



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

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

**FINANCIAL STATEMENTS
TALLAHASSEE, FLORIDA**

JUNE 30, 2009

TABLE OF CONTENTS

	Page Number
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Financial Statements	
Statement of Accumulated Deficit - Enterprise Fund	7
Statement of Revenues, Expenses and Changes in Accumulated Deficit – Enterprise Fund	8
Statement of Cash Flows - Enterprise Fund	9
Notes to Financial Statements	10
Internal Control and Compliance	
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>	25



INDEPENDENT AUDITOR'S REPORT

August 28, 2009

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, 2009 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, 2009, 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 28, 2009 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 at pages 4 through 6 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, 2009. Please read it in conjunction with the Plan's basic financial statements, which begin on page 7. 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, 2009, the Plan's total assets decreased by \$92,470,134 (or 11%), primarily due to decreases in investments and receivable for securities sold (See Table 1). Investments decreased by \$141,327,009 (or 20%) 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 increase in securities lending collateral of \$44,272,256 is attributable to the collateral held for the securities lending transactions. Financial statement treatment of these transactions includes an asset and a liability in which the net effect is zero. The decrease in receivable for securities sold of \$860,826 (or 3%) 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 \$777,228 (or .1%) as of June 30, 2009, primarily due to an increase in obligations under security lending which was offset by decreases in claims reserves and payable for securities purchased (See Table 1). The decrease in claims reserves of \$1 million (or .2%) is due to a change in actuarial assumptions for the investment rate of return and the annual inflation rate used in the calculation of the actuarial estimates for claims incurred but not reported (IBNR) and estimates of accumulated reported claims (see Note 9). The decrease in payable for securities purchased of \$42,399,369 (or 45%) is primarily due to timing differences as noted above with regard to the receivable for securities sold. The increase in obligations under securities lending collateral of \$44,272,256 is attributable to the collateral held for the securities lending transactions. Financial statement treatment of these transactions includes an asset and a liability in which the net effect is zero.

Table 1 – (Accumulated Deficit)/Net Assets

	2009	2008
Investments	\$ 563,808,849	\$ 705,135,858
Receivable for Securities Sold	32,171,415	33,032,241
Securities Lending Collateral	44,272,256	0
Reinsurance Recoverable	67,747,578	62,713,830
Other Assets	5,330,241	4,918,544
Total Assets	<u>713,330,339</u>	<u>805,800,473</u>
Claims Reserves	641,000,000	642,000,000
Payable for Securities Purchased	51,502,651	93,902,020
Obligations Under Securities Lending	44,272,256	0
Other Liabilities	389,548	485,207
Total Liabilities	<u>737,164,455</u>	<u>736,387,227</u>
(Accumulated Deficit)/Net Assets, Restricted	<u>\$ (23,834,116)</u>	<u>\$ 69,413,246</u>

During the year, operating revenues from assessments increased minimally (approximately 2%), while operating expenses decreased by \$86,683,857 (or 94%) primarily due to a decrease in claims expenses. The decrease in claims expenses of \$86,932,042 (or 96%) resulted from a change in actuarial assumptions for the investment rate of return and the annual inflation rate used in the calculation of the actuarial estimates for claims incurred but not reported (IBNR) and estimates of accumulated reported claims (see Note 9).

The Plan recorded net investment loss of \$109,232,024 for the year ended June 30, 2009 (See Table 2). The Plan's net investment loss is primarily comprised of unrealized losses approximating \$47 million, realized losses approximating \$78 million, and interest and dividend income of approximately \$16 million.

The net effect of the decrease in operating expenses and the recognition of investment loss resulted in a decrease in restricted net assets of \$93,247,362 (See Tables 1 and 2).

