

FINANCIAL STATEMENTS AND OTHER FINANCIAL  
INFORMATION

Florida Hurricane Catastrophe Fund  
Years Ended June 30, 2003 and 2002

Florida Hurricane Catastrophe Fund

Financial Statements and Other Financial Information

Years Ended June 30, 2003 and 2002

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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 as of and for the years ended June 30, 2003 and 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 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. 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 audits provide a reasonable basis for our opinion.

As described in Note 1, the financial statements present only the financial position of the Florida Hurricane Catastrophe Fund and are not intended to present fairly the financial position of the State Board of Administration of Florida 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, 2003 and 2002, and the results of its operations for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated September 15, 2003 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. 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.

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*

September 15, 2003

# Florida Hurricane Catastrophe Fund

## Statements of Net Assets (In Thousands)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3	\$ 1
Short-term investments	2,286,248	3,669,702
Security lending receivable	751	302
Security lending pending investment sales	4,499	—
Security lending collateral	860,094	409,969
Accrued interest	12,483	9,246
Premiums receivable (net)	120	104
Total current assets	3,164,198	4,089,324
Long-term assets:		
Long-term investments	2,644,432	685,114
Capital assets (net of accumulated depreciation of \$109 and \$95 for June 30, 2003 and 2002, respectively)	29	27
Total long-term assets	2,644,461	685,141
Total assets	\$5,808,659	\$4,774,465
<b>Liabilities and net assets</b>		
Current liabilities:		
Obligation under security lending agreement	\$ 847,344	\$ 411,051
Unpaid hurricane losses	—	229
Premium refunds payable	214	220
Accrued expenses	1,143	726
Security lending pending investment purchases	16,846	—
Total current liabilities	865,547	412,226
Long-term liabilities:		
Compensated absences (net of current portion)	92	87
Total long-term liabilities	92	87
Total liabilities	865,639	412,313
Net assets:		
Unrestricted	4,942,969	4,362,103
Invested in capital assets (net of related debt)	29	27
Restricted for hurricane mitigation	22	22
Total net assets	4,943,020	4,362,152
Total liabilities and net assets	\$5,808,659	\$4,774,465

*See accompanying notes.*

## Florida Hurricane Catastrophe Fund

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

	<b>Year Ended June 30</b>	
	<b>2003</b>	<b>2002</b>
Operating revenues:		
Current contract year premium revenue	\$ 498,367	\$ 477,643
Prior contract year adjustment:		
Premium billed	1,302	1,706
Premium refunded	(1,466)	(2,744)
Premium interest	(30)	69
Net premium revenue	498,173	476,674
 Total operating revenues	 498,173	 476,674
 Operating expenses:		
Hurricane losses	(301)	–
Administrative and actuarial fees	2,340	2,339
Other professional fees	939	842
Personnel expenses	625	597
Depreciation	14	15
Other	164	161
Total operating expenses	3,781	3,954
 Operating income	 494,392	 472,720
 Nonoperating revenue (expense):		
Investment income	104,818	121,094
Investment advisor fees	(838)	(609)
Security lending income	7,077	16,495
Security lending expense	(6,118)	(14,445)
Security lending net appreciation (depreciation)	612	(323)
Total nonoperating revenue	105,551	122,212
Income before transfers	599,943	594,932
 Transfers to other funds	 (19,075)	 (30,000)
Change in net assets	580,868	564,932
 Net assets, beginning of year	 4,362,152	 3,797,294
Opening balance adjustment due to the adoption of a new accounting standard (Note 1)	–	(74)
Net assets, beginning of year – restated	4,362,152	3,797,220
Net assets, end of year	\$4,943,020	\$4,362,152

