



Law, Redd, Crona & Munroe, P.A.

**FLORIDA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION PLAN**

**FINANCIAL STATEMENTS
TALLAHASSEE, FLORIDA**

JUNE 30, 2006

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Law, Redd, Crona & Munroe, P.A.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

August 9, 2006

Board of Directors
Florida Birth-Related Neurological
Injury Compensation Plan
Tallahassee, Florida

We have audited the accompanying basic financial statements of Florida Birth-Related Neurological Injury Compensation Plan (Plan), an enterprise fund and component unit of the State of Florida, as of and for the year ended June 30, 2006 as listed in the table of contents. These financial statements are the responsibility of the Plan'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 of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Birth-Related Neurological Injury Compensation Plan as of June 30, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 9, 2006 on our consideration of Florida Birth-Related Neurological Injury Compensation Plan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting

or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on page 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Management believes that the estimates of the reserves for losses and loss adjustment expenses are reasonable in the circumstances. However, there is an absence of a significant amount of experience as to whether the Plan's actual incurred losses and loss adjustment expenses will conform to the assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of losses and related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

Law, Redd, Crona & Munroe, P.A.

LAW, REDD, CRONA & MUNROE, P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Florida Birth-Related Neurological Injury Compensation Plan's (the Plan) financial performance provides an overview of the Plan's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Plan's basic financial statements, which begin on page 6. The Plan was established pursuant to the *Florida Birth-Related Neurological Injury Compensation Act*, Chapter 88-1, Laws of Florida, beginning January 1, 1989, and was created for the purpose of providing limited recovery, irrespective of fault, for certain birth-related neurological injuries. The Florida Birth-Related Neurological Injury Compensation Association (the Association) was established by Chapter 766.315, *Florida Statutes*, to administer the Plan. The Association issues a separate financial report that includes financial statements and required supplementary information.

Plan assets and liabilities for 2005 have been restated to separately reflect reinsurance recoverable at June 30, 2005 in the amount of \$60,815,435. Claims reserves were previously reported net of expected reinsurance recoveries. As of June 30, 2006, the Plan's total assets increased by \$88,212,163 (or 14.39%), primarily due to increases in investments and receivable for securities sold (See Table 1). In addition, reinsurance recoverable decreased by \$22,701,040, primarily due to receipt of a recovery for the 1993 birth year commutation. Investments increased by \$106,551,637 (or 21.30%) resulting from investment holding gains and securities purchased during the year, funded primarily by assessments received, gains realized on proceeds from securities sold and investment income earned during the fiscal year. The increase in receivable for securities sold of \$3,483,764 (or 7.08%) is primarily due to timing differences, and result when securities are traded by the investment managers, but are not scheduled to settle until after the end of the fiscal year.

Total liabilities of the Plan increased by \$83,463,012 (or 16.13%) as of June 30, 2006, primarily due to an increase in claims reserves and an increase in payable for securities purchased (See Table 1). The increase in claims reserves of \$66.2 million (or 15.58%) is due to the establishment of a \$35 million contingency margin during the current year, new claims reported during the year, actuarial estimates for claims incurred but not reported (IBNR) and revisions to the estimates of accumulated reported claims made by management. The increase in payable for securities purchased of \$17,402,864 (or 18.95%) is primarily due to timing differences as noted above with regard to the receivable for securities sold.

Table 1 - Net Assets

	2006	2005
Investments	\$ 606,754,030	\$ 500,202,393
Receivable for Securities Sold	52,696,726	49,212,962
Reinsurance Recoverable	38,114,395	60,815,435
Other Assets	3,619,127	2,741,325
Total Assets	701,184,278	612,972,115

Table 1 - Net Assets (continued)

Claims Reserves	\$ 491,000,000	\$ 424,815,435
Payable for Securities Purchased	109,247,741	91,844,877
Other Liabilities	505,722	630,139
Total Liabilities	<u>600,753,463</u>	<u>517,290,451</u>
Net Assets, Restricted	\$ <u>100,430,815</u>	\$ <u>95,681,664</u>

During the year, operating revenues from assessments increased minimally (less than 1%), while operating expenses increased by \$36,078,518 (or 90.3%) primarily due to an increase in claims expenses (See Table 2). The increase in claims expenses of \$35,789,124 (or 92.7%) is primarily due to the establishment of a \$35 million contingency margin during the current year. The increase in other operating expenses is primarily due to an increase in administrative fees.

The Plan recorded net investment return of \$58,939,571 for the year ended June 30, 2006 (See Table 2). The Plan's net investment return is primarily comprised of realized gains of approximately \$37.9 million, unrealized gains of approximately \$4.7 million (a net gain of approximately \$42.6 million), interest and dividend income of approximately \$14.1 million and is offset by investment management fees of approximately \$2.7 million. In addition, the Plan received approximately \$4.9 million of interest on the settlement of the 1993 birth year commutation.

The net effect of the increase in operating expenses and the recognition of investment return resulted in an increase in restricted net assets of \$4,749,151 (See Tables 1 and 2).