Table 2 – Changes in (Accumulated Deficit)/Net Assets

	2009	2008
Hospital Assessments	\$ 4,755,800	\$ 4,773,950
Physician Assessments	18,378,910	17,904,540
Total Operating Revenues	<u>23,134,710</u>	<u>22,678,490</u>
Claims Expenses	3,681,280	90,613,322
Other Operating Expenses	1,573,372	1,325,187
Total Operating Expenses	<u>5,254,652</u>	<u>91,938,509</u>
Operating Income/(Loss)	<u>17,880,058</u>	<u>(69,260,019)</u>
Investment (Loss) and Other Income	(109,210,361)	(16,082,004)
Investment Fees	(2,418,989)	(3,421,872)
Securities Lending, Net	501,930	0
Total Nonoperating Revenues and Expenses	<u>(111,127,420)</u>	<u>(19,503,876)</u>
Change In (Accumulated Deficit)/Net Assets	<u>\$ (93,247,362)</u>	<u>\$ (88,763,895)</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
STATEMENT OF ACCUMULATED DEFICIT-
ENTERPRISE FUND
JUNE 30, 2009**

ASSETS

Receivable for Securities Sold	\$	32,171,415
Securities Lending Collateral - Note 5		44,272,256
Investment Income Receivable		2,048,281
Assessments Receivable		2,017,513
Investments - Note 4		563,808,849
Reinsurance Recoverable - Note 12		67,747,578
Property and Equipment, Net - Note 6		686,535
Due from Association - Note 7		61,031
Advance to Association - Note 8		516,881
		<u>516,881</u>
TOTAL ASSETS	\$	713,330,339
		<u>713,330,339</u>

LIABILITIES AND ACCUMULATED DEFICIT

LIABILITIES

Assessments Refundable	\$	197,250
Accrued Investment Fees		184,626
Payable for Securities Purchased		51,502,651
Obligations Under Securities Lending - Note 5		44,272,256
Accounts Payable		7,672
Claims Reserves - Note 9		641,000,000
		<u>641,000,000</u>
Total Liabilities		737,164,455
ACCUMULATED DEFICIT - NOTE 2		(23,834,116)
		<u>(23,834,116)</u>
TOTAL LIABILITIES AND ACCUMULATED DEFICIT	\$	713,330,339
		<u>713,330,339</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 ACCUMULATED DEFICIT-
ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2009**

OPERATING REVENUES

Assessments:	
Hospitals	\$ 4,755,800
Physicians	18,378,910
	<hr/>
Total Operating Revenues	23,134,710

OPERATING EXPENSES

Claims Expenses - Note 9	3,681,280
Administrative Expenses - Note 10	1,551,983
Depreciation	21,389
	<hr/>
Total Operating Expenses	5,254,652

Operating Income	17,880,058
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NONOPERATING REVENUES (EXPENSES)

Investment Loss	(109,232,024)
Interest Income - Note 8	21,663
Investment Fees	(2,418,989)
Securities Lending Income - Note 5	969,364
Securities Lending Expense - Note 5	(467,434)
	<hr/>
Total Nonoperating Revenues (Expenses)	(111,127,420)

Change in (Accumulated Deficit)/Net Assets	(93,247,362)
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NET ASSETS - Beginning of Year	69,413,246
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ACCUMULATED DEFICIT - End of Year	\$ (23,834,116)
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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, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Hospitals and Physicians	\$ 22,793,088
Cash Payments to Claimants and Vendors	(9,679,421)
Cash Paid to Association	(1,418,213)
Net Cash Provided by Operating Activities	<u>11,695,454</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Reduction of Advance to Association	8,896
Net Cash Provided by Non-capital Financing Activities	<u>8,896</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Purchase of Property and Equipment	(453,126)
Net Cash Used in Capital and Related Financing Activities	<u>(453,126)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of Investments	(1,715,154,622)
Proceeds from Sales of Investments	1,734,434,083
Receivable for Securities Sold	860,826
Payable for Securities Purchased	(42,399,369)
Interest and Dividends from Investments and Other	13,967,512
Investment Management Fees	(2,959,654)
Net Cash Used in Investing Activities	<u>(11,251,224)</u>
Net Change 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 LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating Income	\$ 17,880,058
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	21,389
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Assessments Receivable	(311,522)
Prepaid Expenses	43,279
Due from Association	133,770
Reinsurance Recoverable	(5,033,748)
Decrease in Liabilities:	
Accounts Payable	(7,672)
Claims Reserves	(1,000,000)
Assessments Refundable	(30,100)
Net Cash Provided by Operating Activities	<u>\$ 11,695,454</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, 2009**

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 3). 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, 2009**

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.

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. *Florida Statutes* and the Plan's investment policy permit the Plan to enter into securities lending transactions.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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, 2009 and estimates of claims incurred but not reported, including a contingency margin (Note 9).