*See accompanying notes.*

## Florida Hurricane Catastrophe Fund

### Statements of Cash Flows (In Thousands)

	<b>Year Ended June 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Operating activities</b>		
Premium received	\$ 498,151	\$ 476,080
Hurricane losses paid	72	-
Administrative and actuarial fees	(2,317)	(2,349)
Other professional fees	(961)	(793)
Personnel expenses	(617)	(592)
Other operating expenses	(166)	(159)
Net cash provided by operating activities	494,162	472,187
<b>Investing activities</b>		
Purchases of investments	(84,224,537)	(100,622,919)
Sales and maturities of investments	83,684,629	100,096,843
Interest received	64,716	81,588
Investment advisor fees	(767)	(609)
Security lending	879	2,920
Net cash used in investing activities	(475,080)	(442,177)
<b>Financing from noncapital activities</b>		
Transfers to other funds	(19,075)	(30,000)
<b>Financing from capital activities</b>		
Purchases of capital assets	(5)	(9)
Net increase in cash and cash equivalents	2	1
Cash and cash equivalents at beginning of year	1	-
Cash and cash equivalents at end of year	\$ 3	\$ 1

*See accompanying notes.*

## Florida Hurricane Catastrophe Fund

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

	<b>Year Ended June 30</b>	
	<b>2003</b>	<b>2002</b>
Operating income	<b>\$494,392</b>	\$472,720
Adjustments to reconcile net cash provided by operating activities:		
(Increase) decrease in premiums receivable (net)	<b>(16)</b>	77
Increase (decrease) in premium refunds payable	<b>(6)</b>	(671)
Increase (decrease) in unpaid hurricane losses	<b>(229)</b>	–
Increase (decrease) in accrued expenses	<b>7</b>	46
Depreciation	<b>14</b>	15
Net cash provided by operating activities	<b>\$494,162</b>	\$472,187

*See accompanying notes.*

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements

June 30, 2003

### **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 263 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 coverage deductibles. The Fund is administered by the State Board of Administration of Florida (SBA), 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.

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### **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 net assets of the 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 6).

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 SBA or the results of its operations and cash flows. The Fund follows GASB pronouncements and only Financial Accounting Standards Board 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 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

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### **1. Organization (continued)**

spent and which are not reflected on the statement of net assets; and the amount of mitigation funds appropriated for the then-current State of Florida fiscal year. If revenue bonds are issued under authorization of Section 215.555(6) of the Florida Statutes, the SBA shall direct the Florida Department of Financial Services 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.

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 the estimates are made, actual results could differ from those estimates.

### **Reclassification**

Certain 2002 amounts have been reclassified to conform to the 2003 presentation.

### **2. Significant Accounting Policies**

#### **Measurement Focus**

As mentioned in Note 1, the Fund uses the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, premium revenues are recognized when billed. Expenses are recorded at the time they are incurred.

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Investments

The Fund invests all funds in relatively low-risk, highly liquid fixed-maturity securities. These investments are recorded at fair value, and the fair values are primarily obtained from independent quoted market prices. No investments were recorded at amortized cost as of June 30, 2003 and 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 SBA.

#### 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 (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.

#### 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.

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### **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 liability reported at June 30, 2002 is 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. At June 30, 2003, all outstanding claims have been settled.

#### **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, \$27,000 in 2003 and \$25,000 in 2002, is included in accrued expenses on the statements of net assets. The remaining liability is included as compensated absences with long-term liabilities on the statements 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.

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### **2. Significant Accounting Policies (continued)**

#### **Prior Contract Year Adjustments**

Participating insurers remit premium to the Fund based upon current policyholder exposure information. When insurers provide updated or corrected exposure information, the Fund may bill and receive additional premium relating to a prior contract year; the Fund may also be required to refund amounts to insurers relating to a prior contract year.

#### **Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the Fund, these revenues are primarily the premiums charged to all participating insurers. Operating expenses include incurred losses and necessary costs incurred to provide and administer catastrophic reinsurance to 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, 2003, the interest rate was 2.16% for overpayments of premium and 5.16% for underestimated payments. 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. Hurricane losses for the year ended June 30, 2003 were \$(301,000), comprised of a \$229,000 decrease in unpaid hurricane losses (resulting from participants reporting a reduction in outstanding losses) and a recovery of \$72,000 (resulting from participants reporting a reduction in paid losses). Hurricane losses for the year ended June 30, 2002 were \$-0-.

