transfers from (to) component units	–	262,902	(262,902)
Transfers to other funds	(10,000)	(10,000)	–
Total transfers	(10,000)	252,902	(262,902)
Change in net assets	1,481,033	1,495,764	(14,731)
Net assets (deficit) at beginning of year	1,749,166	2,310,506	(561,340)
Net assets (deficit) at end of year	$ 3,230,199	$ 3,806,270	$ (576,071)

Ernst & Young LLP
220 South Sixth Street, Suite 1400
Minneapolis, Minnesota 55402-4509

Tel: +1 612 343 1000
Fax: +1 612 339 1726
www.ey.com

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 financial statements of the Florida Hurricane Catastrophe Fund (the Fund) as of and for the years ended June 30, 2010 and 2009, and have issued our report thereon dated October 15, 2010. 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.

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 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 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, 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 would not necessarily identify all deficiencies in internal control 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 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.

Ernst + Young LLP

October 15, 2010

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