Financial Statements and Other Financial Information

Florida Hurricane Catastrophe Fund
Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

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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, 2009 and 2008. 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, 2009 and 2008, and the changes in its financial position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

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

In accordance with *Government Auditing Standards*, we have issued our report dated October 15, 2009, 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

October 15, 2009

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, 2009 and 2008. 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		
	2009	**2008**	**2007**
Capital assets	**$ 3**	$ 4	$ 4
Other assets	**7,824,837**	9,526,926	4,990,203
Total assets	**7,824,840**	9,526,930	4,990,207
Current liabilities	**1,079,010**	3,990,325	856,403
Long-term liabilities	**4,996,664**	4,679,615	4,193,252
Total liabilities	**6,075,674**	8,669,940	5,049,655
Net assets (deficit):			
Invested in capital assets, net of related debt	**3**	4	4
Unrestricted	**1,749,141**	856,964	(59,474)
Restricted for hurricane mitigation	**22**	22	22
Total net assets (deficit)	**$ 1,749,166**	$ 856,990	$ (59,448)

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		
	2009	**2008**	**2007**
Net premium revenue	**$ 1,291,599**	$ 1,336,775	$ 1,202,362
Net interest on premium adjustments	**230**	(1,258)	278
Net interest on loss disbursement adjustments/advances	**1,122**	535	1,732
Other	**30**	143	–
Total operating revenues	**1,292,981**	1,336,195	1,204,372
Total nonoperating (expense) revenue	**(134,581)**	295,882	230,781
Total revenues	**1,158,400**	1,632,077	1,435,153
Hurricane losses	**250,000**	700,000	–
Other operating expenses	**6,222**	5,636	5,063
Depreciation	**2**	3	3
Total expenses	**256,224**	705,639	5,066
Income before transfers	**902,176**	926,438	1,430,087
Transfers to other funds	**(10,000)**	(10,000)	(10,000)
Change in net assets	**892,176**	916,438	1,420,087
Net assets (deficit) at beginning of year	**856,990**	(59,448)	(1,479,535)
Net assets (deficit) at end of year	**$ 1,749,166**	$ 856,990	$ (59,448)

Financial Highlights

- Investment income (loss) included in "total nonoperating (expense) revenue" for the Fund was $234,294,000 at June 30, 2007, $241,128,000 at June 30, 2008, and $(51,120,000) at June 30, 2009. The decrease in investment income from 2008 to 2009 is the result of changing market conditions, combined with the more conservative position the portfolio has taken. The majority of the decline in investment income can be attributed to losses realized upon the sale of various securities in October 2008, which was prompted in large part by the deteriorating financial market conditions and, to a lesser extent, liquidation requirements to pay the Series 2006B Notes maturing between October 2008 and August 2009 (final redemption occurred February 17, 2009).

Financial Highlights (continued)

- For losses from hurricanes occurring in 2004 and 2005, as of June 30, 2009, the Fund had reimbursed participating insurers over $8.6 billion. The total amount the Fund expects to pay is $9.40 billion, with $3.95 billion for 2004 and $5.45 billion for 2005. “Hurricane losses” expense includes $700 million in 2008 and $250 million in 2009 for the prior years’ storms due to estimates revised as a result of ongoing loss development and actuarial analyses.

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

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

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

- At June 30, 2009, 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 2009	June 30 2008
Assets		
Current assets:		
Cash and cash equivalents	**$ 191**	$ 337
Short-term investments	**6,670,686**	6,539,357
Emergency assessment funds receivable	**90,350**	91,651
Emergency assessment interest receivable	**27**	1
Securities lending receivable	**–**	2
Securities lending collateral	**–**	25,544
Accrued interest	**13,582**	13,184
Excess loss payments receivable	**7,728**	9,786
Premiums receivable, net	**–**	483
Total current assets	**6,782,564**	6,680,345
Long-term assets:		
Long-term investments	**1,029,370**	2,830,993
Unamortized bond issuance costs	**12,903**	15,588
Capital assets, net of accumulated depreciation of $72 and $73 for June 30, 2009 and 2008, respectively	**3**	4
Total long-term assets	**1,042,276**	2,846,585
Total assets	**$ 7,824,840**	$ 9,526,930