Table 2 - Changes in Net Assets

	2006	2005
Hospital Assessments	\$ 5,392,900	\$ 4,733,622
Physician Assessments	16,449,879	17,016,076
Total Operating Revenues	<u>21,842,779</u>	<u>21,749,698</u>
Claims Expenses	74,376,251	38,587,127
Other Operating Expenses	1,656,948	1,367,554
Total Operating Expenses	<u>76,033,199</u>	<u>39,954,681</u>
Operating Loss	<u>(54,190,420)</u>	<u>(18,204,983)</u>
Investment and Other Income	61,655,301	43,454,989
Investment Fees	(2,715,730)	(1,903,011)
Total Nonoperating Revenues	<u>58,939,571</u>	<u>41,551,978</u>
Change In Net Assets	\$ <u>4,749,151</u>	\$ <u>23,346,995</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
STATEMENT OF NET ASSETS-
ENTERPRISE FUND
JUNE 30, 2006**

ASSETS

Receivable for Securities Sold	\$	52,696,726
Investment Income Receivable		1,522,100
Assessments Receivable		1,378,184
Investments - Note 3		606,754,030
Reinsurance Recoverable - Note 10		38,114,395
Property and Equipment, Net - Note 4		61,338
Due from Association - Note 5		95,602
Advance to Association - Note 6		561,903
		<u>701,184,278</u>
TOTAL ASSETS	\$	<u>701,184,278</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accrued Investment Fees	\$	277,422
Payable for Securities Purchased		109,247,741
Assessments Refundable		228,300
Claims Reserves - Note 7		491,000,000
		<u>600,753,463</u>
Total Liabilities		600,753,463
NET ASSETS, RESTRICTED		<u>100,430,815</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>701,184,278</u>

The accompanying notes are an integral part of these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2006**

OPERATING REVENUES

Assessments:	
Hospitals	\$ 5,392,900
Physicians	<u>16,449,879</u>
Total Operating Revenues	<u>21,842,779</u>

OPERATING EXPENSES

Claims Expenses - Note 7	74,376,251
Administrative Expenses - Note 8	1,631,209
Depreciation	<u>25,739</u>
Total Operating Expenses	<u>76,033,199</u>

Operating Loss	<u>(54,190,420)</u>
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NONOPERATING REVENUES (EXPENSES)

Rental Income	9,053
Investment Income	61,646,248
Investment Fees	<u>(2,715,730)</u>
Total Nonoperating Revenues (Expenses)	<u>58,939,571</u>

Change in Net Assets	4,749,151
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NET ASSETS - Beginning of Year	<u>95,681,664</u>
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NET ASSETS - End of Year	<u><u>\$ 100,430,815</u></u>
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The accompanying notes are an integral part of these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
STATEMENT OF CASH FLOWS-
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Hospitals and Physicians	\$ 21,413,476
Cash Received for Reinsurance	21,408,065
Cash Payments to Claimants	(6,884,321)
Cash Paid to Association	(1,544,641)
Net Cash Provided by Operating Activities	<u>34,392,579</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Advance to Association for Acquisition of Property and Equipment	(578,684)
Reduction of Advance to Association	16,781
Net Cash Used in NonCapital Financing Activities	<u>(561,903)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Furniture and Equipment	(31,664)
Net Cash Used in Capital and Related Financing Activities	<u>(31,664)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(2,466,333,000)
Proceeds from Sales of Investments	2,402,403,713
Receivable for Securities Sold	(3,483,764)
Payable for Securities Purchased	17,402,864
Interest and Dividends from Investments and Other	19,037,522
Investment Management Fees	(2,826,347)
Net Cash Used in Investing Activities	<u>(33,799,012)</u>
Net Increase in Cash and Cash Equivalents	0
CASH AND CASH EQUIVALENTS- Beginning of Year	<u>0</u>
CASH AND CASH EQUIVALENTS - End of Year	<u>\$ 0</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Loss	\$ (54,190,420)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	25,739
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Assessments Receivable	(415,503)
Due from Association	86,568
Prepaid Expenses	14,390
Reinsurance Recoverable	22,701,040
Increase (Decrease) in Liabilities:	
Claims Reserves	66,184,565
Assessments Refundable	(13,800)
Net Cash Provided by Operating Activities	<u>\$ 34,392,579</u>

The accompanying notes are an integral part of these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: The financial statements of the Florida Birth-Related Neurological Injury Compensation Plan (the Plan) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Plan is a discretely presented component unit of the State of Florida for financial reporting purposes. There are no component units for the Plan to consider for inclusion in its financial statements. The more significant accounting policies of the Plan are described below.

Organization: The Plan is a program established by the Florida Birth-Related Neurological Injury Compensation Act (the Act), Chapter 88-1, Laws of Florida, for the purpose of providing limited recovery, irrespective of fault, for certain birth-related neurological injuries beginning January 1, 1989. The Florida Birth-Related Neurological Injury Compensation Association (Association) was organized July 1, 1988 to administer the Plan.

Initial funding for the Plan was provided by hospital and physician assessments and a transfer of \$20 million from the Florida Department of Financial Services Insurance Regulatory Trust Fund.

If the hospital and physician assessments and the \$20 million transfer from the Insurance Regulatory Trust Fund are not sufficient to maintain the Plan on an actuarially sound basis, an additional \$20 million is to be transferred from the Insurance Regulatory Trust Fund (Note 2). Also, if these funds are still not sufficient to maintain the Plan on an actuarially sound basis, the Department of Financial Services, Office of Insurance Regulation may assess entities licensed in Florida to issue casualty insurance based on a rate no greater than .25% of net direct premiums written.

