

FINANCIAL STATEMENTS AND OTHER
FINANCIAL INFORMATION

Florida Hurricane Catastrophe Fund
Years Ended June 30, 2008 and 2007
With Report of Independent Auditors

Florida Hurricane Catastrophe Fund

Financial Statements and Other Financial Information

Years Ended June 30, 2008 and 2007

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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, 2008 and 2007. 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, 2008 and 2007, 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 November 7, 2008, 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

November 7, 2008

Florida Hurricane Catastrophe Fund
Management's Discussion and Analysis

June 30, 2008 and 2007

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, 2008 and 2007. 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.

Florida Hurricane Catastrophe Fund

Management's Discussion and Analysis (continued)

Financial Summary

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

| | 2008 | June 30 2007 | 2006 |
|---|-------------------|-------------------------|----------------|
| Capital assets | \$ 4 | \$ 4 | \$ 6 |
| Other assets | 9,526,926 | 4,990,203 | 2,228,447 |
| Total assets | 9,526,930 | 4,990,207 | 2,228,453 |
| Current liabilities | 3,990,325 | 856,403 | 2,300,536 |
| Long-term liabilities | 4,679,615 | 4,193,252 | 1,407,452 |
| Total liabilities | 8,669,940 | 5,049,655 | 3,707,988 |
| Net assets (deficit): | | | |
| Invested in capital assets, net of related debt | 4 | 4 | 6 |
| Unrestricted | 856,964 | (59,474) | (1,479,563) |
| Restricted for hurricane mitigation | 22 | 22 | 22 |
| Total net assets (deficit) | \$ 856,990 | \$ (59,448) | \$ (1,479,535) |

Florida Hurricane Catastrophe Fund

Management's Discussion and Analysis (continued)

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 | | |
|---|---------------------------|--------------|---------------|
| | 2008 | 2007 | 2006 |
| Net premium revenue | \$ 1,336,775 | \$ 1,202,362 | \$ 734,675 |
| Net interest on premium adjustments | (1,258) | 278 | 33 |
| Net interest on loss disbursement adjustments/advances | 535 | 1,732 | 3,342 |
| Other | 143 | – | – |
| Total operating revenues | 1,336,195 | 1,204,372 | 738,050 |
| Total nonoperating revenue | 295,882 | 230,781 | 103,419 |
| Total revenues | 1,632,077 | 1,435,153 | 841,469 |
| | | | |
| Hurricane losses | 700,000 | – | 4,700,000 |
| Other operating expenses | 5,636 | 5,063 | 4,690 |
| Depreciation | 3 | 3 | 7 |
| Total expenses | 705,639 | 5,066 | 4,704,697 |
| | | | |
| Income (loss) before transfers | 926,438 | 1,430,087 | (3,863,228) |
| Transfers to other funds | (10,000) | (10,000) | (3,371) |
| Change in net assets | 916,438 | 1,420,087 | (3,866,599) |
| | | | |
| Net (deficit) assets at beginning of year | (59,448) | (1,479,535) | 2,387,064 |
| Net assets (deficit) at end of year | \$ 856,990 | \$ (59,448) | \$(1,479,535) |

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 \$102,819,000 at June 30, 2006, \$234,294,000 at June 30, 2007, and \$241,128,000 at June 30, 2008.

Florida Hurricane Catastrophe Fund

Management's Discussion and Analysis (continued)

Financial Highlights (continued)

- For hurricane losses occurring in 2004 and 2005, as of June 30, 2008, the Fund had reimbursed participating insurers over \$8.2 billion. The total amount the Fund expects to pay is \$9.15 billion, with \$3.95 billion for 2004 and \$5.20 billion for 2005, an increase of \$700 million over prior year estimates.
- To provide a source of additional funds to reimburse participating insurers for losses relating to future covered events, the Corporation in October 2007 issued pre-event debt Series 2007A Floating Rate Notes in the amount of \$3.5 billion. Investment earnings on these funds, as well as reimbursement premiums if necessary, are used to pay the debt service requirement of the notes.
- At June 30, 2008, the Fund had the following credit ratings: Moody's, Aa3; Standard and Poor's, AA-; and Fitch, AA-.