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	June 30	
	2009	**2008**
Liabilities and net assets		
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	**$ 775,653**	$ 922,689
Losses payable	**1,283**	84
Premium refunds payable	**37**	11
Accrued expenses	**1,054**	962
Bonds payable	**256,655**	2,999,430
Obligation under securities lending agreement	**–**	25,500
Accrued bond interest expense	**44,328**	41,649
Total current liabilities	**1,079,010**	3,990,325
Long-term liabilities:		
Bonds payable	**4,973,940**	4,650,595
Premiums on bonds payable	**22,583**	28,908
Compensated absences, net of current portion	**141**	112
Total long-term liabilities	**4,996,664**	4,679,615
Total liabilities	**6,075,674**	8,669,940
Net assets:		
Unrestricted	**1,749,141**	856,964
Invested in capital assets, net of related debt	**3**	4
Restricted for hurricane mitigation	**22**	22
Total net assets	**1,749,166**	856,990
Total liabilities and net assets	**$ 7,824,840**	$ 9,526,930

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

(In Thousands)

	Year Ended June 30	
	2009	**2008**
Operating revenues:		
Net premium revenue	**$ 1,291,599**	$ 1,336,775
Net interest on premium adjustments	**230**	(1,258)
Net interest on loss disbursement adjustments/advances	**1,122**	535
Other	**30**	143
Total operating revenues	**1,292,981**	1,336,195
Operating expenses:		
Hurricane losses	**250,000**	700,000
Administrative and actuarial fees	**2,538**	2,720
Other professional fees	**2,420**	1,715
Personnel expenses	**992**	841
Depreciation	**2**	3
Other	**272**	360
Total operating expenses	**256,224**	705,639
Operating income	**1,036,757**	630,556
Nonoperating revenue (expense):		
Investment (loss) income	**(51,120)**	241,128
Investment advisor fees	**(1,161)**	(1,101)
Financial option fees	**(224,000)**	–
Securities lending income	**191**	859
Securities lending expense	**(137)**	(808)
Emergency assessment revenue	**336,911**	356,662
Emergency assessment interest revenue	**52**	35
Custodian and bond trustee fees	**(31)**	(5)
Bond interest expense	**(189,405)**	(296,184)
Bond early extinguishment of debt expense	**(996)**	–
Amortization of bond issuance costs	**(4,885)**	(4,704)
Total nonoperating (expense) revenue	**(134,581)**	295,882
Income before transfers	**902,176**	926,438
Transfers to other funds	**(10,000)**	(10,000)
Change in net assets	**892,176**	916,438
Net assets (deficit) at beginning of year	**856,990**	(59,448)
Net assets (deficit) at end of year	**$ 1,749,166**	$ 856,990

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2009	2008
Operating activities		
Premium received	**$ 1,292,337**	$ 1,335,026
Hurricane losses paid	**(393,779)**	(592,421)
Net interest on loss disbursements and adjustments	**1,122**	535
Other	**30**	143
Administrative and actuarial fees	**(2,615)**	(2,751)
Other professional fees	**(2,130)**	(1,699)
Personnel expenses	**(953)**	(825)
Other operating expenses	**(291)**	(354)
Net cash provided by operating activities	**893,721**	737,654
Investing activities		
Purchases of investments	**(212,076,903)**	(310,838,331)
Sales and maturities of investments	**213,543,897**	306,234,510
Interest received	**151,782**	331,185
Investment advisor fees	**(1,184)**	(994)
Custodian and bond trustee fees	**(31)**	–
Securities lending	**14**	92
Net cash provided by (used by) investing activities	**1,617,575**	(4,273,538)
Financing from noncapital activities		
Transfers to other funds	**(10,000)**	(10,000)
Emergency assessment funds received	**338,211**	365,667
Emergency assessment interest received	**25**	35
Financial option fees	**(224,000)**	–
Cash received on bond issuance	**627,920**	3,489,685
Bond principal paid	**(3,044,430)**	–
Bond interest paid	**(199,167)**	(309,178)
Bond trustee fees paid	**–**	(5)
Net cash (used by) provided by financing from noncapital activities	**(2,511,441)**	3,536,204
Financing from capital activities		
Purchases of capital assets	**(1)**	(2)
Net (decrease) increase in cash and cash equivalents	**(146)**	318
Cash and cash equivalents at beginning of year	**337**	19
Cash and cash equivalents at end of year	**$ 191**	$ 337

