



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

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

**FINANCIAL STATEMENTS  
TALLAHASSEE, FLORIDA**

**JUNE 30, 2008**

## TABLE OF CONTENTS

	<b>Page Number</b>
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	4
<b>Financial Statements</b>	
Statement of Net Assets - Enterprise Fund	6
Statement of Revenues, Expenses and Changes in Net Assets – Enterprise Fund	7
Statement of Cash Flows - Enterprise Fund	8
Notes to Financial Statements	9
<b>Internal Control and Compliance</b>	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22



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

## INDEPENDENT AUDITOR'S REPORT

November 14, 2008

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, 2008 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, 2008, 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 November 14, 2008 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 important for 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, 2008. 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 Section 766.315, *Florida Statutes*, to administer the Plan. The Association issues a separate financial report that includes financial statements and required supplementary information.

As of June 30, 2008, the Plan's total assets decreased by \$40,000,053 (or 5%), primarily due to decreases in investments and receivable for securities sold (See Table 1). Investments decreased by \$11,183,864 (or 2%) resulting primarily from investment holding losses, net of gains realized on proceeds from securities sold and investment income and assessment revenues used to purchase investments during the fiscal year. The decrease in receivable for securities sold of \$42,064,016 (or 56%) is primarily due to timing differences that occur 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 \$48,763,842 (or 7%) as of June 30, 2008, primarily due to an increase in claims reserves coupled with a decrease in payable for securities purchased (See Table 1). The increase in claims reserves of \$95 million (or 17%) is due to new claims reported during the year, actuarial estimates for claims incurred but not reported (IBNR), revisions to the estimates of accumulated reported claims made by management and an increase in the contingency margin. The decrease in payable for securities purchased of \$46,315,813 (or 33%) is primarily due to timing differences as noted above with regard to the receivable for securities sold.

**Table 1 - Net Assets**

	<b>2008</b>	<b>2007</b>
Investments	\$ 705,135,858	\$ 716,319,722
Receivable for Securities Sold	33,032,241	75,096,257
Reinsurance Recoverable	62,713,830	50,216,044
Other Assets	4,918,544	4,168,503
Total Assets	805,800,473	845,800,526
Claims Reserves	642,000,000	547,000,000
Payable for Securities Purchased	93,902,020	140,217,833
Other Liabilities	485,207	405,552
Total Liabilities	736,387,227	687,623,385
Net Assets, Restricted	\$ 69,413,246	\$ 158,177,141

During the year, operating revenues from assessments decreased minimally (approximately 3%), while operating expenses increased by \$39,428,049 (or 75%) primarily due to an increase in claims expenses. The increase in claims expenses of \$39,440,497 (or 77%) is due to new claims reported during the year, actuarial estimates for claims incurred but not reported (IBNR), revisions to the estimates of accumulated reported claims made by management and an increase in the contingency margin of \$10 million. The slight decrease in other operating expenses is primarily due to a decrease in administrative fees.

The Plan recorded net investment loss of \$19,503,876 for the year ended June 30, 2008 (See Table 2). The Plan's net investment return is primarily comprised of unrealized losses of \$65 million, realized gains of approximately \$30 million, (a loss of approximately \$35 million), interest and dividend income of approximately \$19 million and is offset by investment management fees of approximately \$3 million.

The net effect of the increase in operating expenses and the recognition of investment loss resulted in a decrease in restricted net assets of \$88,763,895 (See Tables 1 and 2).

**Table 2 – Changes in Net Assets**

	<b>2008</b>	<b>2007</b>
Hospital Assessments	\$ 4,773,950	\$ 4,755,550
Physician Assessments	17,904,540	18,572,427
Total Operating Revenues	<u>22,678,490</u>	<u>23,327,977</u>
Claims Expenses	90,613,322	51,172,825
Other Operating Expenses	1,325,187	1,337,635
Total Operating Expenses	<u>91,938,509</u>	<u>52,510,460</u>
Operating Loss	<u>(69,260,019)</u>	<u>(29,182,483)</u>
Investment and Other Loss	(16,082,004)	90,147,957
Investment Fees	(3,421,872)	(3,219,148)
Total Nonoperating Revenues and Expenses	<u>(19,503,876)</u>	<u>86,928,809</u>
Change In Net Assets	<u>\$ (88,763,895)</u>	<u>\$ 57,746,326</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
STATEMENT OF NET ASSETS-  
ENTERPRISE FUND  
JUNE 30, 2008**

