Financial Statements
and Other Reports

# Florida Birth-Related Neurological Injury Compensation Plan

*Year ended June 30, 2010*
*with Report of Independent Auditors*

Thomas Howell
Ferguson P.A.

# Florida Birth-Related Neurological Injury Compensation Plan

## Financial Statements and Other Reports

Year ended June 30, 2010

## Contents

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# Report of Independent Auditors

The Board of Directors
Florida Birth-Related Neurological Injury Compensation Plan

We have audited the accompanying basic financial statements of Florida Birth-Related Neurological Injury Compensation Plan (the Plan), a component unit of the state of Florida, as of and for the year ended June 30, 2010, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Birth-Related Neurological Injury Compensation Plan as of June 30, 2010, and the respective 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 17, 2010, on our consideration of the Plan's internal control over financial reporting and 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 pages *3* through *5* 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.

Thomas Howell Ferguson P.A.

August 17, 2010

# 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, 2010. 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, 2010, the Plan's total assets increased by $89,420,077 (or 13%), primarily due to increases in investments (See Table 1). Investments increased by $88,393,266 (or 16%) resulting primarily from investment holding gains and securities purchased during the year, funded primarily by assessments received, gains realized on proceeds from securities sold and investment income earned during the fiscal year. The decrease in securities lending collateral of $6,646,080 (or 15%) is attributable to decreases in the securities on loan as of June 30, 2010. The decrease in receivable for securities sold of $2,288,136 (or 7%) 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 $34,133,399 (or 5%) as of June 30, 2010, primarily due to increases in claims reserves which was offset by decreases in obligations under security lending and payable for securities purchased (See Table 1). The increase in claims reserves of $49 million (or 8%) is due to new claims reported during the year, actuarial estimates for claims incurred but not reported (IBNR) and revisions to the estimates of accumulated reported claims made by management. The decrease in payable for securities purchased of $8,358,275 (or 16%) is primarily due to timing differences as noted above with regard to the receivable for securities sold. The decrease in obligations under securities lending collateral of $6,642,918 (or 15%) is attributable to decreases in the securities on loan as of June 30, 2010.

**Table 1 – Net Assets/(Accumulated Deficit)**

| | **2010** | **2009** |
|---|---|---|
| Investments | **$ 652,202,115** | $ 563,808,849 |
| Receivable for securities sold | **29,883,279** | 32,171,415 |
| Securities lending collateral | **37,626,176** | 44,272,256 |
| Reinsurance recoverable | **77,392,577** | 67,747,578 |
| Other assets | **5,646,269** | 5,330,241 |
| Total assets | **802,750,416** | 713,330,339 |
| | | |
| Claims reserves | **690,000,000** | 641,000,000 |
| Payable for securities purchased | **43,144,376** | 51,502,651 |
| Obligations under securities lending | **37,629,338** | 44,272,256 |
| Other liabilities | **524,140** | 389,548 |
| Total liabilities | **771,297,854** | 737,164,455 |
| | | |
| Net assets/(accumulated deficit), restricted | **$ 31,452,562** | $ (23,834,116) |

During the year, operating revenues from assessments increased minimally (less than 1%), while operating expenses increased by $46,808,036 primarily due to an increase in claims expenses. The increase in claims expenses of $46,665,326 as compared to the prior fiscal year is primarily due to lower claims expenses recognized in the previous fiscal year resulting from a change in actuarial assumptions during that year, combined with new claims reported during the current year, actuarial estimates for claims incurred but not reported (IBNR) and revisions to the estimates of accumulated reported claims made by management.

The Plan recorded net investment income and other income of $84,102,177 for the year ended June 30, 2010 (See Table 2). The Plan's net investment income is primarily comprised of unrealized gains of approximately $43.2 million, realized gains of approximately $27.1 million, interest and dividend income of approximately $16.4 million and is offset by investment management fees of approximately $2.6 million.

The net effect of the increase in operating expenses and the recognition of investment income resulted in an increase in restricted net assets of $55,286,678 (See Tables 1 and 2).

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

| | **2010** | 2009 |
|---|---|---|
| Hospital assessments | **$ 4,239,350** | $ 4,755,800 |
| Physician assessments | **19,007,839** | 18,378,910 |
| Total operating revenues | **23,247,189** | 23,134,710 |
| Claims expenses | **50,346,606** | 3,681,280 |
| Other operating expenses | **1,716,082** | 1,573,372 |
| Total operating expenses | **52,062,688** | 5,254,652 |
| Operating income/(loss) | **(28,815,499)** | 17,880,058 |
| Investment (loss) and other income | **86,478,251** | (109,210,361) |
| Investment fees | **(2,558,749)** | (2,418,989) |
| Securities lending, net | **182,675** | 501,930 |
| Total Nonoperating revenues and expenses | **84,102,177** | (111,127,420) |
| Change in net assets/(accumulated deficit) | **$ 55,286,678** | $ (93,247,362) |

