FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Florida Hurricane Catastrophe Fund
Years Ended June 30, 2006 and 2005
With Report of Independent Auditors

Florida Hurricane Catastrophe Fund

Financial Statements and
Other Financial Information

Years Ended June 30, 2006 and 2005

Contents

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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, 2006 and 2005. 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, 2006 and 2005, 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 September 22, 2006, 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 grants. 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

September 22, 2006

Florida Hurricane Catastrophe Fund

Management's Discussion and Analysis

June 30, 2006 and 2005

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, 2006 and 2005. 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 (deficit), the statements of revenues, expenses, and changes in net assets (deficit), 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 is a blended component unit 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 (deficit) 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 (deficit) 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 (deficit) for the Fund is presented below (in thousands):

	June 30		
	2006	**2005**	**2004**
Capital assets	**$ 6**	$ 10	$ 15
Other assets	**2,228,447**	4,054,311	6,466,192
Total assets	**2,228,453**	4,054,321	6,466,207
Current liabilities	**2,300,536**	1,667,165	989,930
Long-term liabilities	**1,407,452**	92	85
Total liabilities	**3,707,988**	1,667,257	990,015
Net assets (deficit):			
Invested in capital assets, net of related debt	**6**	10	15
Unrestricted	**(1,479,563)**	2,288,307	5,476,155
Restricted	**22**	98,747	22
Total net assets (deficit)	**$ (1,479,535)**	$ 2,387,064	$ 5,476,192

Financial Summary (continued)

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

	Year Ended June 30		
	2006	**2005**	**2004**
Net premium revenue	**$ 734,708**	$ 617,089	$ 488,555
Net interest on premium adjustments/ advances	**3,342**	1,118	–
Total operating revenue	**738,050**	618,207	488,555
Total non-operating revenue	**103,419**	108,101	58,545
Total revenues	**841,469**	726,308	547,100
Hurricane losses	**4,700,000**	3,750,000	–
Other operating expenses	**4,690**	4,152	3,913
Depreciation	**7**	9	15
Total expenses	**4,704,697**	3,754,161	3,928
(Loss) income before transfers	**(3,863,228)**	(3,027,853)	543,172
Transfers to other funds	**(3,371)**	(61,275)	(10,000)
Change in net assets	**(3,866,599)**	(3,089,128)	533,172
Net assets, beginning of year	**2,387,064**	5,476,192	4,943,020
Net assets (deficit), end of year	**$(1,479,535)**	$ 2,387,064	$ 5,476,192

Financial Highlights

- The Fund’s reimbursement premiums have continued to grow as a result of increased exposure in Florida and legislative changes adopted that ultimately impacted the premium.

- Investment income for the Fund was $56,953,000 at June 30, 2004, $107,689,000 at June 30, 2005, and $102,819,000 at June 30, 2006. The decrease in investment income from 2005 to 2006 is due to less cash available for investment because of loss reimbursement payments.

Financial Highlights (continued)

- The total hurricane losses are expected to be $3.95 billion for 2004 covered events and $4.50 billion for 2005 covered events. As a result, the Fund experienced a shortfall. In June 2006, the Corporation issued Series 2006A Revenue Bonds in the amount of $1,350,025,000. The proceeds from these Bonds, along with the expected investment earnings, will provide moneys sufficient to reimburse participating insurers for losses from these covered events.

- Debt service on the 2006A Bonds will be paid from a 1% emergency assessment on all assessable lines of business beginning in January 2007.

- The Fund is obligated to pay losses to participating insurers only to the extent of their actual claims-paying capacity up to a limit of $15 billion for any single contract year. The $15 billion will increase with exposure growth each year as long as the increase does not exceed the increase in the actual dollar growth of the Fund.

- In 2004, the Florida legislature appropriated $150 million for the Hurricane Multiple Deductible Reimbursement Program. As of June 30, 2005, $51,275,300 had been paid and $98,724,700 remained restricted. At June 30, 2006, this program was complete; therefore, it was no longer necessary to restrict these assets.

- Because of losses in 2004 and 2005, the Fund entered the 2006 hurricane season with limited cash available to reimburse for 2006 losses if necessary. In order to have a source of liquidity in place to meet the future obligations of the Fund, pre-event notes in the amount of $2.8 billion were issued in July 2006.

