Financial Statements and Additional Information

Florida Hurricane Catastrophe Fund
Year Ended June 30, 2002

Florida Hurricane Catastrophe Fund

Financial Statements and Additional Information

Year Ended June 30, 2002

Contents

0208-0332354

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Report of Independent Auditors

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

We have audited the accompanying financial statements of the Florida Hurricane Catastrophe Fund of the State of Florida as of and for the year ended June 30, 2002. These financial statements are the responsibility of the Florida Hurricane Catastrophe Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Florida Hurricane Catastrophe Fund and are not intended to present fairly the financial position of the Florida State Board of Administration and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds 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 Florida Hurricane Catastrophe Fund as of June 30, 2002, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report for the year ended June 30, 2002, dated August 6, 2002, on our consideration of the Florida Hurricane Catastrophe Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

As described in Note 1, on July 1, 2001, the Florida Hurricane Catastrophe Fund changed various accounting policies to be in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

Ernst + Young LLP

August 6, 2002

Florida Hurricane Catastrophe Fund

Statement of Net Assets

(In Thousands)

June 30, 2002

Assets	
Current assets:	
Cash and cash equivalents	$ 1
Short-term investments	3,669,702
Security lending receivable	302
Security lending collateral	409,969
Accrued interest	9,246
Premiums receivable (net)	104
Total current assets	4,089,324
Long-term assets:	
Long-term investments	685,114
Capital assets, (net of accumulated appreciation of $95)	27
Total long-term assets	685,141
Total assets	$4,774,465
Liabilities and net assets	
Current liabilities:	
Obligation under security lending agreement	$ 411,051
Unpaid hurricane losses	229
Premium refunds payable	220
Accrued expenses	726
Total current liabilities	412,226
Long-term liabilities:	
Compensated absences (net of current portion)	87
Total long-term liabilities	87
Total liabilities	412,313
Net assets:	
Unrestricted	4,362,103
Invested in capital assets (net of related debt)	27
Restricted for hurricane mitigation	22
Total net assets	4,362,152
Total liabilities and net assets	$4,774,465

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

Year Ended June 30, 2002

Operating revenues:	
Current contract year premium revenue	$ 477,643
Prior contract year adjustment:	
Premium billed	1,706
Premium refunded	(2,744)
Premium interest	69
Net premium revenue	476,674
Total operating revenues	476,674
Operating expenses:	
Hurricane losses	–
Administrative and actuarial fees	2,339
Other professional fees	842
Personnel expenses	597
Depreciation	15
Other	161
Total operating expenses	3,954
Operating income	472,720
Non-operating revenue (expense):	
Investment income	120,380
Unrealized gain on investments	714
Investment advisor fees	(609)
Security lending income	16,495
Security lending expense	(14,445)
Security lending net depreciation	(323)
Total non-operating revenue	122,212
Income before transfers	594,932
Transfers to other funds	(30,000)
Change in net assets	564,932
Net assets, beginning of year	3,797,294
Opening balance adjustment due to the adoption of a new accounting standard *(see Note 1)*	(74)
Net assets, beginning of year – restated	3,797,220
Net assets, end of year	$4,362,152

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statement of Cash Flows

(In Thousands)

	Year Ended June 30, 2002
Operating activities	
Premium received	$ 476,080
Administrative and actuarial fees	(2,349)
Other professional fees	(793)
Personnel expenses	(592)
Other operating expenses	(159)
Net cash provided by operating activities	472,187
Investing activities	
Purchases of investments	(100,622,919)
Sales and maturities of investments	100,096,843
Interest received	81,588
Investment advisor fees	(609)
Security lending	2,920
Net cash used in investing activities	(442,177)
Financing from non-capital activities	
Transfers to other funds	(30,000)
Financing from capital activities	
Purchases of capital assets	(9)
Net increase in cash and cash equivalents	1
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	$ 1

See accompanying notes.

Florida Hurricane Catastrophe Fund

Reconciliation of Operating Income to Net Cash
Provided By Operating Activities
(In Thousands)

Year Ended June 30, 2002

Operating income	$472,720
Adjustments to reconcile net cash provided by operating activities:	
Decrease in premiums receivable	77
Decrease in refunds payable	(671)
Increase in accrued expenses	46
Depreciation	15
Net cash provided by operating activities	$472,187

Florida Hurricane Catastrophe Fund

Notes to Financial Statements

June 30, 2002

1. Organization

Business

The Florida Hurricane Catastrophe Fund (the Fund), which was created in November 1993 during a special legislative session following Hurricane Andrew, provides catastrophic reinsurance coverage to all primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Premiums are calculated for each of the approximately 275 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, and deductible. The Fund is administered by the Florida State Board of Administration (FSBA), which has contracted administrative and actuarial services.