See accompanying notes.

Florida Hurricane Catastrophe Fund

Reconciliations of Operating Income to Net Cash Used by Operating Activities

(In Thousands)

	Year Ended June 30	
	2009	**2008**
Operating income	**$ 1,036,757**	$ 630,556
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	**2**	3
Decrease (increase) in premiums receivable, net	**483**	(492)
Increase in premium refunds payable	**26**	1
(Decrease) increase in unpaid hurricane losses	**(147,036)**	112,794
Increase (decrease) in losses payable	**1,199**	(5,211)
Decrease (increase) in excess loss payments receivable	**2,057**	(4)
Increase in accrued expenses	**233**	7
Net cash provided by operating activities	**$ 893,721**	$ 737,654

See accompanying notes.

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 on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements.

1. Organization (continued)

Limited Liability of the Fund

The Fund's obligation to participating insurers, in the event of a hurricane(s) that causes reimbursable losses, is limited to the claims-paying capacity of the Fund. For the purpose of defining claims-paying capacity, the SBA shall use the unrestricted net assets as of December 31 of the applicable contract year, to which is added reported fund losses (including loss adjustment expense) for the then-current contract year, whether paid or unpaid by the Fund, as of December 31; any reinsurance purchased by the Fund; 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.

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, 2009 and 2008. 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, may engage 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. As of June 30, 2009, the Fund does not have any securities on loan.

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.

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, $50,000 in 2009 and $43,000 in 2008, 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.

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, 2009, the interest rate was 0.00% for overpayments of premium and 5.00% for underestimated payments. For the contract year ended May 31, 2008, the interest rate was 5.58% for overpayments of premium and 10.58% 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.

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 2008–2009 and 2007–2008, $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 2008–2009 has been restricted in the June 30, 2009, net assets for future transfer.

Income Taxes

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

Cash Equivalents

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

3. Investments

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

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

	June 30	
	2009	**2008**
Short-term investments		
Investments:		
Certificates of deposit	**$ 3,617,741**	$ 2,483,865
Commercial paper	**–**	2,379,703
Federal agencies	**150,269**	–
Domestic corporate bonds and notes, variable rate	**1,382,601**	453,232
International corporate bonds and notes, variable rate	**144,531**	–
Repurchase agreements	**836,598**	994,046
Money market funds	**538,946**	228,511
Total short-term investments	**$ 6,670,686**	$ 6,539,357
Long-term investments		
Investments:		
Certificates of deposit	**$ 29,192**	$ 139,807
Domestic corporate bonds and notes, variable rate	**422,927**	1,831,072
International corporate bonds and notes, variable rate	**–**	216,824
Federal agencies	**–**	25,060
Domestic mortgage backed securities	**55,034**	–
U.S. treasuries	**522,217**	618,230
Total long-term investments	**$ 1,029,370**	$ 2,830,993
Securities lending short-term collateral investment	**$ –**	$ 25,544

3. Investments (continued)

As of June 30, 2009, the Fund held the following investments (in thousands):

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	$ 3,646,933	35
Domestic corporate bonds and notes	1,805,528	44
Domestic nongovernment mortgage-backed securities*	55,034	2,805
International corporate bonds and notes	144,531	49
Money market funds**	538,946	1
Repurchase agreements	836,598	1
Federal agencies	150,269	36
U.S. treasuries	522,217	6
Total fair value	7,700,056	
Portfolio weighted average maturity		49

* Weighted average life was used since there is no available market for these securities.
** Weighted average maturity per Wells Fargo Advantage Funds was 28 days.