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### **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 2002–2003 and 2001–2002, \$19,075,000 and \$30,000,000 was appropriated from the Fund and \$22,400 was available from prior years. The remaining \$22,400 available for transfer in fiscal year 2002–2003 has been restricted in the June 30, 2003 ending net assets 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.

## Florida Hurricane Catastrophe Fund

### Notes to Financial Statements (continued)

#### 3. Investments (continued)

As of June 30, 2003 and 2002, the Fund's deposits are entirely insured or collateralized with securities held by the Fund or by its agent in the SBA'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 Value
	A	B	C	
<b>June 30, 2003</b>				
Federal agencies	\$ 908,948	\$ -	\$ -	\$ 908,948
Commercial paper	1,618,925	-	-	1,618,925
Repurchase agreements	-	-	10	10
Bonds and notes	1,405,454	167,770	-	1,573,224
Total classifiable investments	\$3,933,327	\$167,770	\$10	4,101,107
Investments held by others under security lending agreements:				
U.S. obligations				829,573
Invested security lending cash collateral:				
Security lending short-term collateral investment pool				860,094
Total unclassifiable investments				1,689,667
Total investments				\$5,790,774

# Florida Hurricane Catastrophe Fund

## Notes to Financial Statements (continued)

### 3. Investments (continued)

	Risk Category			Fair Value
	A	B	C	
<b>June 30, 2002</b>				
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	<u>\$3,751,413</u>	<u>\$200,497</u>	<u>\$6</u>	<u>3,951,916</u>
Investments held by others under security lending agreements:				
U.S. obligations				149,704
Federal agencies				253,196
Total				<u>402,900</u>
Invested security lending cash collateral:				
Security lending short-term collateral investment pool				409,969
Total unclassifiable investments				<u>812,869</u>
Total investments				<u>\$4,764,785</u>

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

	June 30	
	2003	2002
<b>Short-term investments</b>		
Investments:		
Certificates of deposit	\$ -	\$ 134,997
Commercial paper	1,618,925	2,578,943
U.S. government and federally guaranteed obligations	50,672	198,434
Federal agencies	-	304,114
Repurchase agreements	10	6
Corporate bonds and notes, fixed rate	205,904	64,228
Corporate bonds and notes, variable rate	410,737	388,980
Total short-term investments	<u>\$2,286,248</u>	<u>\$3,669,702</u>

## Florida Hurricane Catastrophe Fund

### Notes to Financial Statements (continued)

#### 3. Investments (continued)

	<b>June 30</b>	
	<b>2003</b>	<b>2002</b>
<b>Long-term investments</b>		
Investments:		
U.S. governments	<b>\$1,687,849</b>	\$ 50,297
Corporate bonds and notes, fixed rate	<b>46,494</b>	236,604
Corporate bonds and notes, variable rate	<b>910,089</b>	398,213
Total long-term investments	<b>\$2,644,432</b>	\$685,114
 <b>Security lending short-term collateral investment pool</b>	 <b>\$ 860,094</b>	 \$409,969

#### 4. Security Lending

The Fund has a contract with Deutsche Bank through March 3, 2003 and Dresdner Bank beginning December 4, 2002 (collectively referred to as the Banks) to act as a lending agent in the performance of security lending transactions. Under the security lending program, the Banks deliver 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 the Banks' credit department and the Banks are 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 2003.

The collateral held represents 102% in 2002 and 102% in 2003 of the market value of the securities lent. The Banks monitor daily the market value of the securities lent and request 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, 2003 or 2002 because the amounts the Fund owes the borrowers exceed the amounts the borrowers owe the Fund.