In the event that management's estimate of the accumulated cost of reported claims (exclusive of family residential or custodial care as defined in Chapter 766.302, *Florida Statutes*) equals 80% of current funds, plus estimated annual assessments and contributions, the Plan shall not accept new claims without express authority from the Legislature. However, injuries occurring 18 months or more prior to the effective date of the suspension shall not be precluded.

Assessments: An assessment of \$250 per physician is required by Florida Statute for all licensed physicians in the State of Florida, subject to certain exclusions. In addition, physicians have the option of electing to participate in the Plan. Those physicians so electing are required to remit a total assessment of \$5,000. Certified nurse midwives who have paid 50% (or \$2,500) of the physician assessment and who are supervised by a participating physician may also participate in the Plan. Additionally, each hospital licensed under Chapter 395, *Florida Statutes*, must pay the

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Plan an assessment of \$50 per live infant delivered at the hospital during the prior calendar year, subject to certain exclusions.

Assessments are recognized at the time they are levied (annually) by the Plan. The amount of physician and hospital assessments is subject to change based on the actuarial analysis of the Plan. Any increase in assessment is recommended by the Board, but must be approved by the Office of Insurance Regulation.

Fund Accounting: The operations of the Plan are reported as an Enterprise Fund with a set of self-balancing accounts that comprise its assets, liabilities, net assets, revenues and expenses. An enterprise fund is used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. Management believes such presentation is appropriate as determination of net income is necessary and useful to sound financial administration. Net assets are restricted for Plan operations pursuant to enabling legislation as described above.

Basis of Accounting: The fund utilizes the accrual method of accounting whereby revenues are recognized when they are earned and expenses are recognized when they are incurred. The Plan applies all applicable FASB Statements and Interpretations issued before November 30, 1989, as modified by all applicable GASB pronouncements.

Investments: Investments in debt and equity securities are stated at fair value. Fair values are based on quoted values in custodian statements and/or quoted market prices. Plan investments made through the Office of the Treasurer, State of Florida are included in the pooled investments with the State Treasury, an internal investment pool of the State of Florida. Pooled investment shares are reported at fair value. The Auditor General, State of Florida performs the operational audit of the activities and investments of the Office of the Treasurer.

Assessments Receivable: Management has determined that all accounts receivable are fully collectible. Therefore, no allowance for doubtful accounts has been included in these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment: Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Depreciation has been provided over the estimated useful lives of the assets (approximately 5 years) using the straight-line method. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

Claims Reserves: Claims reserves include the accumulation of case estimates for claims reported at June 30, 2006 and estimates of claims incurred but not reported.

Net Assets: Net assets of the Plan are restricted to carry out the public purpose of the program as provided under the Act.

Statement of Cash Flows: For purposes of the statement of cash flows, the Plan considers cash on hand, demand deposits and all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Investment purchases made through the Office of the Treasurer, State of Florida, are considered to be investments.

Estimates: The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain account balances such as the allowance for uncollectible assessments, claims reserves, and depreciation. Actual results could differ from those estimates.

The Plan also invests in various securities including U.S. Government securities, corporate debt instruments, and corporate stocks. Investment securities, in general, are exposed to various risks, such as interest rate risk, concentration risk and credit and overall market volatility risk. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

NOTE 2 - APPROPRIATION - OFFICE OF INSURANCE REGULATION

Pursuant to *Florida Statutes*, Section 766.314(5)(b), the sum of \$20 million has been deposited in the Insurance Regulatory Trust Fund. The distribution of "up to \$20 million" to the Florida Birth-Related Neurological Injury Compensation Plan has been authorized in the event that the assessments collected in accordance with *Florida Statutes*, Section 766.314(4), and prior appropriations are not sufficient to maintain the Florida Birth-Related Neurological Injury Compensation Plan on an actuarially sound basis. The entire \$20 million is presently deposited in the Insurance Regulatory Trust Fund and is not reported by the Plan.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 – INVESTMENTS

As of June 30, 2006, investments of the Plan were as follows:

Types of Investments	Fair Value	Effective Duration
Classifiable Investments:		
Asset-Backed Securities	\$ 37,040,524	0.46
Commercial Paper	8,206,304	0.08
Corporate Bonds	37,379,025	3.95
Federal Home Loan Mortgage	426,491	2.80
Federal Home Loan Mortgage Gold	19,596,519	4.11
Federal National Mortgage Association	36,456,843	3.97
Government National Mortgage Association I	4,185,448	3.97
Government National Mortgage Association II	411,729	2.03
Government Bond	1,527,658	5.41
Mortgage Bond	36,664,872	3.92
Municipal Bond	175,910	12.53
Other U.S. Agency Securities	7,723,122	3.41
Treasury Bond	12,857,008	10.78
Treasury Note	33,376,946	3.60
Equity Securities	339,168,587	n/a
Total Classifiable Investments	575,196,986	
Non-Classifiable Investments:		
Mutual Funds	10,190,555	
Pooled Investment in Florida State Treasury	21,366,489	
Total Non-Classifiable Investments	31,557,044	
Total Investments	\$606,754,030	

Total Investments

Investments are diversified to minimize the risk of loss resulting from over concentration of assets in a specific maturity period, a single issuer, or an individual class of securities.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Investing is performed in accordance with investment policies adopted by the Board of Directors complying with Section 215.47, *Florida Statutes*. State Statutes provide for investment of funds in a range of instruments, including federally guaranteed obligations, other Federal agency obligations, certain State bonds, commercial paper, obligations of a Florida political subdivision as permitted by law, common stock, repurchase agreements and reverse repurchase agreements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 – INVESTMENTS (continued)

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Custody of the Plan's investments is maintained in the Association's name by JPMorgan Chase Bank, N.A. pursuant to a custodial agreement.