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.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – ACCUMULATED DEFICIT AND INVESTMENT LOSS

During 2008, the U.S. economy moved into an economic recession that deepened late in the fourth quarter following the collapse of several leading investment banks. The severe volatility, illiquidity and credit dislocations that were experienced in the debt and equity markets negatively impacted Plan operations and resulted in an accumulated deficit of \$23,834,116 as of June 30, 2009. The Plan reported losses on investments of approximately \$109 million for the fiscal year which were comprised of approximately \$78 million in realized losses, approximately \$47 million in unrealized losses. The realized and unrealized losses were offset by interest and dividend income of approximately \$16 million. The unrealized losses represent 8.3% of the fair value of the investment portfolio as of June 30, 2009.

The overall economy will continue to affect investment results of the Plan and the degree of impact is dependent upon the duration and severity of such financial conditions. The impact of adverse investment activity is mitigated by the following:

- As disclosed at Note 3, *Florida Statutes* provide for a distribution of “up to \$20 million” from the Insurance Regulatory Trust Fund in order to maintain the Plan on an actuarially sound basis. Additionally, the Department of Financial Services, Office of Insurance Regulation may assess certain entities licensed in Florida to issue casualty insurance based on a rate no greater than .25% of net direct premiums written.
- Claims payments are made over the anticipated life expectancy of the claimant which range from 10 to 69 years.
- The Plan operates under formal investment policies which seek to mitigate investment risk exposures as described at Note 4.
- Claims Reserves include a contingency reserve of \$55 million as discussed in Note 9.

NOTE 3 – 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, 2009**

NOTE 4 – INVESTMENTS

As of June 30, 2009, investments of the Plan were as follows:

Types of Investments Classifiable Investments:	Fair Value	Effective Duration
Annuities	\$ 10,534,000	n/a
Asset-Backed Securities	17,172,000	1.21
Commercial Paper	2,997,000	0.18
Corporate Bonds	65,930,000	5.51
Federal Home Loan Mortgage	38,060,000	2.02
Federal National Mortgage Association	42,615,000	2.30
Government National Mortgage Association	7,300,000	2.44
U.S. Government Bond	24,100,000	8.03
Collateralized Mortgage Obligation	25,125,000	1.90
Municipal Bond	536,000	10.30
Other U.S. Agency Securities	9,372,000	3.66
Treasury Bills	1,000,000	0.09
Pooled Investment in Florida State Treasury	26,384,000	1.84
Equity Securities	268,538,000	n/a
Total Classifiable Investments	539,663,000	
Non-Classifiable Investments:		
Money Market	24,145,849	
Total Non-Classifiable Investments	24,145,849	
Total Investments	\$563,808,849	

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, 2009**

NOTE 4 – 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 currently maintained in the Plan's name by Bank of New York Mellon, 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:

Asset Class	Permissible Ranges
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, 2009**

NOTE 4 – INVESTMENTS (continued)

Debt Security Type	Quality Rating		International Value	Total Fair Value
	Moody's	Domestic Value		
Asset Backed	AAA+	\$ 184,000	n/a	\$ 184,000
Asset Backed	AAA	13,947,000	n/a	13,947,000
Asset Backed	AA	806,000	n/a	806,000
Asset Backed	BAA	1,280,000	n/a	1,280,000
Asset Backed	BA	14,000	n/a	14,000
Asset Backed	B	299,000	n/a	299,000
Asset Backed	NR	642,000	n/a	642,000
Commercial Paper	AA	2,997,000	n/a	2,997,000
Corporate Bonds	AAA	6,936,000	n/a	6,936,000
Corporate Bonds	AA	12,296,000	n/a	12,296,000
Corporate Bonds	A	23,151,000	n/a	23,151,000
Corporate Bonds	BAA	21,685,000	n/a	21,685,000
Corporate Bonds	BA	860,000	n/a	860,000
Corporate Bonds	B	232,000	n/a	233,000
Corporate Bonds	NR	770,000	n/a	770,000
Federal Home Loan Mortgage	AAA+	38,060,000	n/a	38,060,000
Federal National Mortgage Association	AAA+	42,615,000	n/a	42,615,000
GNMA	AAA+	7,300,000	n/a	7,300,000
Mortgage Bonds	AAA	13,308,000	n/a	13,308,000
Mortgage Bonds	AA	132,000	n/a	132,000
Mortgage Bonds	A	405,000	n/a	405,000
Mortgage Bonds	BAA	1,439,000	n/a	1,439,000
Mortgage Bonds	BA	849,000	n/a	849,000
Mortgage Bonds	B	468,000	n/a	468,000
Mortgage Bonds	CAA	402,000	n/a	402,000
Mortgage Bonds	NR	8,122,000	n/a	8,122,000
Municipal Bonds	AAA	57,000	n/a	57,000
Municipal Bonds	AA	327,000	n/a	327,000
Municipal Bonds	A	152,000	n/a	152,000
Other U.S. Agency Securities	AAA+	9,372,000	n/a	9,372,000
Pooled Investment in Florida State Treasury	A+f	26,384,000	n/a	26,384,000
		<u>\$ 235,491,000</u>		<u>\$ 235,491,000</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