**ASSETS**

Receivable for Securities Sold	\$	33,032,241
Investment Income Receivable		2,193,898
Assessments Receivable		1,705,991
Prepaid Expenses		43,279
Investments - Note 3		705,135,858
Reinsurance Recoverable - Note 10		62,713,830
Property and Equipment, Net - Note 4		254,798
Due from Association - Note 5		194,801
Advance to Association - Note 6		525,777
		525,777
<b>TOTAL ASSETS</b>	<b>\$</b>	<b>805,800,473</b>
		<b>805,800,473</b>

**LIABILITIES AND NET ASSETS**

**LIABILITIES**

Assessments Refundable	\$	227,350
Accrued Investment Fees		257,857
Payable for Securities Purchased		93,902,020
Claims Reserves - Note 7		642,000,000
		642,000,000
<b>Total Liabilities</b>		<b>736,387,227</b>

<b>NET ASSETS, RESTRICTED</b>		<b>69,413,246</b>
		<b>69,413,246</b>

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$</b>	<b>805,800,473</b>
		<b>805,800,473</b>

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, 2008**

**OPERATING REVENUES**

Assessments:	
Hospitals	\$ 4,773,950
Physicians	17,904,540
	<hr/>
<b>Total Operating Revenues</b>	<b>22,678,490</b>

**OPERATING EXPENSES**

Claims Expenses - Note 7	90,613,322
Administrative Expenses - Note 8	1,308,435
Depreciation	16,752
	<hr/>
<b>Total Operating Expenses</b>	<b>91,938,509</b>

<b>Operating Loss</b>	<b>(69,260,019)</b>
-----------------------	---------------------

**NONOPERATING REVENUES (EXPENSES)**

Investment Loss	(16,106,829)
Interest Income - Note 6	22,028
Rental Income	2,797
Investment Fees	(3,421,872)
	<hr/>

<b>Total Nonoperating Revenues (Expenses)</b>	<b>(19,503,876)</b>
---	---------------------

<b>Change in Net Assets</b>	<b>(88,763,895)</b>
-----------------------------	---------------------

<b>NET ASSETS - Beginning of Year</b>	<b>158,177,141</b>
	<hr/>

<b>NET ASSETS - End of Year</b>	<b>\$ 69,413,246</b>
	<hr/> <hr/>

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, 2008**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash Received from Hospitals and Physicians	\$ 22,523,918
Cash Payments to Claimants and Vendors	(8,275,085)
Cash Paid to Association	(1,369,217)
<b>Net Cash Provided by Operating Activities</b>	<u>12,879,616</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>	
Reduction of Advance to Association	8,896
<b>Net Cash Provided by Non-capital Financing Activities</b>	<u>8,896</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>	
Purchase of Property and Equipment	(83,829)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(83,829)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Purchase of Investments	(2,706,408,671)
Proceeds from Sales of Investments	2,682,199,073
Receivable for Securities Sold	42,064,016
Payable for Securities Purchased	(46,315,813)
Interest and Dividends from Investments and Other	19,105,581
Investment Management Fees	(3,448,869)
<b>Net Cash Used in Investing Activities</b>	<u>(12,804,683)</u>
<b>Net Change in Cash and Cash Equivalents</b>	0
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>0</u>
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<u>\$ 0</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating Loss	\$ (69,260,019)
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	16,752
Changes in Assets and Liabilities:	
Increase in Assets:	
Assessments Receivable	(381,922)
Prepaid Expenses	(43,279)
Due from Association	(60,782)
Reinsurance Recoverable	(12,497,786)
Increase (Decrease) in Liabilities:	
Accounts Payable	(120,698)
Claims Reserves	95,000,000
Assessments Refundable	227,350
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 12,879,616</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, 2008**

**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 Section 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, 2008**

**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, futures and options on futures 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 Florida Treasury Investment Pool, which is a pool of investments of which the Plan owns a share of the pool, not the underlying securities. Additional information on the Florida Treasury Investment Pool is available in Note 2 of the State of Florida Comprehensive Annual Financial Report. 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. Additionally, the Plan invests in structured settlement annuities for selected claimants. These annuities are considered fixed income investments and are reported at fair value based on present value of future annuity payments.