Florida Hurricane Catastrophe Fund

Statements of Net Assets (Deficit) (In Thousands)

| | June 30 | |
|--|-------------------------|-------------------------|
| | 2008 | 2007 |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 337 | \$ 19 |
| Short-term investments | 6,539,357 | 2,269,797 |
| Emergency assessment funds receivable | 91,651 | 100,655 |
| Emergency assessment interest receivable | 1 | - |
| Securities lending receivable | 2 | - |
| Securities lending collateral | 25,544 | - |
| Accrued interest | 13,184 | 18,558 |
| Accounts receivable | - | 6 |
| Excess loss payments receivable | 9,786 | 9,782 |
| Premiums receivable, net | 483 | (9) |
| Total current assets | 6,680,345 | 2,398,808 |
| Long-term assets: | | |
| Long-term investments | 2,830,993 | 2,581,417 |
| Unamortized bond issuance costs | 15,588 | 9,978 |
| Capital assets, net of accumulated depreciation of \$73 and \$84 for June 30, 2008 and 2007, respectively | 4 | 4 |
| Total long-term assets | 2,846,585 | 2,591,399 |
| Total assets | \$ 9,526,930 | \$ 4,990,207 |

| | June 30 | |
|---|---------------------|---------------------|
| | 2008 | 2007 |
| Liabilities and net assets | | |
| Current liabilities: | | |
| Hurricane losses: | | |
| Unpaid hurricane losses | \$ 922,689 | \$ 809,895 |
| Losses payable | 84 | 5,295 |
| Premium refunds payable | 11 | 10 |
| Accrued expenses | 962 | 775 |
| Bonds payable | 2,999,430 | – |
| Obligation under securities lending agreement | 25,500 | – |
| Accrued bond interest expense | 41,649 | 40,428 |
| Total current liabilities | <u>3,990,325</u> | 856,403 |
| Long-term liabilities: | | |
| Bonds payable | 4,650,595 | 4,150,025 |
| Premiums on bonds payable | 28,908 | 43,124 |
| Compensated absences, net of current portion | 112 | 103 |
| Total long-term liabilities | <u>4,679,615</u> | 4,193,252 |
| Total liabilities | <u>8,669,940</u> | 5,049,655 |
| Net assets (deficit): | | |
| Unrestricted | 856,964 | (59,474) |
| Invested in capital assets, net of related debt | 4 | 4 |
| Restricted for hurricane mitigation | 22 | 22 |
| Total net assets (deficit) | <u>856,990</u> | (59,448) |
| Total liabilities and net assets (deficit) | <u>\$ 9,526,930</u> | <u>\$ 4,990,207</u> |

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

| | Year Ended June 30 | |
|--|---------------------------|--------------------|
| | 2008 | 2007 |
| Operating revenues: | | |
| Net premium revenue | \$ 1,336,775 | \$ 1,202,362 |
| Net interest on premium adjustments | (1,258) | 278 |
| Net interest on loss disbursement adjustments/advances | 535 | 1,732 |
| Other | 143 | - |
| Total operating revenues | <u>1,336,195</u> | <u>1,204,372</u> |
| Operating expenses: | | |
| Hurricane losses | 700,000 | - |
| Administrative and actuarial fees | 2,720 | 2,621 |
| Other professional fees | 1,715 | 1,431 |
| Personnel expenses | 841 | 808 |
| Depreciation | 3 | 3 |
| Other | 360 | 203 |
| Total operating expenses | <u>705,639</u> | <u>5,066</u> |
| Operating income | 630,556 | 1,199,306 |
| Nonoperating revenue (expense): | | |
| Investment income | 241,128 | 234,294 |
| Investment advisor fees | (1,101) | (426) |
| Securities lending income | 859 | 1,088 |
| Securities lending expense | (808) | (1,056) |
| Securities lending net appreciation | - | (480) |
| Emergency assessment funds received | 356,662 | 195,226 |
| Emergency assessment interest received | 35 | - |
| Bond trustee fees | (5) | (4) |
| Bond interest expense | (296,184) | (195,673) |
| Amortization of bond issuance costs | (4,704) | (2,188) |
| Total nonoperating revenue | <u>295,882</u> | <u>230,781</u> |
| Income before transfers | 926,438 | 1,430,087 |
| Transfers to other funds | <u>(10,000)</u> | <u>(10,000)</u> |
| Change in net assets | 916,438 | 1,420,087 |
| Net assets (deficit) at beginning of year | (59,448) | (1,479,535) |
| Net assets (deficit) at end of year | <u>\$ 856,990</u> | <u>\$ (59,448)</u> |

