FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Florida Hurricane Catastrophe Fund
Years Ended June 30, 2007 and 2006
With Report of Independent Auditors

0708-0853874

Florida Hurricane Catastrophe Fund

Financial Statements and
Other Financial Information

Years Ended June 30, 2007 and 2006

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, 2007 and 2006. 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, 2007 and 2006, 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, 2007, 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, 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, 2007 and 2006. 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		
	2007	**2006**	**2005**
Capital assets	**$ 4**	$ 6	$ 10
Other assets	**4,990,203**	2,228,447	4,054,311
Total assets	**4,990,207**	2,228,453	4,054,321
Current liabilities	**856,403**	2,300,536	1,667,165
Long-term liabilities	**4,193,252**	1,407,452	92
Total liabilities	**5,049,655**	3,707,988	1,667,257
Net assets (deficit):			
Invested in capital assets, net of related debt	**4**	6	10
Unrestricted	**(59,474)**	(1,479,563)	2,288,307
Restricted for hurricane mitigation	**22**	22	98,747
Total net assets (deficit)	**$ (59,448)**	$ (1,479,535)	$ 2,387,064

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		
	2007	**2006**	**2005**
Net premium revenue	**$ 1,202,362**	$ 734,675	$ 617,089
Net interest on premium adjustments	**278**	33	–
Net interest on loss disbursement adjustments/advances	**1,732**	3,342	1,118
Total operating revenues	**1,204,372**	738,050	618,207
Total nonoperating revenue	**230,781**	103,419	108,101
Total revenues	**1,435,153**	841,469	726,308
Hurricane losses	**–**	4,700,000	3,750,000
Other operating expenses	**5,063**	4,690	4,152
Depreciation	**3**	7	9
Total expenses	**5,066**	4,704,697	3,754,161
Income (loss) before transfers	**1,430,087**	(3,863,228)	(3,027,853)
Transfers to other funds	**(10,000)**	(3,371)	(61,275)
Change in net assets	**1,420,087**	(3,866,599)	(3,089,128)
Net assets (deficit), beginning of year	**(1,479,535)**	2,387,064	5,476,192
Net assets (deficit), end of year	**$ (59,448)**	$(1,479,535)	$ 2,387,064

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 $107,689,000 at June 30, 2005, $102,819,000 at June 30, 2006, and $234,294,000 at June 30, 2007. The decrease in investment income from 2005 to 2006 is due to less cash available for investment because of loss reimbursement payments.

Financial Highlights (continued)

- The total hurricane losses are expected to be $3.95 billion for 2004 covered events and $4.50 billion for 2005 covered events. As a result, the Fund experienced a shortfall. In June 2006, the Corporation issued Series 2006A Revenue Bonds in the amount of $1,350,025,000. The proceeds from these Bonds, along with the expected investment earnings, will provide moneys sufficient to reimburse participating insurers for losses from these covered events. Debt service on the 2006A Bonds will be paid from a 1% emergency assessment on all assessable lines of business beginning in January 2007.

  To provide a source of funds to reimburse participating insurers for losses relating to future covered events, in July 2006, the Corporation 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 requirement of the Notes.

- The Fund is obligated to pay losses to participating insurers only to the extent of their actual claims-paying capacity up to a limit of $15 billion for any single contract year. This capacity is increased by the optional coverage options provided for in Section 215.555. The $15 billion will increase with exposure growth each year as long as the increase does not exceed the increase in the actual dollar growth of the Fund.

- At June 30, 2007, the Fund had the following credit ratings: Moody's Aa3, Fitch AA-, and Standard and Poor's AA-.