Generally, investing activities are performed by investment managers hired by the Association to implement established investment policies.

The Plan's Asset Allocation Policy is as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Permissible Ranges</u>
Domestic Equity	53%	50%-56%
International Equity	10%	7%-13%
Fixed Income	37%	34%-40%
Cash	0%	0%-2%

Credit Quality Rating. Chapter 215.47, *Florida Statutes* and the Plan's Investment Policy limits investments based on ratings provided by nationally recognized statistical rating services. Investments limited by ratings are as follows:

1. Commercial paper rated in the highest rating classification by one nationally recognized rating agency.
2. Municipal securities rated in the top four highest ratings by two nationally recognized rating services.
3. Corporate bonds rated in the top four rating classifications by two nationally recognized rating services.
4. Registered foreign bonds denominated in U.S. dollars rated in the top four rating classifications by two nationally recognized rating services.
5. Asset-backed securities rated in the highest rating classification by one nationally recognized rating service.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 – INVESTMENTS (continued)

Debt Security Type	Quality Rating		International Value	Total Fair Value
	Standard & Poors	Domestic Value		
Asset Backed	AAA	\$ 35,247,445	n/a	\$ 35,247,445
Asset Backed	A-1	595,130	n/a	595,130
Asset Backed	NR	1,197,949	n/a	1,197,949
Commercial Paper	A-1+	4,726,987	n/a	4,726,987
Commercial Paper	A-1	3,479,318	n/a	3,479,318
Corporate Bonds	AAA	3,366,196	n/a	3,366,196
Corporate Bonds	AA+	896,501	n/a	896,501
Corporate Bonds	AA	1,959,971	n/a	1,959,971
Corporate Bonds	AA-	3,723,698	n/a	3,723,698
Corporate Bonds	A+	5,275,391	n/a	5,275,391
Corporate Bonds	A	5,528,903	n/a	5,528,903
Corporate Bonds	A-	4,763,447	n/a	4,763,447
Corporate Bonds	BBB+	4,408,359	n/a	4,408,359
Corporate Bonds	BBB	4,756,850	n/a	4,756,850
Corporate Bonds	BBB-	1,937,748	n/a	1,937,748
Corporate Bonds	BB+	48,649	n/a	48,649
Corporate Bonds	NR	713,312	n/a	713,312
Federal Home Loan Mortgage	AAA	426,491	n/a	426,491
Federal Home Loan Mortgage Gold	AAA	19,596,519	n/a	19,596,519
Federal National Mortgage Association	AAA	36,456,843	n/a	36,456,843
GNMA I	AAA	4,185,448	n/a	4,185,448
GNMA II	AAA	411,729	n/a	411,729
Government Bond	AAA	936,708	n/a	936,708
Government Bond	BBB	590,950	n/a	590,950
Mortgage Bonds	AAA	29,639,173	n/a	29,639,173
Mortgage Bonds	NR	7,025,699	n/a	7,025,699
Municipal Bonds	AA	175,910	n/a	175,910
Other U.S. Agency Securities	AAA	4,309,812	n/a	4,309,812
Other U.S. Agency Securities	A-1	3,013,306	n/a	3,013,306
Other U.S. Agency Securities	AA-	400,004	n/a	400,004
		<u>\$ 189,794,445</u>		<u>\$ 189,794,445</u>

Concentration of Credit Risk is the risk of loss attributed to the magnitude of the Plan's investment in a single issuer. Plan assets are expected to be diversified across and within asset classes. However, the Plan does not specify a limit on the amount that may be invested in any one issuer. At June 30, 2006, no single issuer exceeded 5% of the investment portfolio.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 3 – INVESTMENTS (continued)

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods are subject to increased risk of adverse interest rate changes. The Plan uses a duration methodology to construct a portfolio to fund its future cash needs. For reporting purposes, it selects effective duration to disclose the portfolio's exposure to changes in interest rates. Duration is a measure of a fixed income's cash flows using present values, weighted for cash flows as a percentage of the investment's full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds, prepayments, and variable rate debt.

Foreign Currency Risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Plan's investment policy permits it to invest up to 10 percent of total investments in international equities.

At June 30, 2006, the Plan's exposure to possible foreign currency risk by monetary unit is as follows:

Investment Type	Currency Type	Maturity	Fair Value
Currency	Euro	n/a	\$ 26,862
	British Pound	n/a	113
	Japanese Yen	n/a	35,656
	Norwegian Krone	n/a	15,675
	South African Rand	n/a	9,970
Common Stock	Australian Dollar	n/a	1,032,900
	British Pound	n/a	6,800,480
	Canadian Dollar	n/a	516,259
	Euro	n/a	16,742,229
	Japanese Yen	n/a	11,439,278
	Norwegian Krone	n/a	1,795,725
	South African Rand	n/a	2,165,692
	Swedish Krona	n/a	483,206
			<u>\$ 41,064,045</u>

Pooled investments with the State Treasury and investments in mutual funds are not classified because they are not evidenced by securities that exist in physical or book entry form.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2006 consist of the following:

Furniture and Equipment	\$ 621,642
Less: Accumulated Depreciation	<u>(560,304)</u>
Property and Equipment, Net	<u>\$ 61,338</u>

NOTE 5 - DUE FROM ASSOCIATION

Due from Association of \$95,602 represents funds transferred to the Association for the payment of claims on behalf of the Plan and reimbursement of administrative costs.