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Cash Flows (In Thousands)

| | Year Ended June 30 | |
|---|---------------------------|--------------------|
| | 2008 | 2007 |
| Operating activities | | |
| Premium received | \$ 1,335,026 | \$ 1,202,707 |
| Hurricane losses paid | (592,421) | (1,331,993) |
| Loss reimbursement advances and related interest | 535 | 1,596 |
| Other | 143 | - |
| Administrative and actuarial fees | (2,751) | (2,573) |
| Other professional fees | (1,699) | (1,409) |
| Personnel expenses | (825) | (791) |
| Other operating expenses | (354) | (160) |
| Net cash provided by (used by) operating activities | 737,654 | (132,623) |
| Investing activities | | |
| Purchases of investments | (310,838,331) | (103,781,477) |
| Sales and maturities of investments | 306,234,510 | 99,587,329 |
| Interest received | 331,185 | 216,869 |
| Investment advisor fees | (994) | (435) |
| Securities lending | 92 | 46 |
| Net cash used by investing activities | (4,273,538) | (3,977,668) |
| Financing from noncapital activities | | |
| Transfers to other funds | (10,000) | (10,000) |
| Emergency assessment funds received | 365,667 | 94,574 |
| Emergency assessment interest received | 35 | - |
| Cash received on bond issuance | 3,489,685 | 4,182,199 |
| Bond interest paid | (309,178) | (169,461) |
| Bond trustee fees paid | (5) | (5) |
| Net cash provided by financing from noncapital activities | 3,536,204 | 4,097,307 |
| Financing from capital activities | | |
| Purchases of capital assets | (2) | (2) |
| Net increase (decrease) in cash and cash equivalents | 318 | (12,986) |
| Cash and cash equivalents at beginning of year | 19 | 13,005 |
| Cash and cash equivalents at end of year | \$ 337 | \$ 19 |

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

| | Year Ended June 30 | |
|---|---------------------------|---------------------|
| | 2008 | 2007 |
| Operating income | \$ 630,556 | \$ 1,199,306 |
| Adjustments to reconcile operating income to net cash provided by (used by) operating activities: | | |
| Depreciation | 3 | 3 |
| (Increase) decrease in premiums receivable, net | (492) | 48 |
| Increase in premium refunds payable | 1 | 7 |
| Increase (decrease) in unpaid hurricane losses | 112,794 | (1,322,018) |
| Decrease in losses payable | (5,211) | (27,338) |
| Decrease in loss reimbursement advances receivable | - | 26,988 |
| Increase in excess loss payments receivable | (4) | (9,749) |
| Increase in accrued expenses | 7 | 130 |
| Net cash provided by (used by) operating activities | \$ 737,654 | \$ (132,623) |

See accompanying notes.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements

June 30, 2008

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 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 (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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

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 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.

Florida Hurricane Catastrophe Fund
Notes to Financial Statements (continued)

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, 2008 and 2007. 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, 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 of 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.

Florida Hurricane Catastrophe Fund
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

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, \$43,000 in 2008 and \$43,000 in 2007, 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.