Florida Hurricane Catastrophe Fund

Statements of Net Assets (Deficit)

(In Thousands)

	June 30	
	2007	**2006**
Assets		
Current assets:		
Cash and cash equivalents	**$ 19**	$ 13,005
Short-term investments	**2,269,797**	510,969
Bond proceeds receivable	**–**	1,394,365
Emergency assessment funds receivable	**100,655**	–
Securities lending receivable	**–**	555
Securities lending collateral	**–**	128,355
Accrued interest	**18,558**	1,497
Accounts receivable	**6**	–
Loss reimbursement advances receivable	**–**	26,988
Excess loss payments receivable	**9,782**	33
Premiums receivable, net	**(9)**	39
Total current assets	**2,398,808**	2,075,806
Long-term assets:		
Long-term investments	**2,581,417**	145,730
Unamortized bond issuance costs	**9,978**	6,911
Capital assets, net of accumulated depreciation of $84 and $87 for June 30, 2007 and 2006, respectively	**4**	6
Total long-term assets	**2,591,399**	152,647
Total assets	**$ 4,990,207**	$ 2,228,453

	June 30	
	2007	**2006**
Liabilities and net assets		
Current liabilities:		
Hurricane losses:		
Unpaid hurricane losses	**$ 809,895**	$ 2,131,913
Losses payable	**5,295**	32,633
Premium refunds payable	**10**	3
Accrued expenses	**775**	8,112
Obligation under securities lending agreement	**–**	127,875
Accrued bond interest expense	**40,428**	–
Total current liabilities	**856,403**	2,300,536
Long-term liabilities:		
Bonds payable	**4,150,025**	1,350,025
Premium on bonds payable	**43,124**	57,340
Compensated absences, net of current portion	**103**	87
Total long-term liabilities	**4,193,252**	1,407,452
Total liabilities	**5,049,655**	3,707,988
Net assets (deficit):		
Unrestricted	**(59,474)**	(1,479,563)
Invested in capital assets, net of related debt	**4**	6
Restricted for hurricane mitigation	**22**	22
Total net assets (deficit)	**(59,448)**	(1,479,535)
Total liabilities and net assets (deficit)	**$ 4,990,207**	$ 2,228,453

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

(In Thousands)

	Year Ended June 30	
	2007	**2006**
Operating revenues:		
Current contract year premium revenue	**$ 1,200,022**	$ 736,646
Prior contract year adjustment:		
Premium billed	**2,340**	(1,971)
Premium interest	**278**	33
Net premium revenue	**1,202,640**	734,708
Net interest on loss disbursement adjustments/advances	**1,732**	3,342
Total operating revenues	**1,204,372**	738,050
Operating expenses:		
Hurricane losses	**–**	4,700,000
Administrative and actuarial fees	**2,621**	2,546
Other professional fees	**1,431**	1,261
Personnel expenses	**808**	713
Depreciation	**3**	7
Other	**203**	170
Total operating expenses	**5,066**	4,704,697
Operating income (loss)	**1,199,306**	(3,966,647)
Nonoperating revenue (expense):		
Investment income	**234,294**	102,819
Investment advisor fees	**(426)**	(270)
Securities lending income	**1,088**	17,461
Securities lending expense	**(1,056)**	(16,835)
Securities lending net appreciation	**(480)**	244
Emergency assessment funds received	**195,226**	–
Bond trustee fees	**(4)**	–
Bond interest expense	**(195,673)**	–
Amortization of bond issuance costs	**(2,188)**	–
Total nonoperating revenue	**230,781**	103,419
Income (loss) before transfers	**1,430,087**	(3,863,228)
Transfers to other funds	**(10,000)**	(3,371)
Change in net assets	**1,420,087**	(3,866,599)
Net assets (deficit), beginning of year	**(1,479,535)**	2,387,064
Net assets (deficit), end of year	**$ (59,448)**	$ (1,479,535)

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Cash Flows
(In Thousands)

	Year Ended June 30	
	2007	**2006**
Operating activities		
Premium received	**$ 1,202,707**	$ 734,720
Hurricane losses paid	**(1,331,993)**	(2,603,891)
Loss reimbursement advances and related interest	**1,596**	(882,499)
Administrative and actuarial fees	**(2,573)**	(2,684)
Other professional fees	**(1,409)**	(1,238)
Personnel expenses	**(791)**	(720)
Other operating expenses	**(160)**	(169)
Net cash used by operating activities	**(132,623)**	(2,756,481)
Investing activities		
Purchases of investments	**(103,781,477)**	(78,066,674)
Sales and maturities of investments	**99,587,329**	80,719,112
Interest received	**216,869**	106,938
Investment advisor fees	**(435)**	(302)
Securities lending	**46**	784
Net cash (used by) provided by investing activities	**(3,977,668)**	2,759,858
Financing from noncapital activities		
Transfers to other funds	**(10,000)**	(3,371)
Emergency assessment funds received	**94,574**	–
Cash received on bond issuance	**4,182,199**	13,000
Bond interest paid	**(169,461)**	–
Bond trustee fees paid	**(5)**	–
Net cash provided by financing from noncapital activities	**4,097,307**	9,629
Financing from capital activities		
Purchases of capital assets	**(2)**	(2)
Net (decrease) increase in cash and cash equivalents	**(12,986)**	13,004
Cash and cash equivalents at beginning of year	**13,005**	1
Cash and cash equivalents at end of year	**$ 19**	$ 13,005

