

FINANCIAL STATEMENTS AND OTHER FINANCIAL
INFORMATION

Florida Hurricane Catastrophe Fund
Years Ended June 30, 2004 and 2003

Florida Hurricane Catastrophe Fund

Financial Statements and Other Financial Information

Years Ended June 30, 2004 and 2003

Contents

Report of Independent Auditors1

Audited Financial Statements

Statements of Net Assets3

Statements of Revenues, Expenses, and Changes in Net Assets4

Statements of Cash Flows5

Reconciliations of Operating Income to Net Cash Provided by Operating Activities6

Notes to Financial Statements.....7

Other Financial Information

Report of Independent Auditors on Other Financial Information18

Supplemental Revenues, Expenses, and Claim Development Information.....19

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of Financial Statements Performed in Accordance With
Government Auditing Standards.....20

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, 2004 and 2003. 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, 2004 and 2003, 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 7, 2004, 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.

Ernst + Young LLP

September 7, 2004, except for Note 9, as
to which the date is October 28, 2004

Florida Hurricane Catastrophe Fund

Statements of Net Assets (In Thousands)

	June 30	
	2004	2003
Assets		
Current assets:		
Cash and cash equivalents	\$ 35,005	\$ 3
Short-term investments	3,477,920	2,286,248
Security lending receivable	1,245	751
Security lending pending investment sales	–	4,499
Security lending collateral	954,050	860,094
Accrued interest	8,383	12,483
Premiums receivable, net	2	120
Total current assets	4,476,605	3,164,198
Long-term assets:		
Long-term investments	1,989,587	2,644,432
Capital assets, net of accumulated depreciation of \$85 and \$109 for June 30, 2004 and 2003, respectively	15	29
Total long-term assets	1,989,602	2,644,461
Total assets	\$6,466,207	\$5,808,659
Liabilities and net assets		
Current liabilities:		
Obligation under security lending agreement	\$ 951,017	\$ 847,344
Premium refunds payable	–	214
Accrued expenses	1,134	1,143
Pending investment purchases	34,998	–
Security lending pending investment purchases	2,781	16,846
Total current liabilities	989,930	865,547
Long-term liabilities:		
Compensated absences, net of current portion	85	92
Total long-term liabilities	85	92
Total liabilities	990,015	865,639
Net assets:		
Unrestricted	5,476,155	4,942,969
Invested in capital assets, net of related debt	15	29
Restricted for hurricane mitigation	22	22
Total net assets	5,476,192	4,943,020
Total liabilities and net assets	\$6,466,207	\$5,808,659

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

	Year Ended June 30	
	2004	2003
Operating revenues:		
Current contract year premium revenue	\$ 488,465	\$ 498,367
Prior contract year adjustment:		
Premium billed	1,729	1,302
Premium refunded	(1,612)	(1,466)
Premium interest	(27)	(30)
Net premium revenue	488,555	498,173
 Total operating revenues	 488,555	 498,173
Operating expenses:		
Hurricane losses	–	(301)
Administrative and actuarial fees	2,305	2,340
Other professional fees	789	939
Personnel expenses	659	625
Depreciation	15	14
Other	160	164
Total operating expenses	3,928	3,781
 Operating income	 484,627	 494,392
Nonoperating revenue (expense):		
Investment income	56,953	104,818
Investment advisor fees	(882)	(838)
Security lending income	10,864	7,077
Security lending expense	(8,808)	(6,118)
Security lending net appreciation	418	612
Total nonoperating revenue	58,545	105,551
Income before transfers	543,172	599,943
 Transfers to other funds	 (10,000)	 (19,075)
Change in net assets	533,172	580,868
 Net assets, beginning of year	 4,943,020	 4,362,152
Net assets, end of year	\$5,476,192	\$4,943,020

See accompanying notes.

Florida Hurricane Catastrophe Fund

Statements of Cash Flows (In Thousands)

	Year Ended June 30	
	2004	2003
Operating activities		
Premium received	\$ 488,459	\$ 498,151
Hurricane losses paid	-	72
Administrative and actuarial fees	(2,219)	(2,317)
Other professional fees	(810)	(961)
Personnel expenses	(648)	(617)
Other operating expenses	(149)	(166)
Net cash provided by operating activities	484,633	494,162
Investing activities		
Purchases of investments	(65,142,090)	(84,224,537)
Sales and maturities of investments	64,618,062	83,684,629
Interest received	83,276	64,716
Investment advisor fees	(879)	(767)
Security lending	2,011	879
Net cash used in investing activities	(439,620)	(475,080)
Financing from noncapital activities		
Transfers to other funds	(10,000)	(19,075)
Financing from capital activities		
Purchases of capital assets	(11)	(5)
Net increase in cash and cash equivalents	35,002	2
Cash and cash equivalents at beginning of year	3	1
Cash and cash equivalents at end of year	\$ 35,005	\$ 3

See accompanying notes.