- The Fund has the following credit ratings: Moody's Aa3, Fitch AA, and Standard and Poor's AA. During the year ended June 30, 2006, the S&P rating was upgraded from AA- to AA.

Florida Hurricane Catastrophe Fund

Statements of Net Assets (Deficit)

(In Thousands)

	June 30	
	2006	**2005**
Assets		
Current assets:		
Cash and cash equivalents	**$ 13,005**	$ 1
Short-term investments	**510,969**	2,488,541
Bond proceeds receivable	**1,394,365**	–
Securities lending receivable	**555**	1,361
Securities lending collateral	**128,355**	716,963
Accrued interest	**1,497**	7,009
Loss reimbursement advances receivable	**26,988**	20,485
Excess loss payments receivable	**33**	704
Premiums receivable, net	**39**	67
Total current assets	**2,075,806**	3,235,131
Long-term assets:		
Long-term investments	**145,730**	819,180
Unamortized bond issuance costs	**6,911**	–
Capital assets, net of accumulated depreciation of $87 and $94 for June 30, 2006 and 2005, respectively	**6**	10
Total long-term assets	**152,647**	819,190
Total assets	**$ 2,228,453**	$ 4,054,321

	June 30	
	2006	**2005**
Liabilities and net assets		
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	**$ 2,131,913**	$ 925,827
Losses payable	**32,633**	22,619
Obligation under securities lending agreement	**127,875**	699,292
Premium refunds payable	**3**	19
Accrued expenses	**8,112**	1,712
Securities lending pending investment purchases	**–**	17,696
Total current liabilities	**2,300,536**	1,667,165
Long-term liabilities:		
Bonds payable	**1,350,025**	–
Premium on bonds payable	**57,340**	–
Compensated absences, net of current portion	**87**	92
Total long-term liabilities	**1,407,452**	92
Total liabilities	**3,707,988**	1,667,257
Net assets (deficit):		
Unrestricted	**(1,479,563)**	2,288,307
Invested in capital assets, net of related debt	**6**	10
Restricted by legislature	**–**	98,725
Restricted for hurricane mitigation	**22**	22
Total net assets (deficit)	**$ (1,479,535)**	$ 2,387,064

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

(In Thousands)

	Year Ended June 30	
	2006	**2005**
Operating revenues:		
Current contract year premium revenue	**$ 736,646**	$ 617,208
Prior contract year adjustment:		
Premium billed	**718**	2,020
Premium refunded	**(2,689)**	(2,276)
Premium interest	**33**	137
Net premium revenue	**734,708**	617,089
Net interest on loss disbursements and adjustments	**3,342**	1,118
Total operating revenues	**738,050**	618,207
Operating expenses:		
Hurricane losses	**4,700,000**	3,750,000
Administrative and actuarial fees	**2,546**	2,409
Other professional fees	**1,261**	915
Personnel expenses	**713**	684
Depreciation	**7**	9
Other	**170**	144
Total operating expenses	**4,704,697**	3,754,161
Operating loss	**(3,966,647)**	(3,135,954)
Nonoperating revenue (expense):		
Investment income	**102,819**	107,689
Investment advisor fees	**(270)**	(685)
Securities lending income	**17,461**	20,744
Securities lending expense	**(16,835)**	(19,076)
Securities lending net appreciation	**244**	(571)
Total nonoperating revenue	**103,419**	108,101
Loss before transfers	**(3,863,228)**	(3,027,853)
Transfers to other funds	**(3,371)**	(61,275)
Change in net assets	**(3,866,599)**	(3,089,128)
Net assets, beginning of year	**2,387,064**	5,476,192
Net assets (deficit), end of year	**$ (1,479,535)**	$ 2,387,064

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Cash Flows

(In Thousands)