Florida Hurricane Catastrophe Fund
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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.

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, 2008, the interest rate was 5.58% for overpayments of premium and 10.58% for underestimate payments. For the contract year ended May 31, 2007, the interest rate was 5.20% for overpayments of premium and 10.20% 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.

Florida Hurricane Catastrophe Fund
Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 and 2008A Revenue Bonds.

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 2007–2008 and 2006–2007, \$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 2007–2008 has been restricted in the June 30, 2008, 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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

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 and securities lending collateral is as follows (in thousands):

| | June 30 | |
|---|---------------------|---------------------|
| | 2008 | 2007 |
| Short-term investments | | |
| Investments: | | |
| Certificates of deposit | \$ 2,483,865 | \$ 158,722 |
| Commercial paper | 2,379,703 | 554,615 |
| Liquidity notes | – | 1,259,771 |
| Domestic corporate bonds and notes, variable rate | 453,232 | 135,922 |
| Repurchase agreements | 994,046 | – |
| Money market funds | 228,511 | 160,767 |
| Total short-term investments | \$ 6,539,357 | \$ 2,269,797 |
| Long-term investments | | |
| Investments: | | |
| Certificates of deposit | \$ 139,807 | \$ 104,994 |
| Domestic corporate bonds and notes, variable rate | 1,831,072 | 1,582,206 |
| International corporate bonds and notes, variable rate | 216,824 | – |
| Federal agencies | 25,060 | – |
| U.S. treasuries | 618,230 | 894,217 |
| Total long-term investments | \$ 2,830,993 | \$ 2,581,417 |
| Securities lending short-term collateral investment | \$ 25,544 | \$ – |

Florida Hurricane Catastrophe Fund
Notes to Financial Statements (continued)

3. Investments (continued)

As of June 30, 2008, the Fund held the following investments (in thousands):

| Investment Type | Fair Value | Weighted Average Maturity (Days) |
|--|---------------------|---|
| Certificates of deposit | \$ 2,623,672 | 55 |
| Commercial paper | 2,379,703 | 27 |
| Domestic corporate bonds and notes | 2,284,304 | 43 |
| International corporate bonds and notes | 216,824 | 47 |
| Money market funds | 228,511 | 28 |
| Repurchase agreements | 994,046 | 1 |
| Federal agencies callable | 25,060 | 1,095 |
| U.S. treasuries | <u>618,230</u> | 8 |
| Total fair value | <u>9,370,350</u> | |
| Portfolio weighted average maturity | | 38 |
| Securities lending collateral investments: | | |
| Repurchase agreements | <u>25,544</u> | 1 |
| | <u>\$ 9,395,894</u> | |

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 5 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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

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 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, 2008 (in thousands).

| Investment Type | Fair Value | Credit Quality Ratings | |
|------------------------------------|------------|------------------------|-----------|
| | | S&P | Moody |
| Certificate of deposit | \$ 154,983 | AAA | Aaa |
| Certificate of deposit | 100,004 | AA | Aaa |
| Certificate of deposit | 1,504,671 | AA | Aa |
| Certificate of deposit | 149,824 | AA | Not rated |
| Certificate of deposit | 334,938 | A | Aa |
| Certificate of deposit | 144,521 | A | A |
| Certificate of deposit | 159,767 | A | P-1 |
| Certificate of deposit | 74,964 | Not rated | Not rated |
| Commercial paper | 2,379,703 | A-1 | P-1 |
| Domestic corporate bonds and notes | 49,989 | AAA | Aaa |
| Domestic corporate bonds and notes | 74,824 | AA | Aaa |
| Domestic corporate bonds and notes | 726,451 | AA | Aa |
| Domestic corporate bonds and notes | 202,427 | A | Aa |
| Domestic corporate bonds and notes | 703,575 | A | A |
| Domestic corporate bonds and notes | 101,661 | BBB | Baa |
| Domestic corporate bonds and notes | 24,808 | BB | Baa |
| Domestic corporate bonds and notes | 123,976 | Not rated | Aa |
| Domestic corporate bonds and notes | 155,054 | Not rated | A |
| Domestic corporate bonds and notes | 121,539 | Not rated | Not rated |