**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, 2008**

**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, 2008 and estimates of claims incurred but not reported, including a contingency margin (Note 7).

**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, 2008**

**NOTE 3 – INVESTMENTS**

As of June 30, 2008, investments of the Plan were as follows:

<b>Types of Investments</b>		
<b>Classifiable Investments:</b>	<b>Fair Value</b>	<b>Effective Duration</b>
Annuities	\$ 9,752,287	n/a
Asset-Backed Securities	18,908,820	0.95
Certificate of Deposit	550,000	0.01
Corporate Bonds	59,663,814	5.61
Federal Home Loan Mortgage	2,909,056	2.23
Federal Home Loan Mortgage Gold	15,693,809	3.49
Federal National Mortgage Association	61,386,832	3.94
Government National Mortgage Association I	5,388,019	4.14
Government National Mortgage Association II	5,227,938	4.58
Government Bond	2,012,334	6.02
Mortgage Bond	45,170,080	3.54
Municipal Bond	168,995	23.25
Other U.S. Agency Securities	7,258,803	1.52
Treasury Bond	4,779,034	13.20
Treasury Note	26,840,536	4.25
Pooled Investment in Florida State Treasury	17,722,673	3.31
Equity Securities	382,498,923	n/a
Total Classifiable Investments	665,931,953	
<b>Non-Classifiable Investments:</b>		
Mutual Funds	39,203,905	
Total Non-Classifiable Investments	39,203,905	
<b>Total Investments</b>	<b>\$705,135,858</b>	

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

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 3 – INVESTMENTS (continued)**

obligations, certain State bonds, commercial paper, obligations of a Florida political subdivision as permitted by law, common stock, repurchase agreements and reverse repurchase agreements.

*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 Plan's name by JPMorgan Chase Bank, N.A. pursuant to a custodial agreement. Structured settlement annuities are maintained under agreements with Hartford Life Insurance Company, which has an A+ credit rating.

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:

<b>Asset Class</b>	<b>Permissible Ranges</b>
Domestic Equity	50%-60%
International Equity	10%-20%
Fixed Income	30%-40%
Cash	0%-2%

*Credit Quality Rating.* Section 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, 2008**

**NOTE 3 – INVESTMENTS (continued)**

Debt Security Type	Quality Rating		International Value	Total Fair Value
	Standard & Poors	Domestic Value		
Asset Backed	A-	\$ 250,867	n/a	\$ 250,867
Asset Backed	AA	553,646	n/a	553,646
Asset Backed	AAA	17,942,865	n/a	17,942,865
Asset Backed	BBB+	161,443	n/a	161,443
Certificate of Deposit	A+	550,000	n/a	550,000
Corporate Bonds	A	6,664,169	n/a	6,664,169
Corporate Bonds	A-	5,567,162	n/a	5,567,162
Corporate Bonds	A+	7,445,571	n/a	7,445,571
Corporate Bonds	AA	4,810,651	n/a	4,810,651
Corporate Bonds	AA-	9,314,850	n/a	9,314,850
Corporate Bonds	AA+	1,157,271	n/a	1,157,271
Corporate Bonds	AAA	5,055,874	n/a	5,055,874
Corporate Bonds	BBB	6,836,530	n/a	6,836,530
Corporate Bonds	BBB-	2,406,848	n/a	2,406,848
Corporate Bonds	BBB+	8,899,780	n/a	8,899,780
Corporate Bonds	NR	1,505,108	n/a	1,505,108
Federal Home Loan Mortgage	AAA	2,909,056	n/a	2,909,056
Federal Home Loan Mortgage Gold	AAA	15,693,809	n/a	15,693,809
Federal National Mortgage Association	AAA	61,386,832	n/a	61,386,832
GNMA I	AAA	5,388,019	n/a	5,388,019
GNMA II	AAA	5,227,938	n/a	5,227,938
Government Bonds	AAA	1,201,499	n/a	1,201,499
Government Bonds	BBB+	810,835	n/a	810,835
Mortgage Bonds	AAA	37,118,421	n/a	37,118,421
Mortgage Bonds	NR	8,051,660	n/a	8,051,660
Municipal Bonds	AA	168,995	n/a	168,995
Other U.S. Agency Securities	AA-	171,719	n/a	171,719
Other U.S. Agency Securities	AAA	7,087,084	n/a	7,087,084
Pooled Investment in Florida State Treasury	AA-f	17,722,673	n/a	17,722,673
		\$ 242,061,175		\$ 242,061,175

*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, 2008, Federal National Mortgage Association securities comprised 8.71% of the investment portfolio.