Florida Hurricane Catastrophe Fund

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

	Year Ended June 30	
	2004	2003
Operating income	\$484,627	\$494,392
Adjustments to reconcile operating income to net cash provided by operating activities:		
Increase in premiums receivable, net	118	(16)
Decrease in premium refunds payable	(214)	(6)
Decrease in unpaid hurricane losses	–	(229)
Increase in accrued expenses	87	7
Depreciation	15	14
Net cash provided by operating activities	\$484,633	\$494,162

See accompanying notes.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements

June 30, 2004

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 230 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

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. 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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

1. Organization (continued)

Limited Liability of the Fund

The Fund's obligation to participating insurers, in the event of a hurricane(s) that causes reimbursable losses, is limited to the claims-paying capacity of the fund. For the purpose of defining claims-paying capacity, the SBA shall use the unrestricted net assets as of December 31 of the applicable contract year, to which is added: reported fund losses (including loss adjustment expense) for the then-current contract year, whether paid or unpaid by the Fund, as of December 31; any reinsurance purchased by the Fund; and the amount the SBA is able to raise through the issuance of revenue bonds up to the statutory annual aggregate fund limit, and from which is subtracted: any reinsurance recovered prior to, or recoverable as of, December 31; any obligations paid or expected to be paid with bonding proceeds or receipts from emergency assessments; amounts needed for administration for the then-current state of Florida fiscal year which have not been spent and which are not reflected on the statement of net assets; 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 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.

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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

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.

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, 2004 and 2003. 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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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 2004 and \$27,000 in 2003, 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.

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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

2. Significant Accounting Policies (continued)

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, 2004, the interest rate was 1.65% for overpayments of premium and 4.65% for underestimated payments. For the contract year ended May 31, 2003, the interest rate was 2.16% for overpayments of premium and 5.16% 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 for the year ended June 30, 2004. 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).

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, 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 2003–2004 and 2002–2003, \$10,000,000 and \$19,075,000, respectively, was appropriated from the Fund, and \$22,400 was available from prior years. The remaining \$22,400 available for transfer in fiscal year 2003–2004 has been restricted in the June 30, 2004, 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.

As of June 30, 2004 and 2003, 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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

3. Investments (continued)

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

	Risk Category			Fair Value
	A	B	C	
June 30, 2004				
Certificates of deposit	\$ 274,951	\$ -	\$ -	\$ 274,951
U.S. government and federally guaranteed obligations	99,180	-	-	99,180
Federal agencies	89,406	-	-	89,406
Commercial paper	2,276,465	84,378	-	2,360,843
Repurchase agreements	-	-	1	1
Bonds and notes	1,520,864	185,134	-	1,705,998
Total classifiable investments	<u>\$4,260,866</u>	<u>\$269,512</u>	<u>\$ 1</u>	<u>4,530,379</u>

Investments held by others under security lending agreements:

U.S. obligations	99,008
Federal agencies	838,120

Invested security lending cash collateral:

Security lending short-term collateral investment pool	<u>954,050</u>
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Total unclassifiable investments 1,891,178

Total investments \$6,421,557

	Risk Category			Fair Value
	A	B	C	
June 30, 2003				
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	<u>\$3,933,327</u>	<u>\$167,770</u>	<u>\$10</u>	<u>4,101,107</u>

Investments held by others under security lending agreements:

U.S. obligations	829,573
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Invested security lending cash collateral:

Security lending short-term collateral investment pool	<u>860,094</u>
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Total unclassifiable investments 1,689,667

Total investments \$5,790,774

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

3. Investments (continued)

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

	June 30	
	2004	2003
Short-term investments		
Investments:		
Certificates of deposit	\$ 224,951	\$ –
Commercial paper	2,360,843	1,618,925
U.S. government and federally guaranteed obligations	198,188	50,672
Repurchase agreements	1	10
Corporate bonds and notes, fixed rate	28,370	205,904
Corporate bonds and notes, variable rate	665,567	410,737
Total short-term investments	\$3,477,920	\$2,286,248
 Long-term investments		
Investments:		
Certificates of deposit	\$ 50,000	\$ –
Federal agencies	927,527	1,687,849
Corporate bonds and notes, fixed rate	–	46,494
Corporate bonds and notes, variable rate	1,012,060	910,089
Total long-term investments	\$1,989,587	\$2,644,432
 Security lending short-term collateral investment pool	\$ 954,050	\$ 860,094

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

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 2004.