See accompanying notes.

Florida Hurricane Catastrophe Fund

Reconciliations of Operating Income to Net Cash Used by Operating Activities

(In Thousands)

	Year Ended June 30	
	2007	**2006**
Operating income (loss)	**$ 1,199,306**	$ (3,966,647)
Adjustments to reconcile operating income (loss) to net cash used by operating activities:		
Depreciation	**3**	7
Decrease in premiums receivable, net	**48**	28
Increase (decrease) in premium refunds payable	**7**	(16)
(Decrease) increase in unpaid hurricane losses	**(1,322,018)**	1,206,086
(Decrease) increase in losses payable	**(27,338)**	10,014
Decrease (increase) in loss reimbursement advances receivable	**26,988**	(6,503)
Increase (decrease) in excess loss payments receivable	**(9,749)**	671
Increase (decrease) in accrued expenses	**130**	(121)
Net cash used by operating activities	**$ (132,623)**	$ (2,756,481)

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

1. Organization (continued)

Limited Liability of the Fund

The Fund's obligation to participating insurers, in the event of a hurricane(s) that causes reimbursable losses, is limited to the claims-paying capacity of the Fund. For the purpose of defining claims-paying capacity, the SBA shall use the unrestricted net assets as of December 31 of the applicable contract year, to which is added reported fund losses (including loss adjustment expense) for the then-current contract year, whether paid or unpaid by the Fund, as of December 31; any reinsurance purchased by the Fund; and the amount the SBA is able to raise through the issuance of revenue bonds up to the statutory annual aggregate fund limit; and from which is subtracted any reinsurance recovered prior to, or recoverable as of, December 31; any obligations paid or expected to be paid with bonding proceeds or receipts from emergency assessments; amounts needed for administration for the then-current state of Florida fiscal year which have not been spent and which are not reflected on the statement of net assets (deficit); and the amount of 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, 2007 and 2006. 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 on cash or U.S. government securities is required at a rate of at least 100% of the market value of a loaned security. The obligation recorded as a current liability represents the obligation to return the collateral received. Interest earned on short-term investments purchased with the cash collateral held is recognized as revenue. Lending agent costs and borrower rebate fees are recognized as expenses when incurred.

Premiums Receivable

Premiums receivable represent amounts from previous billings that have not yet been collected and are net of any allowances management has established to anticipate uncollectible billings.

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 2007 and $40,000 in 2006, 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, 2007, the interest rate was 5.20% for overpayments of premium and 10.20% for underestimate payments. For the contract year ended May 31, 2006, the interest rate was 3.43% for overpayments of premium and 8.43% 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

Emergency Assessments are collected pursuant to Section 215.555(6)(b). As of June 30, 2007, $94.5 million was received, net of refunds, and $100.7 million was included as a receivable in the statement of net assets (deficit).

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 2006–2007 and 2005–2006, $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 2006–2007 has been restricted in the June 30, 2007, 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. This ruling was renewed in June 2003 for an additional five years.