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**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, 2008, the Plan's exposure to possible foreign currency risk by monetary unit is as follows:

<b>Investment Type</b>	<b>Currency Type</b>	<b>Maturity</b>	<b>Fair Value</b>
Currency	Euro	n/a	\$ 64,532
	British Pound	n/a	17,817
	Japanese Yen	n/a	39,959
	Norwegian Krone	n/a	43,576
Common Stock	Australian Dollar	n/a	1,185,173
	British Pound	n/a	2,440,254
	Canadian Dollar	n/a	1,051,275
	Euro	n/a	18,341,232
	Japanese Yen	n/a	14,522,319
	Norwegian Krone	n/a	1,315,999
	South African Rand	n/a	2,334,039
	Thailand Baht	n/a	402,500
	Swedish Krona	n/a	833,558
			\$ 42,592,233

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, 2008**

**NOTE 3 – INVESTMENTS (continued)**

During the year, the Plan engaged in Mortgage Dollar Roll transactions which involve an agreement to purchase and concurrently sell a mortgage-backed security for settlement at a future date. As of June 30, 2008, receivables and payables related to these transactions totaled \$9,663,016 and \$9,677,634, respectively, and are included with Receivables for Securities Sold and Payable for Securities Purchased on the Statement of Net Assets- Enterprise Fund. Of the amount reported as a payable above, \$4,591,493 represents outstanding commitments for which the transactions have not closed.

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment as of June 30, 2008 consist of the following:

Property and Equipment	\$ 625,583
Software	<u>228,941</u>
Total	854,524
Less: Accumulated Depreciation	<u>(599,726)</u>
Property and Equipment, Net	<u>\$ 254,798</u>

On December 31, 2006, the Plan entered into a consulting agreement with a software development company to upgrade their claims processing system. The total cost is not to exceed \$906,828 and the estimated completion date is September 2008. The amount of \$228,941 above relates to payments made for deliverables met on the contract as of June 30, 2008. Depreciation expense has not been recognized on the software for the year ended June 30, 2008, as it is still in the testing phase.

**NOTE 5 - DUE FROM ASSOCIATION**

Due from Association of \$194,801 represents funds transferred to the Association for the payment of claims on behalf of the Plan and reimbursement of administrative costs.

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 6 – ADVANCE TO ASSOCIATION**

Advance to Association of \$525,777 represents funds transferred to the Association for the purchase of property to house their administrative office, net of accumulated depreciation of \$30,268. The principal balance of the advance is reduced annually by the depreciation expense recognized on the building and building improvements by the Association. Since land is not depreciated, the amount of the advance associated with land will remain outstanding. Interest on the advance is calculated at 4.12%. Interest income recognized for the year ended June 30, 2008 totaled \$22,028.

**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 (\$442,457,141 at June 30, 2008) and claims incurred but not reported. The claims reserve is actuarially determined for birth years 1989 through June 30, 2008. 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.

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 \$48 million as of June 30, 2008. 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.

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 7 – CLAIMS RESERVES (continued)**

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. During 2007, the Plan invested in structured settlement annuities for selected claimants to fund a portion of its future obligations. The purpose of the annuities is to protect the Plan against the financial effects of superlongevity and to reduce the mortality risk on certain claims, which is statutorily borne by the Plan. Given the claims characteristics, the Plan has also adjusted claims reserves to provide for a contingency margin in the event claims incurred but not reported significantly exceed management's best estimate. The contingency margin was \$50 million as of June 30, 2008.