Basis of Presentation

Prior to July 1, 2001, the Fund was a state trust fund and had been accounted for as an expendable trust fund of the State of Florida using the modified accrual basis of accounting. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. This Statement established financial reporting standards for state and local governments and certain funds of those governmental entities. The State of Florida elected to adopt the provisions of Statement No. 34 for its fiscal year beginning July 1, 2001. Concurrent with the adoption of the statement by the State of Florida, the Fund has adopted the provisions of the statement. Under the provisions of Statement No. 34, the Fund is classified as an enterprise fund, which is a type of proprietary fund. The financial statements presented herein are not presented on a comparative basis as provided for under the transition rules of Statement No. 34.

1. Organization (continued)

The primary impact on the Fund was the requirement to include the fixed assets and long-term liabilities (compensated absences) on the Fund's statement of net assets and to provide a statement of cash flows as part of its financial statements. The adoption of Statement No. 34 resulted in a decrease of approximately $74,000 to the fund balance of the Florida Hurricane Catastrophe Fund as of July 1, 2001. This adjustment is included as an "Opening balance adjustment due to the adoption of a new accounting standard" in the statement of revenues, expenses, and changes in net assets. The net decrease is comprised of an increase to assets of $33,000 to reflect capital assets used by the Fund (see Note 5) and an increase to liabilities of $107,000 to reflect an accrual for compensated absences of fund employees (see Note 7).

The financial statements of proprietary funds are prepared using the economic resources measurement focus and the accrual basis of accounting. All assets and liabilities associated with the operations of this fund are included in the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the Fund finances and meets the cash flow needs of its activities.

The financial statements presented herein relate solely to the financial position and results of operations of the Fund and are not intended to present the financial position of the FSBA or the results of its operations and cash flows. The Fund follows GASB pronouncements and only FASB pronouncements issued before December 1, 1989, that do not conflict with or contradict GASB pronouncements.

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 FSBA shall use the unrestricted fund balance (unrestricted net assets under current presentation) as of December 31 of a contract year, and shall allow for any reinsurance purchased by the Fund, the amount the FSBA is able to raise through the issuance of revenue bonds, and projected amounts budgeted for administration, the Fund's losses, obligations expected to be paid from bonding proceeds, and for mitigation funds appropriated for the then current fiscal year. If revenue bonds are issued under authorization of Section 215.555(6) of the Florida Statutes, and the FSBA

1. Organization (continued)

determines that the amount of revenue produced under Section 215.555(5) of the Florida Statutes is insufficient to fund the obligations, costs, and expenses of the Fund, including repayment of revenue bonds, the FSBA shall direct the Florida Department of Insurance 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.

Participating insurers are at risk as to whether the Fund would have sufficient claims-paying capacity in the event of a large or several moderate hurricanes in a given contract year. Factors that mitigate this risk include (1) the use of modeling software to analyze exposure data submitted by participating insurers, which have been trended and aggregated, in conjunction with historical hurricane data to develop actuarially determined rates for the reimbursement premiums; (2) a $3.4 billion aggregate industry retention level, which is adjusted to reflect the percentage growth in exposure to the Fund for covered policies since 1998; and (3) the ability of the Fund, through its bonding authority, to provide an initial season bonding capacity of $6.65 billion in capital.

If bonds are 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Although estimates are considered to be fairly stated at the time that the estimates are made, actual results could differ from those estimates.

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, 2002. 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 FSBA.

Security Lending

The Fund, under authorization of Section 215.47 (16) of the Florida Statutes, engages in security lending. In a security lending program, a lender (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, 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 long-term 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.

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.

2. Significant Accounting Policies (continued)

Premium Refund Payables

Premium refund payables 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.

Unpaid Losses Liability

The unpaid losses liability represents the estimated ultimate net cost of all reported, including paid, outstanding, and incurred but not reported, losses in excess of participating company retention levels through June 30. Such estimates are based on case-basis estimates of losses reported by June 30, estimates of losses incurred but not reported, and a provision for loss adjustment expenses. Given the inherent degree of variability in any such estimates, the liabilities reported at June 30, 2002 are a reasonable estimate of the Fund’s ultimate losses and loss adjustment costs to be incurred to discharge the Fund’s obligations. Liabilities are continually reviewed and adjusted as participating insurers update their loss reports to the Fund or new information becomes known; such adjustments are included in current operations.