	Year Ended June 30 2006	2005
Operating activities		
Premium received	**$ 734,720**	$ 617,043
Hurricane losses paid	**(2,603,891)**	(2,479,869)
Administrative and actuarial fees	**(2,684)**	(2,293)
Loss reimbursement advances and related interest	**(882,499)**	(341,756)
Other professional fees	**(1,238)**	(848)
Personnel expenses	**(720)**	(677)
Other operating expenses	**(169)**	(137)
Net cash used by operating activities	**(2,756,481)**	(2,208,537)
Investing activities		
Purchases of investments	**(78,066,674)**	(102,453,214)
Sales and maturities of investments	**80,719,112**	104,585,517
Interest received	**106,938**	101,523
Investment advisor fees	**(302)**	(718)
Securities lending	**784**	1,705
Net cash provided by investing activities	**2,759,858**	2,234,813
Financing from noncapital activities		
Transfers to other funds	**(3,371)**	(61,275)
Cash received on bond pricing	**13,000**	–
Net cash provided (used) by financing from noncapital activities	**9,629**	(61,275)
Financing from capital activities		
Purchases of capital assets	**(2)**	(5)
Net increase (decrease) in cash and cash equivalents	**13,004**	(35,004)
Cash and cash equivalents at beginning of year	**1**	35,005
Cash and cash equivalents at end of year	**$ 13,005**	$ 1

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

	Year Ended June 30	
	2006	**2005**
Operating loss	**$ (3,966,647)**	$ (3,135,954)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	**7**	9
Decrease (increase) in premiums receivable, net	**28**	(65)
(Decrease) increase in premium refunds payable	**(16)**	19
Increase in unpaid hurricane losses	**1,206,086**	925,827
Increase in losses payable	**10,014**	22,619
Increase in loss reimbursement advances receivable	**(6,503)**	(20,485)
Decrease (increase) in excess loss payments receivable	**671**	(704)
(Decrease) increase in accrued expenses	**(121)**	197
Net cash used by operating activities	**$ (2,756,481)**	$ (2,208,537)

See accompanying notes.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements

June 30, 2006

1. Organization

Business

The Florida Hurricane Catastrophe Fund (the Fund), a trust fund created in November 1993 during a special 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 210 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 (deficit). The statement of revenues, expenses, and changes in net assets (deficit) 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 after 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; 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 (deficit); and the amount of 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, 2006 and 2005. 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.

Securities Lending

The Fund, under authorization of Section 215.47(16) of the Florida Statutes, engages in securities lending. 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 is monitored on a daily basis with additional collateral obtained or refunded as the market value of the loaned securities fluctuates. Initial collateral on cash or U.S. government securities is required at a rate of at least 100% of the market value of a loaned security. The obligation recorded as a current liability represents the obligation to return the collateral received. Interest earned on short-term investments purchased with the cash collateral held is recognized as revenue. Lending agent costs and borrower rebate fees are recognized as expenses when incurred.

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.

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.

2. Significant Accounting Policies (continued)

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.

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, $40,000 in 2006 and $42,000 in 2005, is included in accrued expenses on the statements of net assets (deficit). The remaining liability is included as compensated absences with long-term liabilities on the statements of net assets (deficit).

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.

2. Significant Accounting Policies (continued)

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.

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 were too high, interest is returned to the insurer on the overpayment. Likewise, if estimated premiums were underpaid, interest is charged to the insurer with the December installment. For the contract year ended May 31, 2006, the interest rate was 3.43% for overpayments of premium and 8.43% for underestimated payments. For the contract year ended May 31, 2005, the interest rate was 1.65% for overpayment of premium and 4.65% 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.

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 fiscal year 2005–2006 and 2004–2005, $10,000,000 and $10,000,000, respectively, was appropriated from the Fund, and $22,400 was available from prior years. The remaining $22,400 available for transfer in fiscal year 2005–2006 has been restricted in the June 30, 2006, net assets for future transfer.

2. Significant Accounting Policies (continued)

Pursuant to Chapter 2004-480 of House Bill Number 9A, the Legislature appropriated $150,000,000 for the Hurricane Multiple Deductible Reimbursements Program for reimbursements to residential property insurance policyholders for the expense of multiple hurricane deductibles. Of this appropriation, $51,275,300 had been paid at June 30, 2005. The program has expired during the current fiscal year, and an expended amount of $6,629,200 has been returned to the Fund. As a result, the total expended for this program was $44,646,100.

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. This ruling was renewed in June 2003 for an additional five years.

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.