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 – INVESTMENTS (continued)

June 30, 2009, Federal National Mortgage Association securities comprised 7.56% of the investment portfolio and Federal Home Loan Mortgage Corporation comprised 6.75%.

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 20 percent of total investments in international equities. At June 30, 2009, the Plan's exposure to possible foreign currency risk by monetary unit is as follows:

Investment Type	Currency Type	Maturity	Fair Value
Currency	British Pound	n/a	\$ 31
	Euro	n/a	148,681
	Japanese Yen	n/a	56,366
	S African Rand	n/a	4,074
	Swiss Franc	n/a	16,019
Common Stock	Australian Dollar	n/a	270,864
	British Pound	n/a	2,566,009
	Canadian Dollar	n/a	477,481
	Euro	n/a	12,464,071
	Japanese Yen	n/a	11,282,691
	Norwegian Krone	n/a	356,923
	South African Rand	n/a	1,360,514
	Thailand Baht	n/a	361,043
	Swedish Krona	n/a	586,472
	Swiss Franc	n/a	1,103,683
			\$ 31,054,922

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 4 – INVESTMENTS (continued)

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.

NOTE 5 – SECURITIES LENDING

The market for securities lending developed to provide temporary access to a large portfolio of securities for broker/dealers who might have a need to borrow specific instruments. Section 215.47(17), Florida Statutes and the investment policy adopted by the Board of Directors permits the Plan to enter into securities lending transactions. Accordingly, the Plan participates in securities lending transactions via a Securities Lending Agreement with The Bank of New York Mellon that authorizes the banking institution to lend the Plan's securities to approved broker-dealers and banks in order to generate additional income. Collateral for loan securities cannot be less than 100% of the fair value of the underlying security plus accrued interest. Such collateral may consist of cash and U.S. government securities. The Plan cannot pledge or sell non-cash collateral in the absence of a default by the borrower. Cash collateral is invested in accordance with the Plan's investment policy and Section 215.47, *Florida Statutes*. Maturities of investments made with cash collateral generally are not matched to maturities of the securities loaned because security loan agreements are generally open-ended with no fixed expiration date. The Bank provides indemnification if the borrowers fail to return the underlying securities and if the collateral is inadequate to replace the securities lent. Gross income from securities lending transactions and the fees paid to the Bank are reported on the Plan's statement of revenues, expenses and changes in accumulated deficit. Assets and liabilities include the value of the collateral held.

During the fiscal year ended June 30, 2009, income generated by the securities lending program totaled \$969,364 with fees totaling \$467,434. Investments in Lehman Brothers bonds which had been held in the securities lending collateral investments under the previous custodian, J.P. Morgan Chase, were sold at a loss of \$2.7 million.

The following represents the balances relating to the securities lending transactions as of June 30, 2009:

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 – SECURITIES LENDING (continued)

Types of Securities Lent	Fair Value of Underlying Securities	Cash Collateral Received
U.S. Government & Agencies	\$ 3,865,764	\$ 3,920,643
U.S. Corporate Fixed Income	1,165,435	1,192,750
U.S. Equities	34,705,230	35,895,001
Non-U.S. Equities	3,846,157	4,231,460
Total	<u>\$ 43,582,586</u>	<u>\$ 45,239,854</u>

Securities Lending Investments	Amount Invested	Market Value
Repurchase Agreements	\$ 14,498,058	\$ 14,498,058
U.S. Corporate Floating Rate Notes	30,737,000	29,769,402
Other	4,796	4,796
Total	<u>\$ 45,239,854</u>	<u>\$ 44,272,256</u>

At June 30, 2009, the collateral held for the security lending transactions exceeded the fair value of the securities underlying the agreements. Therefore, the Plan did not have credit risk exposure related to these transactions.