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 except in the case of the domestic nongovernment mortgage-backed securities.

3. Investments (continued)

Credit Risk

Funds are invested in accordance with Section 215.47 of the Florida Statutes, which includes, but is not limited to, certificates of deposit, commercial paper, U.S. government agency notes, U.S. Treasury bills, repurchase agreements, and variable rate notes that enhance the Fund's investment income while maintaining liquidity. The investment policy further states that 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 one nationally recognized statistical rating organization. The schedule below provides the credit quality ratings by Standard and Poor's and Moody's Investor Services at June 30, 2009 (in thousands).

		Credit Quality Ratings	
Investment Type	**Fair Value**	**S&P**	**Moody's**
Certificate of deposit	$ 99,912	AA	Aa
Certificate of deposit	29,192	A	A
Certificate of deposit	35,108	A-1	P-1
Certificate of deposit	174,995	Not rated	P-1
Certificate of deposit*	3,307,726	Not rated	Not rated
Domestic corporate bonds and notes	287,607	AAA	Aaa
Domestic corporate bonds and notes	49,907	AAA	Not rated
Domestic corporate bonds and notes	154,985	AA	Aa
Domestic corporate bonds and notes	124,338	AA	A
Domestic corporate bonds and notes	99,886	A	Aa
Domestic corporate bonds and notes	605,513	A	A
Domestic corporate bonds and notes	106,012	BBB	A
Domestic corporate bonds and notes	269,914	Not rated	A
Domestic corporate bonds and notes	107,366	BB	Baa
Domestic nongovernment mortgage-backed securities	55,034	Not rated	Not rated
International corporate bonds and notes	25,011	AA	A
International corporate bonds and notes	119,520	A	Aa
Money market	538,946	AAA	Aaa
Repurchase agreements	836,598	Not rated	Not rated
Federal agencies	150,269	AAA	Aaa
U.S. treasuries	522,217	Not rated	Not rated
	$ 7,700,056		

* Of the $3,307,726 "not rated" certificates of deposit, $1,042,562 had issuer ratings of A-1 for S&P and P-1 for Moody's.

3. Investments (continued)

Concentration of Credit Risk

Pursuant to the investment policy guidelines, securities of a single issuer shall not represent more than 5% of the portfolio's 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 the portfolio's amortized cost. Repurchase agreements, which are collateralized exceeding 100%, are excluded by the SBA in determining compliance with the guidelines.

At June 30, 2009, the single issuer threshold of 5% was exceeded with securities issued by Bank of America, which represented 6.74% of the portfolio's total amortized cost. The market value of Bank of America holdings at June 30, 2009, was $521,715,443. Specifically, the Fund held $120,117,294 in certificates of deposit and $401,598,149 in repurchase agreements issued by Bank of America. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity date of July 1, 2009.

At June 30, 2009, the single issuer threshold of 5% was also exceeded with securities issued by Goldman Sachs, which represented 7.41% of the portfolio's amortized cost. The market value of the Goldman Sachs holdings at June 30, 2009, was $574,876,300. Specifically, the Fund held $139,876,300 in domestic corporate bonds and notes and $435,000,000 in repurchase agreements issued by Goldman Sachs. The repurchase agreements, which were fully collateralized, matured at full value on their stated maturity date of July 1, 2009.

At June 30, 2009, the single issuer threshold of 5% was also exceeded with securities issued by Wells Fargo, which represented 7.35% of the portfolio's amortized cost. The market value of the Wells Fargo holdings at June 30, 2009, was $568,777,082. Specifically, the Fund held $29,831,100 in domestic corporate bonds and notes and $538,945,982 in money market funds. The money market funds at Wells Fargo, of which $299,272,466 was used to pay debt service on the post-event bonds on July 1, 2009, are held in accordance with the bond documents.