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, $24,600, is included in accrued expenses on the statement of net assets. The remaining liability is included as compensated absences with long-term liabilities on the statement of net assets.

Current Contract Year Premium Revenue

Premium revenue is recognized when billed. Coverage is provided to the participating insurers on a contract-year basis which runs from June 1 to May 31. Premiums are billed in three installments with provisional payments due August 1 and October 1, and a final payment due December 1.

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 primary insurers of habitational structures with wind/hurricane coverage in the State of Florida. Operating expenses include incurred losses and necessary costs incurred to provide and administer catastrophic reinsurance to its participants.

Net Interest on Premium Adjustments

Participating insurers have the option of paying the billed provisional premium or estimating premium for the August and October installments. If the provisional or estimated payments were too high, interest is returned to the insurer on the overpayment. Likewise, if estimated premiums were underpaid, interest is charged to the insurer with the November installment. For the contract year ended May 31, 2002, the interest rate was 3.94% for overpayments of premium and 6.94% for underestimated payments.

Hurricane Losses

Losses include amounts paid during the fiscal year for hurricane losses from the current and prior contract years that exceeded the participating insurers' individual company retention levels. In addition, a provision for future payments on hurricanes that occurred prior to the end of the fiscal year is included in losses. There were no hurricane losses paid for the year ended June 30, 2002.

2. Significant Accounting Policies (continued)

Operating Transfers

Pursuant to Section 215.555(7)(c) of the Florida Statutes, beginning in fiscal year 1997–1998, 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 2001–2002, $30,000,000 was appropriated from the Fund and $22,400 was available from prior years. On November 19, 2001, $20,000,000 was transferred, and $10,000,000 was transferred on January 29, 2002. The remaining $22,400 available for transfer in fiscal year 2001–2002 has been restricted in the June 30, 2002 ending fund balance for future transfer.

Income Taxes

The Fund is exempt from federal and state income taxes. This tax-exempt status was affirmed by a private letter ruling obtained from the Internal Revenue Service in November 1994.

3. Investments

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

3. Investments (continued)

As of June 30, 2002, the Fund's deposits are entirely insured or collateralized with securities held by the Fund or by its agent in the FSBA's name. The Fund's investments are classified by level of risk assumed by the Fund at year-end. Custodial credit risk is defined as the risk that the Fund may not recover securities held by another party. The level of custodial credit risk assumed by the Fund is categorized as follows: Category A includes investments that are insured or registered, or securities held by the Fund or its agent in the Fund's name. Category B includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Fund's name. Category C includes uninsured and unregistered investments for which securities are held by the counterparty or by its trust department or agent, but not in the Fund's name.

The risk category and fair value of the Fund's investments were as follows (in thousands):

	Risk Category			Fair
	A	**B**	**C**	**Value**
June 30, 2002				
Certificates of deposit, negotiable	$ 134,997	$ –	$–	$ 134,997
U.S. government and federally guaranteed obligations	49,457	49,570	–	99,027
Federal agencies	50,918	–	–	50,918
Commercial paper	2,578,943	–	–	2,578,943
Repurchase agreements	–	–	6	6
Bonds and notes	937,098	150,927	–	1,088,025
Total classifiable investments	$3,751,413	$200,497	$6	3,951,916
Investments held by others under security lending agreements:				
U.S. obligations				149,704
Federal agencies				253,196
Total				402,900
Invested security lending cash collateral:				
Security lending short-term collateral investment pool				409,969
Total unclassifiable investments				812,869
Total investments				$4,764,785

3. Investments (continued)

The fair value of the Fund's investments and security lending collateral at June 30, 2002 is as follows (in thousands):

Short-term investments	
Investments:	
Certificates of deposit	$ 134,997
Commercial paper	2,578,943
U.S. government and federally guaranteed obligations	198,434
Federal agencies	304,114
Repurchase agreements	6
Corporate bonds and notes, fixed rate	64,228
Corporate bonds and notes, variable rate	388,980
Total short-term investments	$3,669,702
Long-term investments	
Investments:	
U.S. governments	$ 50,297
Corporate bonds and notes, fixed rate	236,604
Corporate bonds and notes, variable rate	398,213
Total long-term investments	$ 685,114
Security lending short-term collateral investment pool	$ 409,969

4. Security Lending

The Fund has a contract with Deutsche Bank to act as a lending agent in the performance of security lending transactions. Under the security lending program, Deutsche Bank delivers various U.S. Treasury 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 Deutsche Bank's credit department and Deutsche 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 U.S. Treasury 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 2002.

The collateral held represents 102% of the market value of the securities lent. Deutsche 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, 2002, because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund.