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

**2008**

Balance at Beginning of Year, Including Contingency Margin of \$40,000,000		<u>\$547,000,000</u>
Claims Incurred Related to:		
Current Birth Year		40,513,127
Prior Birth Years		<u>33,746,243</u>
Total Claims Incurred		<u>74,259,370</u>
Claims Paid or Adjusted:	<u>Paid</u>	<u>Adjusted</u>
Prior Birth Years	\$(8,111,109)	\$18,851,739
Total Claims Paid or Adjusted		<u>10,740,630</u>
Increase in Contingency Margin		<u>10,000,000</u>
Balance at End of Year, Including Contingency Margin of \$50,000,000		<u>\$642,000,000</u>

**2007**

Balance at Beginning of Year, Including Contingency Margin of \$35,000,000		<u>\$491,000,000</u>
Claims Incurred Related to:		
Current Birth Year		34,975,705
Prior Birth Years		<u>(21,695,129)</u>
Total Claims Incurred		<u>13,280,576</u>
Claims Paid or Adjusted:	<u>Paid</u>	<u>Adjusted</u>
Prior Birth Years	\$(7,274,473)	\$44,993,897
Total Claims Paid or Adjusted		<u>37,719,424</u>
Increase in Contingency Margin		<u>5,000,000</u>
Balance at End of Year, Including Contingency Margin of \$40,000,000		<u>\$547,000,000</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 8 - ADMINISTRATIVE EXPENSES**

The Plan is administered by the Association, as established by *Florida Statutes*, Section 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. Additionally, a case was filed in circuit court seeking a class action against the Association in reference to payments to parents for the care of their child. The circuit court has certified the class and denied NICA's venue motions. Both issues are currently on appeal, and Briefs are not required to be filed until late November. However, at this time, there are other motions pending in reference to the merits of the class action case, which have been filed by the Association, and counsel is currently unable to express an opinion on the potential impact on the Association. 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 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. 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.

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 10 - EXCESS INSURANCE (continued)**

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, 2008 as any refund is contingent on future loss development during the remainder of the policy period.

As of June 30, 2008, the Plan was not covered by a reinsurance policy for the 2004 through 2008 birth years. The actuarial estimate of reinsurance recoverable under previous years' policies is \$62,713,830 at June 30, 2008.

**NOTE 11- SUBSEQUENT EVENT**

On May 30, 2008, J.P. Morgan Chase & Co. completed its acquisition of The Bear Stearns Companies, Inc. and subsequently, Bear Stearns Asset Management, an investment manager of the Plan, became part of the J.P. Morgan Asset Management group of business. As of June 30, 2008, the Plan had securities under the management of Bear Stearns Asset Management totaling \$34,564,904. In July, the management of J.P. Morgan Chase & Co. determined that the separate account investment strategies managed by Bear Stearns Asset Management would be discontinued effective August 31, 2008. On August 22, 2008, the Board approved the transfer of the portfolio securities to Eagle Asset Management, a subsidiary of Raymond James Financial, Inc. Securities totaling \$29,578,993 were transferred on September 2, 2008 with an additional \$221,079 transferred on September 3, 2008.

On September 7, 2008, the U.S. Federal Housing Finance Agency, the regulator of Fannie Mae and Freddie Mac, determined that the housing mortgage companies could not continue to operate safely and soundly and fulfill their public mission. The companies have been placed in conservatorship. As of September 7, 2008, the Plan held equity investments with these companies totaling \$41,076, and fixed income investments totaling \$95,924,958, which represented less than 1% and 15%, respectively, of the Plan's investment balance. While the

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION PLAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 11- SUBSEQUENT EVENT (continued)**

equity securities have lost virtually all of their value, the value of the fixed income securities has remained relatively stable.

On September 15, 2008, Lehman Brothers Holdings, Inc. filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the Southern District of New York. As of that date, the Plan had investments with Lehman Brothers Holding, Inc. totaling \$3,331,955. In addition, the Plan holds investments with the Florida Treasury Special Purpose Investment Account (SPIA) of which the Plan owns a share of the pool, not the underlying assets. Funds of SPIA are invested in the same portfolio as Treasury funds. As of September 12, 2008, the SPIA held investments in Lehman Brothers Holding, Inc. bonds that represented less than 1% of Treasury Investments. The total exposure as of September 15, 2008 represented less than 1% of the Plan's investment balance.

On September 15, 2008, Bank of America Corporation announced it has agreed to acquire Merrill Lynch & Co., Inc. in a \$50 billion all-stock transaction. As of that date, the Plan had securities with Merrill Lynch & Co., totaling \$2,451,836, which represented less than 1% of the Plan's investment balance.

On September 16, 2008, the Federal Reserve Board announced that the Federal Reserve Bank of New York is providing a two-year \$85 billion secured revolving credit facility to American International Group, Inc. (AIG) that will assist the company in meeting its liquidity needs. As of September 16, 2008, the Plan held investments with AIG totaling \$158,262, which represented less than 1% of the Plan's investment balance.