At June 30, 2009, the Fund also held $522,217,209 in U.S. Treasury State & Local Government Series Securities (SLGS), which represents 6.75% 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.

3. Investments (continued)

Custodial Credit Risk

Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. The Fund does not have a formal investment policy for custodial credit risk. At June 30, 2009, 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, 2009.

Securities Lending Transactions

The Fund, under authorization of Section 215.47(16) of the Florida Statutes, may engage in security lending transactions. While the Fund did participate in security lending transactions during the year, there were no securities on loan at June 30, 2009. Therefore, there was no credit risk to borrowers at year-end and no cash collateral invested in the agent's short-term investment pool.

4. Securities Lending

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 2009.

While the Fund did participate in security lending transactions during the year, there were no securities on loan at June 30, 2009. As of June 30, 2008, the collateral held represents 103% of the market value of the securities lent. 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, 2009 or 2008, because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund.

4. Securities Lending (continued)

The collateral held as assets is recorded in the balance sheet at fair value in accordance with 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, and 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, 2009 and 2008, is as follows (in thousands):

	Equipment	Accumulated Depreciation	Net
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
Additions	**1**	**(2)**	**(1)**
Sales or disposals	**(3)**	**3**	**–**
Balance as of June 30, 2009	**$ 75**	**$ (72)**	**$ 3**

6. Hurricane Losses

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

6. Hurricane Losses (continued)

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 2009 and 2008 (in thousands):

	Year Ended June 30	
	2009	**2008**
Reserve for unpaid hurricane losses	**$ 922,689**	$ 809,895
Add provision for hurricane losses occurring in:		
The current year	**–**	–
Prior years	**250,000**	700,000
Net incurred losses during the current year	**250,000**	700,000
Deduct payments for claims occurring in:		
The current year	**–**	–
Prior years	**397,036**	587,206
Net claim payments during the current year	**397,036**	587,206
Reserve for unpaid hurricane losses at end of year	**$ 775,653**	$ 922,689

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

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

7. Bonds Payable

Post-Event Bonds – The Fund is expecting to pay loss reimbursements of $3.95 billion to participating insurers for the 2004 hurricanes and $5.45 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 comes from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums. At June 30, 2009, $1,105,595,000 of these bonds were outstanding, which are stated to mature without right of prior redemption on July 1 of the following years and bear interest at rates ranging from 4.00% to 5.25% as follows (in thousands):

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
	$ 1,105,595	

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

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

7. Bonds Payable (continued)

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

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

Costs of Issuance – In connection with the issuance of the 2007A notes and the 2008A bonds, the Corporation incurred issuance costs of $10,314,553 and $3,196,094, respectively, which have been capitalized and will be amortized over the life of the notes/bonds payable.

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

8. Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2007	$	146
Increases		72
Decreases		(63)
Balance as of June 30, 2008		155*
Increases		**107**
Decreases		**(71)**
Balance as of June 30, 2009	**$**	**191***

* Includes long-term and short-term balances, of which $50,000 and $43,000 is estimated due within one year of June 30, 2009 and 2008, 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	
	2009	**2008**
Contract year 2008	**$ 1,293,067**	$ –
Contract year 2007	**(1,932)**	1,335,060
Contract year 2006	**470**	1,351
Contract year 2005	**(349)**	267
Contract year 2004	**343**	97
	$ 1,291,599	$ 1,336,775

10. Related Parties

The Fund paid the SBA approximately $415,516 for the Fund and $728,859 for the Corporation in the fiscal year ended June 30, 2009, and $270,099 for the Fund and $827,670 for the Corporation in the fiscal year ended June 30, 2008, for investment advisory services. The Fund also paid the SBA $75,000 in the fiscal year ended June 30, 2008, for administrative services.