Cash Equivalents

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

3. Investments

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

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

	June 30	
	2007	**2006**
Short-term investments		
Investments:		
Certificates of deposit	**$ 158,722**	$ –
Commercial paper	**554,615**	196,406
Liquidity notes	**1,259,771**	204,621
Corporate bonds and notes, variable rate	**135,922**	59,959
Federal agencies	**–**	49,983
Money market funds	**160,767**	–
Total short-term investments	**$ 2,269,797**	$ 510,969
Long-term investments		
Investments:		
Certificates of deposit	**$ 104,994**	$ –
Corporate bonds and notes, variable rate	**1,582,206**	40,035
Federal agencies	**–**	74,964
Non-government mortgage-backed	**–**	30,731
U.S. treasuries	**894,217**	–
Total long-term investments	**$ 2,581,417**	$ 145,730
Securities lending short-term collateral investment pool	**$ –**	$ 128,355

3. Investments (continued)

As of June 30, 2007, the Fund held the following investments (in thousands):

Investment Type	Fair Value	Weighted Average Maturity (Days)
Certificates of deposit	$ 263,716	3
Commercial paper	554,615	2
Corporate bonds and notes	1,718,128	25
Liquidity notes	1,259,771	2
Money market funds	160,767	1
U.S. treasuries	894,217	1
Total fair value	$ 4,851,214	
Portfolio weighted average maturity	–	34

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.

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

3. Investments (continued)

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, 2007 (in thousands).

		Credit Quality Ratings	
Investment Type	**Fair Value**	**S&P**	**Moody**
Certificates of deposit	$ 50,006	AA	Not Rated
Certificates of deposit	104,993	A	A
Certificates of deposit	18,684	A	P-1
Certificates of deposit	90,033	A	Not Rated
Commercial paper	399,616	A-1	P-1
Commercial paper	154,999	Not Rated	P-1
Corporate bonds and notes	45,018	AAA	Aaa
Corporate bonds and notes	75,016	AA	Aaa
Corporate bonds and notes	499,824	AA	Aa
Corporate bonds and notes	94,999	A	Aa
Corporate bonds and notes	624,366	A	A
Corporate bonds and notes	295,389	A	Not Rated
Corporate bonds and notes	83,516	Not Rated	A
Liquidity notes	1,259,771	A-1	P-1
Money market funds	160,767	AAA	Aaa
U.S. treasuries	894,217	Not Rated	Not Rated
Total fair value	$ 4,851,214		

Concentration of Credit Risk

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. At June 30, 2007, the fund held $894,216,549 in U.S. Treasury State & Local Government Series Securities (SLGS) which represents 18.43% 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, 2007, 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, 2007.

Securities Lending Transactions

The Fund, under authorization of Section 215.47(16) of the Florida Statutes, engages 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, 2007. 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

The Fund has a contract with Dresdner Bank to act as a lending agent in the performance of securities lending transactions. Under the securities lending program, Dresdner Bank delivers various securities of the Fund to authorized brokers in return for collateral in the form of cash or U.S. government securities. Borrowers under the transactions must be approved by Dresdner Bank's credit department, and Dresdner Bank is required to indemnify the Fund if the borrower fails to return the underlying securities or fails to pay income distributions on them. The Fund is contractually limited from pledging or selling collateral represented by loaned securities except in the event of borrower default. No violations of legal or contractual provisions occurred, and no losses were incurred due to borrower or lending agent defaults in 2007.

While the Fund did participate in security lending transactions during the year, there were no securities on loan at June 30, 2007. The collateral held represents 102% in 2006 of the market value of the securities lent. Dresdner Bank monitors daily the market value of the securities lent and requests additional collateral if the collateral for any loan is less than 100% of the market value of the underlying securities for that loan. The Fund had no credit risk exposure to borrowers at June 30, 2007 or 2006, 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 statement of net assets (deficit) at fair value in accordance with Statement No. 31. Obligations under the program are recorded as liabilities based on the cash value of the collateral received. Details of the lending transactions for the Fund at June 30, 2006, are as follows (in thousands):

Securities on Loan	Fair Value of Underlying Securities Lent	Cash Collateral Held	Fair Value of Collateral Investment Pool
2006 U.S. obligations	$ 124,953	$ 127,875	$ 128,355

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

5. Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2007 and 2006, is as follows (in thousands):

	Equipment	Accumulated Depreciation	Net
Balance as of June 30, 2005	$ 103	$ (93)	$ 10
Additions	3	(7)	(4)
Sales or disposals	(13)	13	–
Balance as of June 30, 2006	93	(87)	6
Additions	**2**	**(4)**	**(2)**
Sales or disposals	**(7)**	**7**	**–**
Balance as of June 30, 2007	**$ 88**	**$ (84)**	**$ 4**

6. Hurricane Losses

The state of Florida was not hit by any hurricanes during the 2006 hurricane season.