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

3. Investments (continued)

| Investment Type | Fair Value | Credit Quality Ratings | |
|--|---------------------|------------------------|-----------|
| | | S&P | Moody |
| International corporate bonds and notes | \$ 191,800 | AA | Aa |
| International corporate bonds and notes | 25,024 | AA | A |
| Money market funds | 228,511 | AAA | Aaa |
| Repurchase agreements | 994,046 | Not rated | Not rated |
| Federal agencies callable | 25,060 | AAA | AAA |
| U.S. treasuries | 618,230 | Not rated | Not rated |
| Total fair value | <u>9,370,350</u> | | |
| Securities lending collateral investments: | | | |
| Repurchase agreements | 25,544 | Not rated | Not rated |
| | <u>\$ 9,395,894</u> | | |

Concentration of Credit Risk

Pursuant to the Investment Policy Guidelines, securities of a single issuer shall not represent more than 5% 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% of portfolio amortized cost. Repurchase Agreements, which are collateralized exceeding 100%, are excluded by the SBA in determining compliance with the guidelines.

At June 30, 2008, the single issuer threshold of 5% was exceeded with securities issued by Lehman Brothers Holdings which represented 5.24% of the portfolio's total amortized cost. The market value of Lehman Brothers Holdings at June 30, 2008, was \$492,380,600. Specifically, the Fund held \$91,090,600 in domestic corporate bonds and notes, and \$401,290,000 in repurchase agreements issued by Lehman Brothers Holdings. The Repurchase Agreements, which were fully collateralized, matured at full value on their stated maturity date of July 1, 2008.

At June 30, 2008, the single issuer threshold of 5% was also exceeded with securities issued by Merrill Lynch, which represented 6.75% of the portfolio's amortized cost. The market value of the Merrill Lynch holdings at June 30, 2008, was \$632,137,154. Specifically, the Fund held \$139,930,854 in commercial paper, \$98,450,300 in domestic corporate bonds and notes, and \$393,756,000 in repurchase agreements issued by Merrill Lynch. The Repurchase Agreements, which were fully collateralized, and the commercial paper matured at full value on their stated maturity dates of July 1, 2008, and July 7, 2008, respectively.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

3. Investments (continued)

At June 30, 2008, the Fund also held \$618,230,147 in U.S. Treasury State and Local Government Series Securities (SLGS) which represents 6.53% of total investments. 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.

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, 2008, 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, 2008.

Securities Lending Transactions

The Fund, under authorization of Section 215.47(16) of the Florida Statutes, engages in security lending transactions. Cash collateral invested in repurchase agreements by the lending agent at June 30, 2008, had a weighted average maturity of one day. There was no credit risk exposure to borrowers at year-end. The repurchase agreements are not rated.

4. Securities Lending

In March 2008, BNY Mellon Bank replaced Dresdner Bank as the lending agent for the Fund in the performance of securities lending transactions. Under the securities lending program, BNY Mellon 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 BNY Mellon, and BNY Mellon 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 2008.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

4. Securities Lending (continued)

The collateral held represents 103% of the market value of the securities lent as of June 30, 2008. There were no securities on loan at June 30, 2007. BNY Mellon monitors the daily 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 on loan. The Fund had no credit risk exposure to borrowers at June 30, 2008, 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 Governmental Accounting Standards Board (GASB) Statement No. 31. Obligations under the program are recorded as liabilities based on the cash value of the collateral received. As of June 30, 2008, the Fund held \$25,500,000 in cash collateral obligations; the cash was reinvested in various short-term instruments as authorized by the securities lending agreement, these investments were valued at \$25,543,653. The fair value of underlying securities lent was \$24,808,500. 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, 2008 and 2007, is as follows (in thousands):