The collateral held represents 101% in 2004 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, 2004 or 2003, 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 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, 2004 and 2003, 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>
2004 U.S. obligations	\$937,128	\$951,017	\$954,050
2003 U.S. obligations	829,573	847,344	860,094

As of June 30, 2004 and 2003, the Fund held \$951,017,288 and \$847,343,750, 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.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

5. Capital Assets

A summary of the Fund's capital assets and the related accumulated depreciation for the years ended June 30, 2004 and 2003, is as follows (in thousands):

	Equipment	Accumulated Depreciation	Net
Balance as of June 30, 2002	\$122	\$ (95)	\$27
Additions	16	(14)	2
Sales or disposals	-	-	-
Balance as of June 30, 2003	138	(109)	29
Additions	1	(15)	(14)
Sales or disposals	(39)	39	-
Balance as of June 30, 2004	\$100	\$ (85)	\$15

6. Compensated Absences

Compensated absences were as follows (in thousands):

Balance as of June 30, 2002	\$112
Increases	58
Decreases	(51)
Balance as of June 30, 2003	119*
Increases	63
Decreases	(54)
Balance as of June 30, 2004	\$128*

*Includes long-term and short-term balances, of which \$43 and \$27 is estimated due within one year of June 30, 2004 and 2003, respectively.

Florida Hurricane Catastrophe Fund

Notes to Financial Statements (continued)

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	
	2004	2003
Contract year 2003	\$488,329	\$ –
Contract year 2002	(28)	498,298
Contract year 2001	291	314
Contract year 2000	(37)	(435)
Contract year 1999	–	(1)
Contract year 1998	–	(1)
Contract year 1997	–	(1)
Contract year 1996	–	(1)
	\$488,555	\$498,173

8. Related Parties

The Fund paid the SBA approximately \$957,000 and \$913,000 in the fiscal years ended June 30, 2004 and 2003, respectively, for investment advisory services.

9. Subsequent Events

The state of Florida was hit by four hurricanes during August and September of 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.

It is currently estimated that the Fund's liability for losses in excess of participating insurers' retention is \$1.957 billion. This estimate is based on interim loss reports, which are nonbinding, and is subject to change as participating insurers continue to provide updated loss reports and more information becomes available. The Fund anticipates that it has sufficient unrestricted net assets to cover this liability.

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 7, 2004

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					
	2004	2003	2002	2001	2000	1999
Net earned required contribution and investment revenues	\$556,790	\$610,680	\$613,940	\$665,390	\$618,968	\$388,668
Unallocated expenses	13,618	11,038	19,008	10,184	5,682	11,399
Estimated incurred claims and expenses, end of year	13,134	13,134	13,435	13,435	13,105	13,495
Paid (cumulative) as of:						
End of policy year	752	752	752	752	752	752
One year later	9,413	9,413	9,413	9,413	9,413	9,413
Two years later	12,056	12,056	12,056	12,056	12,056	12,056
Three years later	12,318	12,318	12,318	12,318	12,318	12,318
Four years later	12,967	12,967	12,967	12,967	12,967	-
Five years later	13,206	13,206	13,206	13,206	-	-
Six years later	13,206	13,206	13,206	-	-	-
Seven years later	13,134	13,134	-	-	-	-
Eight years later	13,134	-	-	-	-	-
Reestimated incurred claims and expenses:						
End of policy year	8,801	8,801	8,801	8,801	8,801	8,801
One year later	11,117	11,117	11,117	11,117	11,117	11,117
Two years later	13,336	13,336	13,336	13,336	13,336	13,336
Three years later	13,495	13,495	13,495	13,495	13,495	13,495
Four years later	13,105	13,105	13,105	13,105	13,105	-
Five years later	13,435	13,435	13,435	13,435	-	-
Six years later	13,435	13,435	13,435	-	-	-
Seven years later	13,134	13,134	-	-	-	-
Eight years later	13,134	-	-	-	-	-
(Decrease) increase in estimated incurred claims and expenses from end of policy year	-	(301)	-	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, 2004 and 2003, and have issued our report thereon dated September 7, 2004. 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 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

September 7, 2004