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 2007 and 2006 (in thousands):

	Year Ended June 30	
	2007	**2006**
Reserve for unpaid hurricane losses	**$ 2,131,913**	$ 925,827
Add provision for hurricane losses occurring in:		
The current year	**–**	4,500,000
Prior years	**–**	200,000
Net incurred losses during the current year	**–**	4,700,000
Deduct payments for claims occurring in:		
The current year	**–**	2,734,810
Prior years	**1,322,018**	759,104
Net claim payments during the current year	**1,322,018**	3,493,914
Reserve for unpaid hurricane losses at end of year	**$ 809,895**	$ 2,131,913

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

7. Bonds Payable

The Fund is expecting to pay loss reimbursements of $3.95 billion to participating insurers for the 2004 hurricanes and $4.50 billion for the 2005 hurricanes. This resulted in deficit unrestricted net assets as of June 30, 2006. In response to this shortfall, the Corporation issued post-event Series 2006A Revenue Bonds in the amount of $1,350,025,000 during the year ended June 30, 2006. The funding for these bonds will come from a 1% emergency assessment on the direct written premium for all property and casualty lines of business in Florida including property and casualty business of surplus lines insurers, but not including workers' compensation premiums or medical malpractice premiums until 2007. The bonds are stated to mature without right of prior redemption on July 1 of the following years and bear interest at rates ranging from 4.00% to 5.25% as follows (in thousands):

2008	$ 244,430	5.00%
2009	256,655	5.00
2010	30,000	4.00
2010	239,485	5.00
2011	282,660	5.00
2012	140,865	5.00
2012	155,930	5.25
	$ 1,350,025	

In order to provide a source of funds to reimburse participating insurers for losses relating to future covered events, in July 2006, the Corporation 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 requirement of the notes. The final maturity date for the notes will be August 15, 2011.

In connection with the issuance of the revenue bonds, the Corporation incurred $12,166,000 of bond issuance costs which have been capitalized and will be amortized over the life of the bonds payable. Amortization expense recognized during 2007 was $2,188,000.

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

8. Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2005	$	134
Increases		65
Decreases		(72)
Balance as of June 30, 2006		127*
Increases		**75**
Decreases		**(56)**
Balance as of June 30, 2007	**$**	**146***

*Includes long-term and short-term balances, of which $43,000 and $40,000 is estimated due within one year of June 30, 2007 and 2006, respectively.

9. Premium Revenues

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

	Year Ended June 30	
	2007	**2006**
Contract year 2006	**$ 1,200,022**	$ –
Contract year 2005	**2,192**	736,678
Contract year 2004	**140**	(1,385)
Contract year 2003	**8**	(585)
	$ 1,202,362	$ 734,708

10. Related Parties

The Fund paid the SBA approximately $76,000 for the Fund and $350,535 for the Finance Corporation in the fiscal year ended June 30, 2007, and $345,000 for the Fund in the fiscal year ended June 30, 2006, for investment advisory services.

11. Subsequent Events

In July 2006, the Corporation issued pre-event Series 2006B Extendible Floating Rate Notes. In August 2007 and September 2007, $200 million and $22.250 million, respectively, of these notes “non-extended” and will become due and payable in August 2008 and September 2008, respectively. Until then, interest will be payable on these amounts at the rate of 30-day LIBOR, plus 2 basis points. In September 2007, the Corporation executed a modification to these notes to increase the coupon spreads applicable to the four remaining reset periods from 2, 3, 4, and 4 basis points, respectively, above 30-day LIBOR to 21, 22, 23, and 25 basis points, respectively, above 30-day LIBOR.

In addition, to maximize the ability of the Fund to meet future obligations, in October 2007, the Corporation issued $3.5 billion pre-event 2007A Floating Rate Notes. The proceeds from these notes will be used to pay for losses incurred from future covered events. Investment earnings on these funds and reimbursement premiums, if necessary, will be used to pay the debt service requirements of these notes.