| | Equipment | Accumulated Depreciation | Net |
|-----------------------------|------------------|-------------------------------------|------------|
| Balance as of June 30, 2006 | \$ 93 | \$ (87) | \$ 6 |
| Additions | 2 | (4) | (2) |
| Sales or disposals | (7) | 7 | - |
| Balance as of June 30, 2007 | 88 | (84) | 4 |
| Additions | 2 | (2) | - |
| Sales or disposals | (13) | 13 | - |
| Balance as of June 30, 2008 | \$ 77 | \$ (73) | \$ 4 |

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

6. Hurricane Losses

The state of Florida was not hit by any hurricanes during the 2006 and 2007 hurricane seasons.

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.

The following table provides a reconciliation of the beginning and ending balances for unpaid hurricane losses for 2008 and 2007 (in thousands):

| | Year Ended June 30 | |
|--|---------------------------|---------------------|
| | 2008 | 2007 |
| Reserve for unpaid hurricane losses | \$ 809,895 | \$ 2,131,913 |
| Add provision for hurricane losses occurring in: | | |
| The current year | - | - |
| Prior years | 700,000 | - |
| Net incurred losses during the current year | 700,000 | - |
| Deduct payments for claims occurring in: | | |
| The current year | - | - |
| Prior years | 587,206 | 1,322,018 |
| Net claim payments during the current year | 587,206 | 1,322,018 |
| Reserve for unpaid hurricane losses at end of year | \$ 922,689 | \$ 809,895 |

The Fund's reserve for prior years' unpaid hurricane losses, at June 30, 2008, was increased by \$700,000 as a result of ongoing loss development and actuarial analyses.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

7. Bonds Payable

The Fund is expecting to pay loss reimbursements of \$3.95 billion to participating insurers for the 2004 hurricanes and \$5.2 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. 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 |
| | <u>\$ 1,350,025</u> | |

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

7. Bonds Payable (continued)

To provide a source of funds to reimburse participating insurers for losses relating to future covered events, the Corporation in July 2006 issued pre-event Series 2006B Extendible Floating Rate Notes in the amount of \$2.8 billion. Investment earnings on these funds, as well as reimbursement premiums, if necessary, are used to pay the debt service requirements of the notes. During the year ended June 30, 2008, \$2.755 billion of these notes “non-extended.” In July 2008 and August 2008, the remaining \$45 million of these notes “non-extended.” As a result of the notes non-extending, the final maturity dates are as follows (in thousands):

| | |
|------------|---------------------|
| 8/14/2008 | \$ 200,000 |
| 9/14/2008 | 22,250 |
| 10/14/2008 | 75,000 |
| 11/14/2008 | 80,000 |
| 12/12/2008 | 952,500 |
| 1/14/2009 | 30,000 |
| 3/13/2009 | 1,295,250 |
| 6/15/2009 | 100,000 |
| 7/15/2009 | 10,000 |
| 8/14/2009 | 35,000 |
| | <u>\$ 2,800,000</u> |

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.

In connection with the issuance of the 2007A notes, the Corporation incurred issuance costs of \$10,314,553 which have been capitalized and will be amortized over the life of the notes payable. Amortization expense related to the 2007A notes recognized in fiscal year ended June 30, 2008, was \$1,547,183.

In connection with the issuance of the 2006A and 2006B notes, the Corporation incurred \$12,159,300 of issuance costs which have been capitalized and will be amortized over the life of the notes payable. Amortization expense related to the 2006A and 2006B notes recognized in fiscal year ended June 30, 2008, was \$3,157,006.

Florida Hurricane Catastrophe Fund
Notes to Financial Statements (continued)

8. Compensated Absences

Compensated absences were as follows (in thousands):

| | | |
|-----------------------------|----|------|
| Balance as of June 30, 2006 | \$ | 127 |
| Increases | | 75 |
| Decreases | | (56) |
| Balance as of June 30, 2007 | | 146* |
| Increases | | 72 |
| Decreases | | (63) |
| Balance as of June 30, 2008 | \$ | 155* |

*Includes long-term and short-term balances, of which \$43,000 and \$43,000 is estimated due within one year of June 30, 2008 and 2007, respectively.