NOTE 6 - ADVANCE TO ASSOCIATION

Advance to Association of \$561,903 represents funds transferred to the Association for the purchase of property and equipment, net of accumulated depreciation of \$16,781.

NOTE 7 - CLAIMS RESERVES

Claims reserves are provided in amounts estimated to cover the custodial and rehabilitative costs resulting from certain birth-related neurological injuries of claimants of participating physicians and include an estimate of accumulated reported claims (\$329,396,814 at June 30, 2006) and claims incurred but not reported. The claims reserve is actuarially determined for birth years 1989 through June 30, 2006. The reserves utilize an adjustment factor that reflects the assumption that the annual investment return rate of 6% will be the same as the annual inflation rate at 6%. This means that the inflation adjustment is 0% for all birth years.

The actuaries have not included consideration of any adverse or beneficial court decision or settlements not already reflected in individual claim reserves in their evaluation (Note 9). Application of adverse court decisions or settlements to all claims could cause Plan reserves to increase significantly. The methods for making such estimates and for establishing the resulting liability are reviewed periodically and, as adjustments become necessary, such adjustments are reflected in current operations.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 7 – CLAIMS RESERVES (continued)

During the year ended June 30, 2002, legislation was enacted that provides for benefits to parents or guardians who provide care for their child that would normally be rendered by trained professional attendants, which is beyond the scope of child care duties. The Plan has adjusted the claims reserves to allow for the family care benefit. The actuarial estimate of the cost of the family care benefit approximates \$24 million as of June 30, 2006. The estimate for this benefit is highly uncertain as there is insufficient experience to fully evaluate the cost of the benefit.

Medical liability claims are volatile by nature. Although management of the Plan believes that the estimate of the liability for losses and loss adjustment expenses is reasonable in the circumstances, the absence of adequate loss experience to support the assumptions inherent in establishing the estimate results in uncertainty as to the ultimate amount that will be required for the payment of losses and claims. Due to the timeframe associated with the emergence of claims, the most recent two years' estimates have greater uncertainty. Accordingly, the ultimate closure of losses and the related loss adjustment expenses may vary significantly from the estimated amounts included in the accompanying financial statements.

In prior years, the Plan maintained a reinsurance program which addressed both the frequency and severity of claims. As discussed at Note 10, excess insurance coverage for the Plan expired effective December 31, 2003. Given the Plan's claims characteristics, a provision of \$35 million was established during the current year to provide a contingency margin in the event claims incurred but not reported significantly exceed management's best estimate.

Activity in the liability for unpaid losses and loss adjustment expenses for the past two years is summarized as follows:

2006

Balance at Beginning of Year, restated			<u>\$424,815,435</u>
Claims Incurred Related to:			
Current Year			33,090,547
Prior Years			<u>(5,807,718)</u>
Total Claims Incurred			<u>27,282,829</u>
Claims Paid or Adjusted:	<u>Paid</u>	<u>Adjusted</u>	
Prior Years	\$(6,898,713)	\$10,800,449	<u>3,901,736</u>
Total Claims Paid or Adjusted			<u>3,901,736</u>
Contingency Margin			<u>35,000,000</u>
Balance at End of Year			<u>\$491,000,000</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 7 – CLAIMS RESERVES (continued)

2005

Balance at Beginning of Year, restated		<u>\$403,849,000</u>
Claims Incurred Related to:		
Current Year		37,226,000
Prior Years, restated		<u>(23,115,413)</u>
Total Claims Incurred, restated		<u>14,110,587</u>
Claims Paid or Adjusted:	<u>Paid</u>	<u>Adjusted</u>
Prior Years	\$(6,587,129)	\$13,442,977
Total Claims Paid or Adjusted		<u>6,855,848</u>
Balance at End of Year, restated		<u>\$424,815,435</u>

Certain 2005 amounts above have been restated to conform to the 2006 presentation. Claims Reserves were previously presented net of expected reinsurance recoveries.

NOTE 8 - ADMINISTRATIVE EXPENSES

The Plan is administered by the Association, as established by *Florida Statutes*, Chapter 766.315. The Association is reimbursed by the Plan for all reasonable expenses of administering the Plan through administrative fees. Such costs include, but are not limited to, professional fees (actuarial, accounting, auditing and legal), office expenses and salaries and associated costs.

NOTE 9 - LITIGATION

Various suits and claims arising from the ordinary course of Association operations are pending. The outcome of such litigation is not determinable. Accordingly, no provision has been made in the financial statements for these contingencies.

NOTE 10 - EXCESS INSURANCE

In the normal course of business, the Plan seeks to limit its exposure to loss on any single insured and recover a portion of losses and loss adjustment expenses by purchasing reinsurance under an excess coverage contract.