On September 25, 2008, the banking subsidiary of Washington Mutual, Inc. was seized by the United States Office of Thrift Supervision. The bank was placed into the receivership of the Federal Deposit Insurance Corporation. On September 26, 2008, Washington Mutual, Inc. filed a petition under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court in Wilmington, Delaware. As of September 26, 2008, the Plan held investments with Washington Mutual totaling \$2,275,017, which represented less than 1% of the Plan's investment balance.

The overall effect on the Plan's investment balances is unclear considering the continued volatility in the financial markets as evidenced by highs and lows in the market indexes. During the period above beginning September 8, 2008 and continuing through October 31, 2008, the Dow Jones Industrial Average and the Standard and Poor's 500 both had highs on September 8, 2008 of 11,511 and 1,268, respectively, and lows on October 27, 2008 of 8,176 and 849, respectively.



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

**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**

November 14, 2008

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, 2008, and have issued our report thereon dated November 14, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Florida Birth-Related Neurological Injury Compensation Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Florida Birth-Related Neurological Injury Compensation Plan's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Florida Birth-Related Neurological Injury Compensation Plan's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Florida Birth-Related Neurological Injury Compensation Plan's financial statements that is more than inconsequential will not be prevented or detected by Florida Birth-Related Neurological Injury Compensation Plan's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Florida Birth-Related Neurological Injury Compensation Plan's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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*.

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.





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

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

**FINANCIAL STATEMENTS  
TALLAHASSEE, FLORIDA**

**JUNE 30, 2008**

## TABLE OF CONTENTS

	<b>Page Number</b>
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	4
<b>Financial Statements</b>	
Statement of Net Assets	5
Statement of Revenues, Expenses and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8
<b>Internal Control and Compliance</b>	
<b>Report on Internal Control Over Financial Reporting and on Compliance     and Other Matters Based on an Audit of Financial Statements Performed     in Accordance with <i>Government Auditing Standards</i></b>	11



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

## INDEPENDENT AUDITOR'S REPORT

November 14, 2008

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, 2008, 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, 2008, 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 November 14, 2008, 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 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 important for 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.

*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, 2008. Please read it in conjunction with the Association's basic financial statements, which begin on page 5. The Association was established by Section 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 \$56,287 (or 7.7%), primarily due to the increase in cash and cash equivalents, coupled with a decrease in prepaid expenses and inventory. (See Table 1.)

During the year, the Association's total operating expenses increased by \$66,267 (or 5.4%). This is primarily due to legal services related to reinsurance litigation and increased cost of insurance. In the current year, total non-operating expenses of \$22,028 relate to interest expense incurred on the advance from the Plan for the purchase of property. 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**

	<b>2008</b>	<b>2007</b>
Total Assets	\$ 789,454	\$ 733,167
Total Liabilities	<u>789,454</u>	<u>733,167</u>
Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

**Table 2 – Change in Net Assets**

	<b>2008</b>	<b>2007</b>
Total Revenues	\$1,308,435	\$1,312,875
Total Operating Expenses	1,284,247	1,217,980
Total Non-Operating Expenses	<u>22,028</u>	<u>22,395</u>
Income before Taxes and Extraordinary Items	2,160	72,500
Impairment Loss - Extraordinary	0	72,500
Provision for Income Taxes	<u>2,160</u>	<u>0</u>
Change in Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION ASSOCIATION  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

**ASSETS**

**CURRENT ASSETS**

Cash and Cash Equivalents	\$ 189,014
Deposits and Prepaid Expenses	67,563
<b>Total Current Assets</b>	<u>256,577</u>

Property and Equipment, Net - Note 3	<u>532,877</u>
--------------------------------------	----------------

<b>TOTAL ASSETS</b>	<u><u>\$ 789,454</u></u>
---------------------	--------------------------

**LIABILITIES AND NET ASSETS**

**CURRENT LIABILITIES**

Accounts Payable and Accrued Expenses	\$ 63,750
Due to Plan - Note 4	194,801
Income Taxes Payable	5,126
<b>Total Current Liabilities</b>	<u>263,677</u>

Advance from Plan - Note 5	<u>525,777</u>
----------------------------	----------------