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2009 consist of the following:

Property and Equipment	\$ 582,895
Software	<u>616,706</u>
Total	1,199,601
Less: Accumulated Depreciation	<u>(513,066)</u>
Property and Equipment, Net	<u>\$ 686,535</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 6 - PROPERTY AND EQUIPMENT (continued)

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 2009. The amount of \$616,706 above relates to payments made for deliverables met on the contract as of June 30, 2009. Depreciation expense has not been recognized on the software for the year ended June 30, 2009, as it is still in the testing phase.

NOTE 7 - DUE FROM ASSOCIATION

Due from Association of \$61,031 represents funds transferred to the Association for the payment of claims on behalf of the Plan and reimbursement of administrative costs.

NOTE 8 - ADVANCE TO ASSOCIATION

Advance to Association of \$516,881 represents funds transferred to the Association for the purchase of property to house their administrative office, net of accumulated depreciation of \$39,164. 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, 2009 totaled \$21,663.

NOTE 9 - 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 and claims incurred but not reported. The claims reserve is actuarially determined for birth years 1989 through June 30, 2009. The reserves utilize adjustment factors for the assumption of the annual investment return and the annual inflation rate.

As of June 30, 2009, the reserves utilized an adjustment factor that reflects a change in the assumptions based on the actuaries' historical analyses of investment income and inflation experienced by the Plan since inception.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9 - CLAIMS RESERVES (continued)

The net effect of the change in assumptions resulted in a decrease in the claims reserve approximating \$53 million.

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 11). 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 acknowledge the family care benefit. 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 12, 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 \$55 million as of June 30, 2009.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 9 – CLAIMS RESERVES (continued)

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

2009

Balance at Beginning of Year, Including Contingency Margin of \$50,000,000			<u>\$642,000,000</u>
Claims Incurred Related to:			
Current Birth Year			43,833,494
Prior Birth Years			<u>17,993,103</u>
Total Claims Incurred			<u>61,826,597</u>
Claims Paid or Adjusted:	<u>Paid</u>	<u>Adjusted</u>	
Prior Birth Years	(\$9,715,027)	(\$5,015,964)	(14,730,991)
Change in reserve liability resulting from change in actuarial assumptions as described above			<u>(53,095,606)</u>
Total Claims Paid or Adjusted			<u>(67,826,597)</u>
Increase in Contingency Margin			<u>5,000,000</u>
Balance at End of Year, Including Contingency Margin of \$55,000,000			<u>\$641,000,000</u>

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	<u>10,740,630</u>
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>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 10 - 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 11 - 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. The Second District Court of Appeal denied NICA's venue appeal, and denied the appeal in regard to Class Certification in a Per Curiam Affirmed Order. NICA has filed a motion with the Second District Court of Appeal requesting a written opinion on the denial of the Class Certification appeal. The Court has not ruled on such motion. 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 12 - 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

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PLAN
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 12 - EXCESS INSURANCE (continued)

\$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, 2009.

As of June 30, 2009, the Plan was not covered by a reinsurance policy for the 2004 through 2009 birth years. The actuarial estimate of reinsurance recoverable under previous years' policies is \$67,747,578 at June 30, 2009.



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 28, 2009

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, 2009, and have issued our report thereon dated August 28, 2009. 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 opinion 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, 2009

TABLE OF CONTENTS

	Page Number
Independent Auditor's Report	2
Management's Discussion and Analysis	4
Financial Statements	
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
Internal Control and Compliance	
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>	11



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

INDEPENDENT AUDITOR'S REPORT

August 28, 2009

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, 2009, 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, 2009, 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 28, 2009, 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 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.

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, 2009. 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 decreased by \$117,295 (or 14.9%), primarily due to the decrease in cash and cash equivalents, coupled with a decrease in prepaid expenses. (See Table 1.)