## Florida Hurricane Catastrophe Fund

### Notes to Financial Statements (continued)

#### 4. Security Lending (continued)

The collateral held as assets are recorded in the balance sheet at fair value in accordance with Statement No. 31. Obligations under the program are recorded as liabilities based on the cash value of the collateral received. Details of the lending transactions for the Fund at June 30, 2003 and 2002 are as follows (in thousands):

<u>Securities on Loan</u>	<u>Fair Value of Underlying Securities Lent</u>	<u>Cash Collateral Held</u>	<u>Fair Value of Collateral Investment Pool</u>
2003 U.S. obligations	<b>\$829,573</b>	<b>\$847,344</b>	<b>\$860,094</b>
2002 U.S. obligations	402,900	411,051	409,969

As of June 30, 2003 and 2002, the Fund held \$847,343,750 and \$411,050,751, respectively, of cash collateral from the Banks. 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 years ended June 30, 2003 and 2002 is as follows (in thousands):

	<u>Equipment</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Balance as of July 1, 2001	\$133	\$(100)	\$33
Additions	9	(15)	(6)
Sales or disposals	(20)	20	-
Balance as of June 30, 2002	122	(95)	27
Additions	16	(14)	2
Sales or disposals	-	-	-
Balance as of June 30, 2003	<b>\$138</b>	<b>\$(109)</b>	<b>\$29</b>

## Florida Hurricane Catastrophe Fund

### Notes to Financial Statements (continued)

#### 6. Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of July 1, 2001	\$107
Increases	55
Decreases	(50)
Balance as of June 30, 2002	112*
Increases	58
Decreases	(51)
Balance as of June 30, 2003	\$119*

\* Includes long-term and short-term balances, of which \$27 and \$25 is estimated due within one year of June 30, 2003 and 2002, respectively.

#### 7. 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	
	2003	2002
Contract year 2002	\$498,298	\$ —
Contract year 2001	314	477,643
Contract year 2000	(435)	(923)
Contract year 1999	(1)	(142)
Contract year 1998	(1)	72
Contract year 1997	(1)	15
Contract year 1996	(1)	10
Contract year 1995	—	(1)
Contract year 1994	—	—
	\$498,173	\$476,674

#### 8. Related Parties

The Fund paid the SBA approximately \$913,000 and \$684,000 in the fiscal years ended June 30, 2003 and 2002, respectively, for investment advisory services.

# Other Financial Information

## Report of Independent Auditors on Other Financial Information

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

Our 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*

September 15, 2003

## 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				
	2003	2002	2001	2000	1999
Net earned required contribution and investment revenues	<b>\$610,680</b>	\$613,940	\$665,390	\$618,968	\$388,668
Unallocated expenses	<b>11,038</b>	19,008	10,184	5,682	11,399
Estimated incurred claims and expenses, end of year	<b>13,134</b>	13,435	13,435	13,105	13,495
Paid (cumulative) as of:					
End of policy year	<b>752</b>	752	752	752	752
One year later	<b>9,413</b>	9,413	9,413	9,413	9,413
Two years later	<b>12,056</b>	12,056	12,056	12,056	12,056
Three years later	<b>12,318</b>	12,318	12,318	12,318	12,318
Four years later	<b>12,967</b>	12,967	12,967	12,967	-
Five years later	<b>13,206</b>	13,206	13,206	-	-
Six years later	<b>13,206</b>	13,206	-	-	-
Seven years later	<b>13,134</b>	-	-	-	-
Reestimated incurred claims and expenses:					
End of policy year	<b>8,801</b>	8,801	8,801	8,801	8,801
One year later	<b>11,117</b>	11,117	11,117	11,117	11,117
Two years later	<b>13,336</b>	13,336	13,336	13,336	13,336
Three years later	<b>13,495</b>	13,495	13,495	13,495	13,495
Four years later	<b>13,105</b>	13,105	13,105	13,105	-
Five years later	<b>13,435</b>	13,435	13,435	-	-
Six years later	<b>13,435</b>	13,435	-	-	-
Seven years later	<b>13,134</b>	-	-	-	-
Increase (decrease) in estimated incurred claims and expenses from end of policy year	<b>(301)</b>	-	329	(390)	158

## 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 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, 2003 and 2002, and have issued our report thereon dated September 15, 2003. 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.

### **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 State Board of Administration of Florida 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.

The logo for Ernst & Young LLP is written in a black, cursive script. The words "Ernst & Young" are written in a larger, more prominent font, with "LLP" in a smaller font to the right. The ampersand is stylized and connects the two main words.

September 15, 2003