3. Investments (continued)

As of June 30, 2006, the Fund held the following investments (in thousands):

Investment Type	Fair Value	Weighted Average Maturity (Days)
Commercial paper	$ 196,406	5
Corporate bonds and notes	99,994	26
Liquidity notes	204,621	10
Non-government mortgage backed	30,731	25
U.S. agencies callable	124,947	44
Total fair value	656,699	
Portfolio weighted average maturity	–	18
Securities lending short-term collateral investment pool	128,355	27
	$ 785,054	

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 five years, and the weighted average maturity of the portfolio shall not exceed 365 days. For purposes of this calculation, the maturity date is assumed to be the next reset date rather than the stated maturity.

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 all securities must be investment grade at the time of purchase. For short-term ratings, this has been defined as the highest applicable rating by at least one nationally recognized statistical rating organization. For long-term ratings, this has been defined as BBB or better by at least two nationally recognized statistical rating organizations. The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2006 (in thousands).

Investment Type	Fair Value	S&P	Moody
Commercial paper	$ 137,049	A-1	P-1
Commercial paper	59,357	A-1	Not rated
Corporate bonds and notes	25,035	A	Aa
Corporate bonds and notes	45,026	A	A
Corporate bonds and notes	29,933	Not rated	Not rated
Liquidity notes	204,621	A-1	P-1
Non-government mortgage backed	30,731	AAA	Aaa
U.S. agencies	124,947	AAA	Aaa
Total fair value	656,699		
Securities lending short-term collateral investment pool	128,355	Not rated	Not rated
	$ 785,054		

3. Investments (continued)

Concentration of Credit Risk

Securities of a single issuer shall not represent more than 5.0% of portfolio amortized cost (excluding U.S. Treasuries and Agencies) if less than one year to final maturity. If greater than one year to final maturity, single issuer exposure will be limited to 3.0% of portfolio amortized cost. At June 30, 2006, the Fund held $49,982,659 in U.S. Agencies issued by the Federal Home Loan Bank System which represents 7.6% of total investments and $74,964,926 in U.S. Agencies issued by the Federal Home Loan Mortgage Corporation which represents 11.4% of total investments.

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, 2006, 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, 2006.

Securities Lending Transactions

The Fund, under authorization of Section 215.47(16) of the Florida Statutes, engages in securities lending transactions. Cash collateral invested in the lending agent's short-term investment pool at June 30, 2006, had a weighted average maturity of 27 days. There was no credit risk exposure to borrowers at year-end. The investment pool is not rated.

3. Investments (continued)

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

	June 30	
	2006	**2005**
Short-term investments		
Investments:		
Certificates of deposit	**$ –**	$ 99,998
Commercial paper	**196,406**	688,478
Liquidity notes	**204,621**	963,277
Federal agencies	**49,983**	447,929
Corporate bonds and notes, variable rate	**59,959**	288,859
Total short-term investments	**$ 510,969**	$ 2,488,541
Long-term investments		
Investments:		
Federal agencies	**$ 74,964**	$ 248,930
Corporate bonds and notes, variable rate	**40,035**	570,250
Non-government mortgage-backed	**30,731**	–
Total long-term investments	**$ 145,730**	$ 819,180
Securities lending short-term collateral investment pool	**$ 128,355**	$ 716,963

4. Securities Lending

The Fund has a contract with Dresdner Bank to act as a lending agent in the performance of securities lending transactions. Under the securities lending program, Dresdner Bank delivers various securities of the Fund to authorized brokers in return for collateral in the form of cash or U.S. government securities. Borrowers under the transactions must be approved by Dresdner Bank's credit department, and Dresdner Bank is required to indemnify the Fund if the borrower fails to return the underlying securities or fails to pay income distributions on them. The Fund is contractually limited from pledging or selling collateral represented by loaned securities except in the event of borrower default. No violations of legal or contractual provisions occurred, and no losses were incurred due to borrower or lending agent defaults in 2006.

4. Securities Lending (continued)

The collateral held represents 102% in 2006 and 102% in 2005 of the market value of the securities lent. Dresdner Bank monitors daily the market value of the securities lent and requests additional collateral if the collateral for any loan is less than 100% of the market value of the underlying securities for that loan. The Fund had no credit risk exposure to borrowers at June 30, 2006 or 2005, because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund.