9. Premium Revenue

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 | |
|--------------------|---------------------------|--------------|
| | 2008 | 2007 |
| Contract year 2007 | \$ 1,335,060 | \$ – |
| Contract year 2006 | 1,351 | 1,200,022 |
| Contract year 2005 | 267 | 2,192 |
| Contract year 2004 | 97 | 140 |
| Contract year 2003 | – | 8 |
| | \$ 1,336,775 | \$ 1,202,362 |

10. Related Parties

The Fund paid the SBA approximately \$270,099 for the Fund and \$827,670 for the Corporation in the fiscal year ended June 30, 2008, and \$76,000 for the Fund and \$350,535 for the Corporation in the fiscal year ended June 30, 2007, for investment advisory services. The Fund also paid the SBA \$75,000 in the fiscal year ended June 30, 2008, and \$75,000 in the fiscal year ended June 30, 2007, for administrative services.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

11. Subsequent Events

In July 2008, the Corporation issued post-event Series 2008A Revenue Bonds in the amount of \$625 million. These bond proceeds and their investment earnings will enhance the Fund's ability 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 bonds are stated to mature without prior right of redemption on July 1 of the following years and bear interest at rates ranging from 4.125% to 5.000% as follows (in thousands):

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

In addition, 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 gives 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's losses.

As of October 3, 2008, various securities were sold for a net loss of \$217.0 million. At June 30, 2008, \$19.4 million of this loss is reflected as a component of investment income in the financial statements. The loss realized upon sale represents 2.31% of the total portfolio's June 30, 2008, fair value. The disposal of the securities was prompted in large part by the deteriorating financial market conditions and, to a lesser extent, liquidation needs to pay the Series 2006B notes maturing between October 2008 and August 2009.

Other Financial Information

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, 2008, 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

November 7, 2008

Florida Hurricane Catastrophe Fund

Combining Statement of Net Assets (Deficit)

(In Thousands)

June 30, 2008

| | Combined | Florida Hurricane Catastrophe Fund | Florida Hurricane Catastrophe Fund Finance Corporation |
|--|-----------------|---|---|
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 337 | \$ 69 | \$ 268 |
| Short-term investments | 6,539,357 | 1,438,909 | 5,100,448 |
| Emergency assessment funds receivable | 91,651 | - | 91,651 |
| Emergency assessment interest receivable | 1 | - | 1 |
| Securities lending receivable | 2 | - | 2 |
| Securities lending collateral | 25,544 | - | 25,544 |
| Accrued interest | 13,184 | 2,853 | 10,331 |
| Excess loss payments receivable | 9,786 | 9,786 | - |
| Premiums receivable, net | 483 | 483 | - |
| Total current assets | 6,680,345 | 1,452,100 | 5,228,245 |
| Long-term assets: | | | |
| Long-term investments | 2,830,993 | 636,264 | 2,194,729 |
| Unamortized bond issuance costs | 15,588 | - | 15,588 |
| Capital assets, net | 4 | 4 | - |
| Total long-term assets | 2,846,585 | 636,268 | 2,210,317 |
| Total assets | \$ 9,526,930 | \$ 2,088,368 | \$ 7,438,562 |