During the year ended June 30, 1992, the Plan obtained an excess insurance policy effective January 1, 1992 and expiring December 31, 1992. The policy was renewed on an annual basis through

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 10 - EXCESS INSURANCE (continued)

December 31, 1998 and provided coverage of \$2,500,000 on individual claims reported during the annual contract term in excess of \$4,250,000 and aggregate coverage of \$10,000,000 on aggregate claims in excess of \$23,500,000 for 1998; \$22,900,000 for 1997; \$19,940,000 for 1996 and 1995; and \$21,530,000 for the years 1994, 1993 and 1992.

For the past few years, the Plan has been in arbitration with an insurance group regarding the expected recoveries in connection with the commutation of the 1993 birth year. During the current year, the arbitration panel reached a final decision and the Plan recovered approximately \$26 million (approximately \$21 million for the 1993 commutation and \$5 million in interest). Commutation of birth years 1994 to 1998 is pending.

For the period January 1, 1999 through December 31, 2001, the Plan had entered into two reinsurance contracts. The first policy, through American Re-Insurance Company, provides coverage of \$2,500,000 on individual claims reported during the annual contract term in excess of \$4,250,000 and aggregate coverage of \$10,000,000 on aggregate claims in excess of \$23,000,000 for birth years 1999 through 2001. The second policy, through General Reinsurance Corporation, provides aggregate coverage of \$3,000,000 on aggregate claims in excess of \$20,000,000 for birth years 1999 through 2001. For this period, the General Reinsurance coverage acts as buffer coverage to add more protection to the Plan because it becomes effective at a lower level, even though it does not cover as much.

For the period January 1, 2002 through December 31, 2003, the Plan was covered under an Endorsement that extended the agreement described above with General Reinsurance for an additional two-year period. The endorsement also amended coverage limits to cover \$2,500,000 on individual claims in excess of \$4,250,000 and aggregate coverage of \$13,000,000 in excess of aggregate claims of \$20,000,000 for birth years 2002 and 2003. If the mean number of participating physicians in any annual agreement term exceeds 800, the aggregate attachment point of \$20,000,000 will be proportionately increased by the actual number of physicians divided by 690.

The policies with American Re-Insurance and General Reinsurance provide for an experience refund equal to 50% of the amount of the annual excess insurance premium earned less excess insurance claims incurred and excess insurer's expense charged. The experience refund shall be determined as of the end of the experience period (December 31, 2008). No experience refund receivable is recorded at June 30, 2006 as any refund is contingent on future loss development during the remainder of the policy period.

As of June 30, 2006, the Plan was not covered by a reinsurance policy for the 2004 through 2006 birth years. The actuarial estimate of reinsurance recoverable under previous years' policies is \$38,114,395 at June 30, 2006.



Law, Redd, Crona & Munroe, P.A.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS***

August 9, 2006

Board of Directors
Florida Birth-Related Neurological
Injury Compensation Plan
Tallahassee, Florida

We have audited the basic financial statements of Florida Birth-Related Neurological Injury Compensation Plan as of and for the year ended June 30, 2006, and have issued our report thereon dated August 9, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Florida Birth-Related Neurological Injury Compensation Plan'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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Birth-Related Neurological Injury Compensation Plan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Florida Birth-Related Neurological
Injury Compensation Plan
Page Two

This report is intended solely for the information and use of the board of directors, management and the Office of Insurance Regulation, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Law, Redd, Crona & Munroe, P.A.

LAW, REDD, CRONA & MUNROE, P.A.



**INDEPENDENT AUDITOR'S REQUIRED DISCLOSURE IN ACCORDANCE
 WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
 Florida Birth-Related Neurological
 Injury Compensation Plan
 Tallahassee, Florida

You have engaged us to conduct an audit of Florida Birth-Related Neurological Injury Compensation Plan's financial statements for the year ended June 30, 2006 in accordance with auditing standards generally accepted in the United States of America for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities for testing and reporting on internal controls and on compliance with applicable laws and regulations under those standards are described in the table below. In addition, the table contrasts our responsibilities in this engagement with other procedures that could be performed in other financial-related audits.

Service Provided	Our Responsibility Regarding Internal Controls	Our Responsibility Regarding Compliance with Laws and Regulations
Financial statement audit — GAAS	We consider internal control to plan the nature, timing and extent of audit procedures for the purpose of expressing our opinion on the financial statements. We report, orally or in writing, any reportable conditions, including material weaknesses that we identify as a result of our audit procedures. Our report does not provide assurance on internal control over financial reporting.	We design the audit to provide reasonable assurance of detecting fraud that is material to the financial statements and illegal acts that have a direct and material effect on the financial statement amounts.
Financial statement audit — <i>Government Auditing Standards</i>	In addition to the GAAS responsibilities, we are required to issue a written report on our consideration of internal control and identify reportable conditions, including material weaknesses, if any. Our reports do not provide assurance on the internal control over financial reporting.	In addition to the GAAS responsibilities, we design our audit to provide reasonable assurance of detecting material misstatements resulting from noncompliance with provisions of contracts or grant agreements that have a direct and material effect on the financial statements. We issue a written report on the results of these procedures; however, our report does not express an opinion on compliance.