The collateral held as assets is recorded in the balance sheet at fair value in accordance with Statement No. 31. Obligations under the program are recorded as liabilities based on the cash value of the collateral received. Details of the lending transactions for the Fund at June 30, 2006 and 2005, are as follows (in thousands):

Securities on Loan	Fair Value of Underlying Securities Lent	Cash Collateral Held	Fair Value of Collateral Investment Pool
2006 U.S. obligations	**$ 124,953**	**$ 127,875**	**$ 128,355**
2005 U.S. obligations	686,840	699,292	716,963

As of June 30, 2006 and 2005, the Fund held $127,875,000 and $699,291,575, respectively, of cash collateral from Dresdner Bank. The cash was reinvested in various short-term instruments as authorized by the securities lending agreement. Maturities of investments made with cash collateral generally are not matched to maturities of the securities loans, due to securities loan agreements being open-ended with no fixed expiration date.

5. Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2006 and 2005, is as follows (in thousands):

	Equipment	Accumulated Depreciation	Net
Balance as of June 30, 2004	$ 100	$ (85)	$ 15
Additions	4	(9)	(5)
Sales or disposals	(1)	1	–
Balance as of June 30, 2005	103	(93)	10
Additions	**3**	**(7)**	**(4)**
Sales or disposals	**(13)**	**13**	**–**
Balance as of June 30, 2006	**$ 93**	**$ (87)**	**$ 6**

6. Hurricane Losses

The state of Florida was hit by four hurricanes during July through October of 2005. 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. 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.

6. Hurricane Losses (continued)

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2006 and 2005 (in thousands):

	Year Ended June 30 2006	2005
Reserve for unpaid hurricane losses	**$ 925,827**	$ –
Add provision for hurricane losses occurring in:		
The current year	**4,500,000**	3,750,000
Prior years	**200,000**	–
Net incurred losses during the current year	**4,700,000**	3,750,000
Deduct payments for claims occurring in:		
The current year	**2,734,810**	2,824,173
Prior years	**759,104**	–
Net claim payments during the current year	**3,493,914**	2,824,173
Reserve for unpaid hurricane losses at end of year	**$ 2,131,913**	$ 925,827

The Fund's reserve for unpaid hurricane losses, at June 30, 2005, was increased in the following year by $200,000 as a result of ongoing loss development and actuarial analyses.

7. Bonds Payable

On June 14, 2006, the Corporation issued $1,350,025,000 of revenue bonds (Series 2006A) at a premium of $57,340,000 to fund reimbursements through the Fund to pay for the costs of construction, reconstruction, repair, restoration, and other costs associated with damage to properties of policyholders of covered policies due to the occurrence of the hurricanes of the past several years. The bonds 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):

2008	$ 244,430	5.00%
2009	256,655	5.00
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
	$ 1,350,025	

In connection with the issuance of the revenue bonds, the Corporation incurred $6,911,000 of bond issuance costs which have been capitalized and will be amortized over the life of the bonds payable.

Cash and cash equivalents at June 30, 2006, include $13 million of cash received as a good faith deposit in connection with the bond offering. The entire amount of the deposit was returned upon the settlement of the bond offering on July 7, 2006.

8. Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2004	$	128
Increases		59
Decreases		(53)
Balance as of June 30, 2005		134*
Increases		**65**
Decreases		**(72)**
Balance as of June 30, 2006	**$**	**127***

* Includes long-term and short-term balances, of which $40,000 and $42,000 is estimated due within one year of June 30, 2006 and 2005, respectively.

9. Premium Revenues

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

	Year Ended June 30	
	2006	**2005**
Contract year 2005	**$ 736,678**	$ –
Contract year 2004	**(1,385)**	617,262
Contract year 2003	**(585)**	(236)
Contract year 2002	**–**	63
	$ 734,708	$ 617,089

10. Related Parties

The Fund paid the SBA approximately $345,000 and $760,000 in the fiscal years ended June 30, 2006 and 2005, respectively, for investment advisory services.

11. Subsequent Event

The Fund is expecting to pay loss reimbursements of $3.95 billion to participating insurers for the 2004 hurricanes and $4.50 billion for the 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 will come 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 until 2007. These bond proceeds and their investment earnings will enable the Fund to make payments for losses to participating insurers.