<b>Total Liabilities</b>	<u>789,454</u>
--------------------------	----------------

<b>NET ASSETS</b>	<u>0</u>
-------------------	----------

<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>\$ 789,454</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, 2008**

**OPERATING REVENUES**

Administrative Fees	<u>\$ 1,308,435</u>
<b>Total Operating Revenues</b>	<u>1,308,435</u>

**OPERATING EXPENSES**

General and Administrative Expenses	<u>1,284,247</u>
<b>Total Operating Expenses</b>	<u>1,284,247</u>

**NONOPERATING REVENUES (EXPENSES)**

Rental Income	2,797
Transfer of Rental Income to Plan	(2,797)
Interest Expense - Note 5	<u>(22,028)</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>(22,028)</u>

**INCOME BEFORE INCOME TAXES**

2,160

Provision for Income Taxes- Note 8

2,160

**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, 2008**

**CASH FLOWS FROM OPERATING ACTIVITIES**

Receipts from the Plan	\$ 1,369,217
Payments to Service Providers and Suppliers	(496,283)
Payments to Employees for Services	(540,864)
Payments for Employee Benefits	(192,232)
Refund of Income Tax	656
<b>Net Cash Provided by Operating Activities</b>	<u>140,494</u>

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

Reduction of Advance from Plan	(8,896)
Interest on Advance	(22,028)
<b>Net Cash Used in Capital and Related Financing Activities</b>	<u>(30,924)</u>

**Net Increase in Cash and Cash Equivalents** 109,570

**CASH AND CASH EQUIVALENTS - Beginning of Year** 79,444

**CASH AND CASH EQUIVALENTS - End of Year** 189,014

**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 Provided by Operating Activities:	
Depreciation	13,177
Interest on Advance	22,028
Changes in Assets and Liabilities:	
Decrease in Assets:	
Deposits and Prepaid Expenses	20,835
Inventory	18,615
Income Taxes Refundable	656
Increase in Liabilities:	
Accounts Payable and Accrued Expenses	2,241
Due to Plan	60,782
Income Taxes Payable	2,160
<b>Net Cash Provided by Operating Activities</b>	<u>\$ 140,494</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, 2008**

**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 and rental 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, 2008**

**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, 2008:

Land	\$ 209,088
Building	320,585
Building Improvements	26,372
Other Assets	22,639
	<u>578,684</u>
Less: Accumulated Depreciation	<u>(45,807)</u>
Property and Equipment, Net	<u>\$ 532,877</u>

Depreciation expense was \$13,177 for the year ended June 30, 2008.

**NOTE 4 – DUE TO PLAN**

Due to Plan of \$194,801 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 \$525,777 represents monies advanced to the Association for the purchase of property to house their administrative office, net of accumulated depreciation of \$30,268. The principal balance of the advance is reduced annually by the depreciation expense recognized on the building and building improvements. Since land is not depreciated, the amount of the advance associated with land will remain outstanding. Interest on the advance is calculated at 4.12%. Interest expense recognized for the year ended June 30, 2008 totaled \$22,028.

**FLORIDA BIRTH-RELATED NEUROLOGICAL  
INJURY COMPENSATION ASSOCIATION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**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, 2008. The contribution for the year was \$81,074.

**NOTE 8 – INCOME TAXES**

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

Current:	
Federal	\$2,160
State	0
	<u>\$2,160</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. Additionally, a case was filed in circuit court seeking a class action against the Association in reference to payments to parents for the care of their child. The circuit court has certified the class and denied NICA's venue motions. Both issues are currently on appeal, and Briefs are not required to be filed until late November. However, at this time, there are other motions pending in reference to the merits of the class action case, which have been filed by the Association, and counsel is currently unable to express an opinion on the potential impact on the Association. Accordingly, no provision has been made in the financial statements for these contingencies.



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

**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***

November 14, 2008

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, 2008, and have issued our report thereon dated November 14, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Florida Birth-Related Neurological Injury Compensation Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Florida Birth-Related Neurological Injury Compensation Association's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Florida Birth-Related Neurological Injury Compensation Association's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Florida Birth-Related Neurological Injury Compensation Association's financial statements that is more than inconsequential will not be prevented or detected by Florida Birth-Related Neurological Injury Compensation Association's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Florida Birth-Related Neurological Injury Compensation Association's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether 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 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.