The collateral held as assets are recorded in the balance sheet at fair value in accordance with Statement 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, 2002 are as follows (in thousands):

Securities on Loan	Fair Value of Underlying Securities Lent	Cash Collateral Held	Fair Value of Collateral Investment Pool
U.S. obligations	$402,900	$411,051	$409,969

As of June 30, 2002, the Fund held $411,050,751 of cash collateral from Deutsch Bank. The cash was reinvested in various short-term instruments as authorized by the security 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 year ended June 30, 2002 is as follows (in thousands):

	Balance as of July 1, 2001	Additions	Sales or Disposals	Balance as of June 30, 2002
Equipment	$133	$ 9	$(20)	$122
Accumulated depreciation	(100)	(15)	20	(95)
Net	$ 33	$ (6)	$ –	$ 27

6. Unpaid Losses Liability

The reconciliation of the liability for unpaid losses at June 30, 2002 is as follows (in thousands):

Balance at beginning of year	$229
Incurred related to:	
Current year	–
Prior years	–
Total incurred	229
Paid related to:	
Current year	–
Prior years	–
Total paid	–
Balance at end of year	$229

The Fund continually evaluates emerging trends in the development of loss liabilities. Based on this analysis, management periodically adjusts its estimates of ultimate losses.

7. Long-Term Liabilities

Long-term liabilities consist of compensated absences as follows (in thousands):

	Balance as of July 1, 2001	Increases	Decreases	Balance as of June 30, 2002
Compensated absences (long-term and short-term)	$107	$55	$(50)	$112*

*$25 estimated due within one year and classified as a current liability within accrued expenses on the balance sheet.

8. Premium Revenues

Fiscal year premiums, net of prior contract year adjustments, as reported in the operating statements, relate to contract years as follows (in thousands):

	Year Ended June 30, 2002
Contract year 2001	$477,643
Contract year 2000	(923)
Contract year 1999	(142)
Contract year 1998	72
Contract year 1997	15
Contract year 1996	10
Contract year 1995	(1)
Contract year 1994	–
	$476,674

9. Related Parties

The Fund paid the FSBA approximately $684,000 in the fiscal year ended June 30, 2002 for investment advisory services.

Additional Information

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Report of Independent Auditors on Other Financial Information

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

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplemental revenues, expenses, and claim development information of the Florida Hurricane Catastrophe Fund (the Fund) is presented for purposes of additional analysis and is not a required part of the Fund's financial statements. Such information has been subjected to the auditing procedures applied in our audit of the Fund's financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the Fund's financial statements taken as a whole.

Ernst + Young LLP

August 6, 2002

Florida Hurricane Catastrophe Fund

Supplemental Revenues, Expenses, and Claim Development Information

The table below illustrates how the Fund's earned revenues and investment income compare to related costs of loss and other expenses assumed by the Fund as of the end of each year since inception of the Fund (in thousands).

	Fiscal Year Ended June 30				
	2002	**2001**	**2000**	**1999**	**1998**
Net earned required contribution and investment revenues	**$613,940**	$665,390	$618,968	$388,668	$586,922
Unallocated expenses	**19,008**	10,184	5,682	11,399	12,329
Estimated incurred claims and expenses, end of year	**13,435**	13,435	13,105	13,495	13,336
Paid (cumulative) as of:					
End of policy year	**752**	752	752	752	752
One year later	**9,413**	9,413	9,413	9,413	9,413
Two years later	**12,056**	12,056	12,056	12,056	12,056
Three years later	**12,318**	12,318	12,318	12,318	–
Four years later	**12,967**	12,967	12,967	–	–
Five years later	**13,206**	13,206	–	–	–
Six years later	**13,206**	–	–	–	–
Reestimated incurred claims and expenses:					
End of policy year	**8,801**	8,801	8,801	8,801	8,801
One year later	**11,117**	11,117	11,117	11,117	11,117
Two years later	**13,336**	13,336	13,336	13,336	13,336
Three years later	**13,495**	13,495	13,495	13,495	–
Four years later	**13,105**	13,105	13,105	–	–
Five years later	**13,435**	13,435	–	–	–
Six years later	**13,435**	–	–	–	–
Increase (decrease) in estimated incurred claims and expenses from end of policy year	–	329	(390)	158	2,219

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Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

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

We have audited the financial statements of the Florida Hurricane Catastrophe Fund (the Fund) as of and for the year ended June 30, 2002, and have issued our report thereon dated August 6, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report, "Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*," is intended solely for the information and use of the Florida Auditor General and the management of the Florida State Board of Administration, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

August 6, 2002