Other Financial Information

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Report of Independent Auditors on Other Financial Information

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

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The combining statement of net assets (deficit) and statement of revenues, expenses, and changes in net assets (deficit) as of June 30, 2007, 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, 2007

Florida Hurricane Catastrophe Fund

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

June 30, 2007

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Assets			
Current assets:			
Cash and cash equivalents	$ 19	$ (5)	$ 24
Short-term investments	2,269,797	579,991	1,689,806
Emergency assessement funds receivable	100,655	–	100,655
Accrued interest	18,558	3,649	14,909
Accounts receivable	6	6	–
Excess loss payments receivable	9,782	9,782	–
Premiums receivable, net	(9)	(9)	–
Total current assets	2,398,808	593,414	1,805,394
Long-term assets:			
Long-term investments	2,581,417	314,519	2,266,898
Unamortized bond issuance costs	9,978	–	9,978
Capital assets, net	4	4	–
Total long-term assets	2,591,399	314,523	2,276,876
Total assets	$ 4,990,207	$ 907,937	$ 4,082,270

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Liabilities and net assets			
Current liabilities:			
Hurricane losses:			
Unpaid hurricane losses	$ 809,895	$ 809,895	$ –
Losses payable	5,295	5,295	–
Premium refunds payable	10	10	–
Accrued expenses	775	763	12
Accrued bond interest expense	40,428	–	40,428
Total current liabilities	856,403	815,963	40,440
Long-term liabilities:			
Bonds payable	4,150,025	–	4,150,025
Premiums on bonds payable	43,124	–	43,124
Compensated absences, net of current portion	103	103	–
Total long-term liabilities	4,193,252	103	4,193,149
Total liabilities	5,049,655	816,066	4,233,589
Net assets (deficit):			
Unrestricted	(59,474)	91,845	(151,319)
Invested in capital assets, net of related debt	4	4	–
Restricted for hurricane mitigation	22	22	–
Total net assets (deficit)	(59,448)	91,871	(151,319)
Total liabilities and net assets (deficit)	$ 4,990,207	$ 907,937	$ 4,082,270

Florida Hurricane Catastrophe Fund

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

(In Thousands)

Year Ended June 30, 2007

	Combined	Florida Hurricane Catastrophe Fund	Florida Hurricane Catastrophe Fund Finance Corporation
Operating revenues:			
Current contract year premium revenue	$ 1,200,022	$ 1,200,022	$ –
Prior contract year adjustment:			
Premium billed	2,340	2,340	–
Premium interest	278	278	–
Net premium revenue	1,202,640	1,202,640	–
Net interest on loss disbursement adjustments/advances	1,732	1,732	–
Total operating revenues	1,204,372	1,204,372	–
Operating expenses:			
Administrative and actuarial fees	2,621	2,621	–
Other professional fees	1,431	1,405	26
Personnel expenses	808	808	–
Depreciation	3	3	–
Other	203	195	8
Total operating expenses	5,066	5,032	34
Operating income (loss)	1,199,306	1,199,340	(34)
Nonoperating revenue (expense):			
Investment income	234,294	36,109	198,185
Investment advisor fees	(426)	(76)	(350)
Securities lending income	1,088	1,088	–
Securities lending expense	(1,056)	(1,056)	–
Securities lending net appreciation	(480)	(480)	–
Emergency assessment funds received	195,226	–	195,226
Bond trustee fees	(4)	–	(4)
Bond interest expense	(195,673)	–	(195,673)
Amortization of bond issuance costs	(2,188)	–	(2,188)
Total nonoperating revenue	230,781	35,585	195,196
Income (loss) before transfers	1,430,087	1,234,925	195,162
Transfers from (to) component units	–	346,481	(346,481)
Transfers to other funds	(10,000)	(10,000)	–
Total transfers	(10,000)	336,481	(346,481)
Change in net assets	1,420,087	1,571,406	(151,319)
Net assets (deficit), beginning of year	(1,479,535)	(1,479,535)	–
Net assets (deficit), end of year	$ (59,448)	$ 91,871	$ (151,319)

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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, 2007 and 2006, and have issued our report thereon dated October 15, 2007. 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, 2007