Service Provided	Our Responsibility Regarding Internal Controls	Our Responsibility Regarding Compliance with Laws and Regulations
Examination-level attestation	<p>We could be engaged to examine and report on management's written assertion as to the design and operating effectiveness of internal control. The engagement would be conducted in accordance with AICPA standards for attestation engagements, and would include an evaluation of the design of the entity's internal control, and performing tests of relevant internal control policies and procedures to evaluate their operating effectiveness.</p>	<p>We could be engaged to examine and report on management's written assertion regarding compliance. The engagement could be conducted at the financial statement level, or could result in a determination as to whether all federal programs have been administered in accordance with applicable laws and regulations. The engagement would be conducted in accordance with AICPA standards for attestation engagements, and would include obtaining an understanding of the specific compliance requirements, obtaining an understanding of the design of the entity's internal control over compliance, and testing compliance with specified requirements.</p>
Agreed-upon procedures level attestation	<p>We could be engaged to perform agreed-upon procedures related to management's written assertions as to the design and operating effectiveness of internal control. The objective of the agreed-upon procedures is to present specific findings to assist users in evaluating management's assertions. Our procedures generally may be as limited or extensive as the users desire as long as the users (a) participate in establishing the procedures to be performed and (b) take responsibility for the sufficiency of such procedures for their purposes.</p>	<p>We could be engaged to perform agreed-upon procedures related to management's written assertions regarding compliance. The objective of the agreed-upon procedures is to present specific findings to assist users in evaluating management's assertions. Our procedures generally may be as limited or extensive as the users desire as long as the users (a) participate in establishing the procedures to be performed and (b) take responsibility for the sufficiency of such procedures for their purposes.</p>



Law, Redd, Crona & Munroe, P.A.

**FLORIDA BIRTH-RELATED
NEUROLOGICAL INJURY
COMPENSATION ASSOCIATION**

**FINANCIAL STATEMENTS
TALLAHASSEE, FLORIDA**

JUNE 30, 2006

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Law, Redd, Crona & Munroe, P.A.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

August 1, 2006

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association
Tallahassee, Florida

We have audited the accompanying basic financial statements of Florida Birth-Related Neurological Injury Compensation Association (Association), a component unit of the State of Florida, as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the Association'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 of America 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Florida Birth-Related Neurological Injury Compensation Association as of June 30, 2006, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated August 1, 2006, on our consideration of the Florida Birth-Related Neurological Injury Compensation Association's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Law, Redd, Crona & Munroe, P.A.

LAW, REDD, CRONA & MUNROE, P.A.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Florida Birth-Related Neurological Injury Compensation Association's (the Association) financial performance provides an overview of the Association's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Association's basic financial statements, which begin on page 5. The Association was established by Chapter 766.315, *Florida Statutes*, to administer the Florida Birth-Related Neurological Injury Compensation Plan (the Plan). The Association issues a separate financial report that includes financial statements and required supplementary information for the Plan.

The Plan advances funds to the Association for administration of claims on behalf of the Plan and administrative costs of the Plan. The Association's assets and liabilities increased by \$329,762 (or 92%), primarily due to the purchase of property and equipment using funds advanced by the Plan (See Table 1).

During the year, the Association's expenses increased by \$295,164 (or 22%). This is primarily due to legal and consulting services related to reinsurance litigation. The Association is reimbursed for all reasonable expenses of administering the Plan through administrative fees received from the Plan. The administrative fees constitute total revenues for the Association, as any investment income earned on advanced funds is transferred to the Plan. Accordingly, the Association does not accumulate net assets from year to year.

Table 1 – Net Assets

	2006	2005
Total Assets	\$ 688,123	\$ 358,361
Total Liabilities	<u>688,123</u>	<u>358,361</u>
Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

Table 2 – Change in Net Assets

	2006	2005
Total Revenues	\$1,631,209	\$1,336,045
Total Expenses	<u>1,631,209</u>	<u>1,336,045</u>
Change in Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
STATEMENT OF NET ASSETS
JUNE 30, 2006**

ASSETS

CURRENT ASSETS	
Cash and Cash Equivalents	\$ 91,878
Deposits and Prepaid Expenses	15,479
Inventory	<u>18,863</u>
Total Current Assets	<u>126,220</u>
Property and Equipment, Net - Note 3	<u>561,903</u>
TOTAL ASSETS	<u><u>\$ 688,123</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts Payable and Accrued Expenses	\$ 27,061
Due to Plan - Note 4	95,602
Income Taxes Payable	<u>3,557</u>
Total Current Liabilities	<u>126,220</u>
Advance from Plan - Note 5	<u>561,903</u>
Total Liabilities	<u>688,123</u>
NET ASSETS	<u>0</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 688,123</u></u>

The accompanying notes are an integral part of these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2006**

OPERATING REVENUES

Administrative Fees	\$ 1,631,209
Total Operating Revenues	1,631,209

OPERATING EXPENSES

General and Administrative Expenses	1,630,175
Total Operating Expenses	1,630,175

NONOPERATING REVENUES (EXPENSES)

Rental Income	9,053
Transfer of Rental Income to Plan	(9,053)
Total Nonoperating Revenues (Expenses)	0