| | Combined | Florida Hurricane Catastrophe Fund | Florida Hurricane Catastrophe Fund Finance Corporation |
|---|---------------------|---|---|
| Liabilities and net assets | | | |
| Current liabilities: | | | |
| Hurricane losses: | | | |
| Unpaid hurricane losses | \$ 922,689 | \$ 922,689 | \$ - |
| Losses payable | 84 | 84 | - |
| Premium refunds payable | 11 | 11 | - |
| Accrued expenses | 962 | 791 | 171 |
| Bonds payable | 2,999,430 | - | 2,999,430 |
| Obligation under securities lending agreement | 25,500 | - | 25,500 |
| Accrued bond interest expense | 41,649 | - | 41,649 |
| Total current liabilities | <u>3,990,325</u> | <u>923,575</u> | <u>3,066,750</u> |
| Long-term liabilities: | | | |
| Bonds payable | 4,650,595 | - | 4,650,595 |
| Premiums on bonds payable | 28,908 | - | 28,908 |
| Compensated absences, net of current portion | 112 | 112 | - |
| Total long-term liabilities | <u>4,679,615</u> | <u>112</u> | <u>4,679,503</u> |
| Total liabilities | 8,669,940 | 923,687 | 7,746,253 |
| Net assets (deficit): | | | |
| Unrestricted | 856,964 | 1,164,655 | (307,691) |
| Invested in capital assets, net of related debt | 4 | 4 | - |
| Restricted for hurricane mitigation | 22 | 22 | - |
| Total net assets (deficit) | <u>856,990</u> | <u>1,164,681</u> | <u>(307,691)</u> |
| Total liabilities and net assets (deficit) | <u>\$ 9,526,930</u> | <u>\$ 2,088,368</u> | <u>\$ 7,438,562</u> |

Florida Hurricane Catastrophe Fund

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

Year Ended June 30, 2008

| | Combined | Florida Hurricane Catastrophe Fund | Florida Hurricane Catastrophe Fund Finance Corporation |
|--|-------------------|---|--|
| Operating revenues: | | | |
| Net premium revenue | \$ 1,336,775 | \$ 1,336,775 | \$ — |
| Net interest on premium adjustments | (1,258) | (1,258) | — |
| Net interest on loss disbursement adjustments/advances | 535 | 535 | — |
| Other | 143 | 143 | — |
| Total operating revenues | <u>1,336,195</u> | <u>1,336,195</u> | <u>—</u> |
| Operating expenses: | | | |
| Hurricane losses | 700,000 | 700,000 | — |
| Administrative and actuarial fees | 2,720 | 2,720 | — |
| Other professional fees | 1,715 | 1,657 | 58 |
| Personnel expenses | 841 | 841 | — |
| Depreciation | 3 | 3 | — |
| Other | 360 | 243 | 117 |
| Total operating expenses | <u>705,639</u> | <u>705,464</u> | <u>175</u> |
| Operating income (loss) | 630,556 | 630,731 | (175) |
| Nonoperating revenue (expense): | | | |
| Investment income | 241,128 | 47,066 | 194,062 |
| Investment advisor fees | (1,101) | (272) | (829) |
| Securities lending income | 859 | 721 | 138 |
| Securities lending expense | (808) | (699) | (109) |
| Emergency assessment funds received | 356,662 | — | 356,662 |
| Emergency assessment interest received | 35 | — | 35 |
| Bond trustee fees | (5) | — | (5) |
| Bond interest expense | (296,184) | — | (296,184) |
| Amortization of bond issuance costs | (4,704) | — | (4,704) |
| Total nonoperating revenue | <u>295,882</u> | <u>46,816</u> | <u>249,066</u> |
| Income before transfers | 926,438 | 677,547 | 248,891 |
| Transfers from (to) component units | — | 405,263 | (405,263) |
| Transfers to other funds | (10,000) | (10,000) | — |
| Total transfers | <u>(10,000)</u> | <u>395,263</u> | <u>(405,263)</u> |
| Change in net assets | 916,438 | 1,072,810 | (156,372) |
| Net (deficit) assets at beginning of year | (59,448) | 91,871 | (151,319) |
| Net assets (deficit) at end of year | <u>\$ 856,990</u> | <u>\$ 1,164,681</u> | <u>\$ (307,691)</u> |

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, 2008 and 2007, and have issued our report thereon dated November 7, 2008. 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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 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

November 7, 2008