In order to maximize the ability of the Fund to meet future obligations, the Corporation issued pre-event Series 2006B Notes in the amount of $2.8 billion during July 2007. The proceeds from these notes will be used to pay for losses incurred from future covered hurricane events. Reimbursement premiums will be used to pay the debt service requirements on the Notes.

Other Financial Information

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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 (deficit) and statement of revenues, expenses, and changes in net assets (deficit) as of June 30, 2006, and 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

September 22, 2006

Florida Hurricane Catastrophe Fund

Combining Statement of Net Assets (Deficit)

(In Thousands)

June 30, 2006

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Assets			
Current assets:			
Cash and cash equivalents	$ 13,005	$ 5	$ 13,000
Short-term investments	510,969	510,969	–
Bond proceeds receivable	1,394,365	–	1,394,365
Securities lending receivable	555	555	–
Securities lending collateral	128,355	128,355	–
Accrued interest	1,497	1,497	–
Loss reimbursement advances receivable	26,988	26,988	–
Excess loss payments receivable	33	33	–
Premiums receivable, net	39	39	–
Total current assets	2,075,806	668,441	1,407,365
Long-term assets:			
Long-term investments	145,730	145,730	–
Unamortized bond issuance costs	6,911	–	6,911
Capital assets, net	6	6	–
Total long-term assets	152,647	145,736	6,911
Total assets	$ 2,228,453	$ 814,177	$ 1,414,276

		Combined		**Florida Hurricane Catastrophe Fund**		**Florida Hurricane Catastrophe Fund Finance Corporation**
Liabilities and net assets						
Current liabilities:						
Hurricane losses:						
Unpaid hurricane losses	$	2,131,913	$	2,131,913	$	–
Losses payable		32,633		32,633		–
Obligation under securities lending agreement		127,875		127,875		–
Premium refunds payable		3		3		–
Accrued expenses		8,112		1,201		6,911
Securities lending pending investment purchases		–		–		–
Total current liabilities		2,300,536		2,293,625		6,911
Long-term liabilities:						
Bonds payable		1,350,025		–		1,350,025
Premiums on bonds payable		57,340		–		57,340
Compensated absences, net of current portion		87		87		–
Total long-term liabilities		1,407,452		87		1,407,365
Total liabilities		3,707,988		2,293,712		1,414,276
Net assets (deficit):						
Unrestricted		(1,479,563)		(1,479,563)		–
Invested in capital assets, net of related debt		6		6		–
Restricted for hurricane mitigation		22		22		–
Total net assets (deficit)	$	(1,479,535)	$	(1,479,535)	$	–

Florida Hurricane Catastrophe Fund

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

(In Thousands)

Year Ended June 30, 2006

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Operating revenues:			
Current contract year premium revenue	$ 736,646	$ 736,646	$ –
Prior contract year adjustment:			
Premium billed	718	718	–
Premium refunded	(2,689)	(2,689)	–
Premium interest	33	33	–
Net premium revenue	734,708	734,708	–
Net interest on loss disbursements and adjustments	3,342	3,342	–
Total operating revenues	738,050	738,050	–
Operating expenses:			
Hurricane losses	4,700,000	4,700,000	–
Administrative and actuarial fees	2,546	2,546	–
Other professional fees	1,261	1,261	–
Personnel expenses	713	713	–
Depreciation	7	7	–
Other	170	170	–
Total operating expenses	4,704,697	4,704,697	–
Operating loss	(3,966,647)	(3,966,647)	–
Nonoperating revenue (expense):			
Investment income	102,819	102,819	–
Investment advisor fees	(270)	(270)	–
Securities lending income	17,461	17,461	–
Securities lending expense	(16,835)	(16,835)	–
Securities lending net appreciation	244	244	–
Total nonoperating revenue	103,419	103,419	–
Loss before transfers	(3,863,228)	(3,863,228)	–
Transfers to other funds	(3,371)	(3,371)	–
Change in net assets	(3,866,599)	(3,866,599)	–
Net assets, beginning of year	2,387,064	2,387,064	–
Net assets (deficit), end of year	$ (1,479,535)	$ (1,479,535)	$ –

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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 financial statements of the Florida Hurricane Catastrophe Fund (the Fund) as of and for the years ended June 30, 2006 and 2005, and have issued our report thereon dated September 22, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

September 22, 2006