During the year, the Association's total operating expenses increased by \$242,888 (or 18.9%). This is primarily due to other professional fees related to actuarial services. In the current year, total non-operating expenses of \$21,663 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

	2009	2008
Total Assets	\$ 672,159	\$ 789,454
Total Liabilities	<u>672,159</u>	<u>789,454</u>
Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

Table 2 – Change in Net Assets

	2009	2008
Total Revenues	\$1,551,983	\$1,308,435
Total Operating Expenses	1,527,135	1,284,247
Total Non-Operating Expenses	<u>21,663</u>	<u>22,028</u>
Income before Taxes	3,185	2,160
Provision for Income Taxes	<u>3,185</u>	<u>2,160</u>
Change in Net Assets	<u>\$ 0</u>	<u>\$ 0</u>

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
STATEMENT OF NET ASSETS
JUNE 30, 2009**

ASSETS

CURRENT ASSETS

Cash and Cash Equivalents	\$	87,780
Deposits and Prepaid Expenses		54,853
Inventory		8,191
Total Current Assets		150,824

Property and Equipment, Net - Note 3		521,335
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TOTAL ASSETS	\$	672,159
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable and Accrued Expenses	\$	90,342
Due to Plan - Note 4		61,031
Income Taxes Payable		3,905
Total Current Liabilities		155,278

Advance from Plan - Note 5		516,881
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Total Liabilities		672,159
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NET ASSETS		0
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TOTAL LIABILITIES AND NET ASSETS	\$	672,159
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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, 2009**

OPERATING REVENUES

Administrative Fees	<u>\$ 1,551,983</u>
Total Operating Revenues	<u>1,551,983</u>

OPERATING EXPENSES

General and Administrative Expenses	<u>1,527,135</u>
Total Operating Expenses	<u>1,527,135</u>

NONOPERATING EXPENSES

Interest Expense - Note 5	<u>21,663</u>
Total Nonoperating Expenses	<u>21,663</u>

INCOME BEFORE INCOME TAXES

Provision for Income Taxes - Note 8	<u>3,185</u>
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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, 2009**

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from the Plan	\$ 1,418,213
Payments to Service Providers and Suppliers	(708,335)
Payments to Employees for Services	(571,119)
Payments for Employee Benefits	(205,112)
Payments for Income Taxes	(4,322)
Net Cash Used in Operating Activities	<u>(70,675)</u>

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

Reduction of Advance from Plan	(8,896)
Interest on Advance	(21,663)
Net Cash Used in Capital and Related Financing Activities	<u>(30,559)</u>

Net Decrease in Cash and Cash Equivalents (101,234)

CASH AND CASH EQUIVALENTS - Beginning of Year 189,014

CASH AND CASH EQUIVALENTS - End of Year \$ 87,780

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

Change in Net Assets	\$ 0
Adjustments to Reconcile Change in Net Assets to Net Cash Used In Operating Activities:	
Depreciation	11,542
Interest on Advance	21,663
Changes in Assets and Liabilities:	
(Increase) Decrease in Assets:	
Deposits and Prepaid Expenses	12,710
Inventory	(8,191)
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Expenses	26,508
Due to Plan	(133,770)
Income Taxes Payable	(1,137)
Net Cash Used In Operating Activities	<u>\$ (70,675)</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, 2009**

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.

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: The Association capitalizes acquisitions of property and equipment having a value of \$500 or more. 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, 2009**

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 \$250,000. The current FDIC limit is temporarily in place due to certain national economic conditions, and will revert back to \$100,000 on January 1, 2010. 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, 2009:

Land	\$ 209,088
Building	320,585
Building Improvements	26,372
Other Assets	22,639
	578,684
Less: Accumulated Depreciation	(57,349)
Property and Equipment, Net	\$ 521,335

Depreciation expense was \$11,542 for the year ended June 30, 2009.

NOTE 4 – DUE TO PLAN

Due to Plan of \$61,031 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 \$516,881 represents monies advanced to the Association for the purchase of property to house their administrative office, net of accumulated depreciation of \$39,164. 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, 2009 totaled \$21,663.

**FLORIDA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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, 2009. The contribution for the year was \$80,705.

NOTE 8 – INCOME TAXES

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

Current:	
Federal	\$ 3,185
State	<u>0</u>
	<u>\$ 3,185</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. The Second District Court of Appeal denied NICA's venue appeal, and denied the appeal in regard to Class Certification in a Per Curiam Affirmed Order. NICA has filed a motion with the Second District Court of Appeal requesting a written opinion on the denial of the Class Certification appeal. The Court has not ruled on such motion. 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.



**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 28, 2009

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, 2009, and have issued our report thereon dated August 28, 2009. 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.