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, 2009, 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

October 15, 2009

Florida Hurricane Catastrophe Fund

Combining Statement of Net Assets (Deficit)
(In Thousands)

June 30, 2009

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Assets			
Current assets:			
Cash and cash equivalents	$ 191	$ –	$ 191
Short-term investments	6,670,686	2,716,876	3,953,810
Emergency assessment funds receivable	90,350	–	90,350
Emergency assessment interest receivable	27	–	27
Accrued interest	13,582	8,077	5,505
Excess loss payments receivable	7,728	7,728	–
Total current assets	6,782,564	2,732,681	4,049,883
Long-term assets:			
Long-term investments	1,029,370	355,909	673,461
Unamortized bond issuance costs	12,903	–	12,903
Capital assets, net	3	3	–
Total long-term assets	1,042,276	355,912	686,364
Total assets	$ 7,824,840	$ 3,088,593	$ 4,736,247

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	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Liabilities and net assets			
Current liabilities:			
Hurricane losses:			
Unpaid hurricane losses	$ 775,653	$ 775,653	$ –
Losses payable	1,283	1,283	–
Premium refunds payable	37	37	–
Accrued expenses	1,054	973	81
Bonds payable	256,655	–	256,655
Accrued bond interest expense	44,328	–	44,328
Total current liabilities	1,079,010	777,946	301,064
Long-term liabilities:			
Bonds payable	4,973,940	–	4,973,940
Premiums on bonds payable	22,583	–	22,583
Compensated absences, net of current portion	141	141	–
Total long-term liabilities	4,996,664	141	4,996,523
Total liabilities	6,075,674	778,087	5,297,587
Net assets (deficit):			
Unrestricted	1,749,141	2,310,481	(561,340)
Invested in capital assets, net of related debt	3	3	–
Restricted for hurricane mitigation	22	22	–
Total net assets (deficit)	1,749,166	2,310,506	(561,340)
Total liabilities and net assets (deficit)	$ 7,824,840	$ 3,088,593	$ 4,736,247

Florida Hurricane Catastrophe Fund

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

(In Thousands)

Year Ended June 30, 2009

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Operating revenues:			
Net premium revenue	$ 1,291,599	$ 1,291,599	$ –
Net interest on premium adjustments	230	230	–
Net interest on loss disbursement adjustments/advances	1,122	1,122	–
Other	30	30	–
Total operating revenues	1,292,981	1,292,981	–
Operating expenses:			
Hurricane losses	250,000	250,000	–
Administrative and actuarial fees	2,538	2,538	–
Other professional fees	2,420	2,398	22
Personnel expenses	992	992	–
Depreciation	2	2	–
Other	272	227	45
Total operating expenses	256,224	256,157	67
Operating income (loss)	1,036,757	1,036,824	(67)
Nonoperating revenue (expense):			
Investment (loss) income	(51,120)	8,233	(59,353)
Investment advisor fees	(1,161)	(430)	(731)
Financial option fees	(224,000)	(224,000)	–
Securities lending income	191	74	117
Securities lending expense	(137)	(74)	(63)
Emergency assessment revenue	336,911	–	336,911
Emergency assessment interest revenue	52	–	52
Custodian and bond trustee fees	(31)	(2)	(29)
Bond interest expense	(189,405)	–	(189,405)
Bond early extinguishment of debt expense	(996)	–	(996)
Amortization of bond issuance costs	(4,885)	–	(4,885)
Total nonoperating (expense) revenue	(134,581)	(216,199)	81,618
Income before transfers	902,176	820,625	81,551
Transfers from (to) component units	–	335,200	(335,200)
Transfers to other funds	(10,000)	(10,000)	–
Total transfers	(10,000)	325,200	(335,200)
Change in net assets	892,176	1,145,825	(253,649)
Net assets (deficit) at beginning of year	856,990	1,164,681	(307,691)
Net assets (deficit) at end of year	$ 1,749,166	$ 2,310,506	$ (561,340)

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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, 2009 and 2008, and have issued our report thereon dated October 15, 2009. 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

October 15, 2009