OPERATING INCOME BEFORE INCOME TAXES

	1,034
Provision for Income Taxes- Note 8	1,034

CHANGE IN NET ASSETS

	0
NET ASSETS - Beginning of Year	0
NET ASSETS - End of Year	\$ 0

The accompanying notes are an integral part of these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2006**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from the Plan	\$ 1,544,641
Payments to Service Providers and Suppliers	(987,275)
Payments to Employees for Services	(469,804)
Payments for Employee Benefits	(277,976)
Payments for Income Tax	(86)
Net Cash Used in Operating Activities	<u>(190,500)</u>

**CASH FLOWS FROM CAPITAL AND RELATED
FINANCING ACTIVITIES**

Advance from Plan for Acquisition of Property and Equipment	578,684
Reduction of Advance from Plan	(16,781)
Purchase of Property and Equipment	<u>(578,684)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(16,781)</u>

Net Decrease in Cash and Cash Equivalents (207,281)

CASH AND CASH EQUIVALENTS - Beginning of Year 299,159

CASH AND CASH EQUIVALENTS - End of Year \$ 91,878

**RECONCILIATION OF CHANGE IN NET ASSETS TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Change in Net Assets	\$ 0
Adjustments to Reconcile Change in Net Assets to Net	
Cash Used in Operating Activities:	
Depreciation	16,781
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Deposits and Prepaid Expenses	26,651
Inventory	(1,791)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	(146,521)
Due to Plan	(86,568)
Income Taxes Payable	948
Net Cash Used in Operating Activities	<u>\$ (190,500)</u>

The accompanying notes are an integral part of these financial statements.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Description of the Association: The Florida Birth-Related Neurological Injury Compensation Plan (the "Plan") is a program established by the Florida Birth-Related Neurological Injury Compensation Act for the purpose of providing limited recovery, irrespective of fault, for certain birth-related neurological injuries beginning January 1, 1989. The Florida Birth-Related Neurological Injury Compensation Association (the "Association") was established by *Florida Statutes*, Chapter 766.315, to administer the Plan.

Reporting Entity: Activities of the Plan and Association are reported in the State of Florida financial statements with other discretely presented component units.

Basis of Accounting: The financial statements of the Association have been prepared on the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred. The Association applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued through November 30, 1989, as modified by all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Revenue Recognition: The Plan reimburses all reasonable expenses of administering the Plan through administrative fees. These fees are the sole source of revenues for the Association as all investment income on advanced funds must be remitted to the Plan.

Cash Equivalents: For purposes of the statement of cash flows, the Association considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Inventory: Inventory consists of brochures which are delivered to hospitals and physicians for distribution to patients to serve as notice of NICA participation. Inventory is valued at cost on a first-in, first-out basis.

Property and Equipment: Property and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Depreciation has been provided over the useful lives of the assets (39 years for building and improvements and 5-7 years for other assets) using the straight-line method. When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the results from operations in the period of disposal.

Income Taxes: Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 2 – CASH AND CASH EQUIVALENTS

The Association maintains its cash in interest bearing accounts in one commercial bank located in Tallahassee, Florida. Cash balances are secured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000. At times, cash balances may exceed the FDIC limit. The Association believes credit risk related to these balances is minimal.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30, 2006:

Building	\$529,673
Building Improvements and Other Assets	49,011
	<hr/> 578,684
Less: Accumulated Depreciation	(16,781)
Property and Equipment, Net	<hr/> <u>\$561,903</u>

Depreciation expense was \$16,781 for the year ended June 30, 2006.

NOTE 4 – DUE TO PLAN

Due to Plan of \$95,602 represents monies advanced to the Association for payment of claims on behalf of the Plan and administrative costs of the Plan.

NOTE 5 – ADVANCE FROM PLAN

Advance from Plan of \$561,903 represents monies advanced to the Association for the purchase of property and equipment, net of accumulated depreciation of \$16,781.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 6 -- RELATED PARTIES

The Association utilizes certain fixed assets owned by the Plan (i.e., furniture and equipment) in the administration of the Plan. As such, depreciation associated with these assets is recorded on the financial statements of the Plan.

NOTE 7 -- RETIREMENT PLAN

Effective July 1, 2003, the Association established a defined contribution retirement plan, in the form of a 401(k) plan, which covers substantially all full-time employees with at least two years of service. Contributions are accrued and funded on a current basis. The Association contributed 15% of the participating employees' salaries for the fiscal year ended June 30, 2006. The contribution for the year was \$65,159.

NOTE 8- INCOME TAXES

Provision for income taxes is made up of the following components:

Current:	
Federal	\$ 994
State	40
	<u>\$1,034</u>

NOTE 9 -- LITIGATION

Various suits and claims arising from the ordinary course of Association operations are pending. The outcome of such litigation is not determinable. Accordingly, no provision has been made in the financial statements for these contingencies.



Law, Redd, Crona & Munroe, P.A.
Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

August 1, 2006

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association
Tallahassee, Florida

We have audited the basic financial statements of Florida Birth-Related Neurological Injury Compensation Association as of and for the year ended June 30, 2006, and have issued our report thereon dated August 1, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Florida Birth-Related Neurological Injury Compensation Association'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 an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Florida Birth-Related Neurological Injury Compensation Association's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association
Page Two

tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management and the Office of Insurance Regulation, State of Florida, and is not intended to be and should not be used by anyone other than these specified parties.

Law, Redd, Crona & Munroe, P.A.

LAW, REDD, CRONA & MUNROE, P.A.