# Florida Birth-Related Neurological Injury Compensation Plan

## Statement of Net Assets

June 30, 2010

| | |
|---|---|
| **Assets** | |
| Receivable for securities sold | $ 29,883,279 |
| Securities lending collateral | 37,626,176 |
| Investment income receivable | 2,659,037 |
| Assessments receivable | 1,488,744 |
| Investments | 652,202,115 |
| Reinsurance recoverable | 77,392,577 |
| Property and equipment, net | 923,925 |
| Due from Association | 66,578 |
| Advance to Association | 507,985 |
| Total assets | $ 802,750,416 |
| | |
| **Liabilities and net assets** | |
| Liabilities: | |
| Assessments refundable | $ 235,950 |
| Accrued investment fees | 247,353 |
| Payable for securities purchased | 43,144,376 |
| Obligations under securities lending | 37,629,338 |
| Accounts payable | 40,837 |
| Claims reserves | 690,000,000 |
| Total liabilities | 771,297,854 |
| | |
| Net assets: | |
| Restricted | 31,452,562 |
| | |
| Total liabilities and net assets | $ 802,750,416 |

*See accompanying notes.*

# Florida Birth-Related Neurological Injury Compensation Plan

## Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

| | |
|---|---|
| **Changes in restricted net assets:** | |
| Operating revenues: | |
| Hospital assessments | $ 4,239,350 |
| Physicians assessments | 19,007,839 |
| Total operating revenues | 23,247,189 |
| | |
| Operating expenses: | |
| Claims expenses | 50,346,606 |
| Administrative expenses | 1,551,857 |
| Depreciation and amortization | 164,225 |
| Total operating expenses | 52,062,688 |
| | |
| Operating loss | (28,815,499) |
| | |
| Nonoperating revenues (expenses): | |
| Investment income | 86,456,956 |
| Interest income | 21,295 |
| Investment fees | (2,558,749) |
| Securities lending income | 334,796 |
| Securities lending expenses | (152,121) |
| Total nonoperating revenues (expenses) | 84,102,177 |
| | |
| Change in restricted net assets | 55,286,678 |
| | |
| Accumulated deficit at beginning of year | (23,834,116) |
| | |
| Net assets at end of year | $ 31,452,562 |

*See accompanying notes.*

# Florida Birth-Related Neurological Injury Compensation Plan

## Statement of Cash Flows

Year ended June 30, 2010

| | |
|---|---|
| **Operating activities** | |
| Cash received from hospitals and physicians | $ 23,814,658 |
| Cash payments to claimants and vendors | (10,958,440) |
| Cash paid to Association | (1,557,404) |
| Net cash provided by operating activities | 11,298,814 |
| **Non capital financing activites** | |
| Reduction of advance to Association | 8,896 |
| Net cash provided by non capital financing activities | 8,896 |
| **Capital financing activities** | |
| Purchase of property and equipment | (401,615) |
| Net cash used in capital financing activities | (401,615) |
| **Investing activities** | |
| Purchase of investments | (1,710,261,334) |
| Proceeds from sale of investments | 1,691,789,938 |
| Receivable for securities sold | 2,288,136 |
| Payable for securities purchased | (8,358,275) |
| Interest and dividends from investments and other | 16,409,037 |
| Investment management fees | (2,773,597) |
| Net cash used in investing activities | (10,906,095) |
| Net (decrease) increase in cash and cash equivalents | - |
| Cash and cash equivalents at beginning of year | - |
| Cash and cash equivalents at end of year | $ - |
| **Reconciliation of operating loss to net cash provided by operating activities:** | |
| Operating loss | $ (28,815,499) |
| Adjustments to reconcile operating loss to net cash provided by operating activities: | |
| Depreciation and amortization | 164,225 |
| Changes in operating assets and liabilities: | |
| Assessments receivable | 528,769 |
| Due from Association | (5,547) |
| Reinsurance recoverable | (9,644,999) |
| Accounts payable | 33,165 |
| Claims reserves | 49,000,000 |
| Assessments refundable | 38,700 |
| Net cash provided by operating activities | $ 11,298,814 |

*See accompanying notes.*

## 1. Summary of Significant Accounting Policies

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 as applied to governmental units. 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.

### 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 (the 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 Service 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 of 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 any additional funds available within 12 months, 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.

## 1. Summary of Significant Accounting Policies (continued)

### Assessments

An assessment of $250 per physician is required by Florida Statutes 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 participating physician assessment and who are supervised by a participating physician may also participate in the Plan. Additionally, each hospital licensed under Chapter 395, Florida Statute, must pay the 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 of Directors, but must be approved by the Office of Insurance Regulation.

### Basis of Accounting

The Plan follows financial reporting requirements for enterprise funds, which use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recognized when they are incurred.

The financial statements have been prepared in conformity with the pronouncements of the Governmental Accounting Standards Board (GASB), including GASB Statement No. 14, *The Financial Reporting Entity*, which defines the Plan as a component unit of the state of Florida.

### Cash

For purposes of the statement of cash flows, cash and interest bearing deposits with an original maturity of three months or less are considered cash equivalents. Investment purchases made through the Office of the Treasurer, State of Florida, are considered to be investments

## 1. Summary of Significant Accounting Policies (continued)

### 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. 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.

The financial instruments exposed to concentrations of credit risk consist primarily of its cash, cash equivalents, and investments. All investment transactions have credit exposure to the extent that a counterparty may default on an obligation of the Plan. Credit risk is a consequence of carrying investment positions. To manage credit risk, the Plan focuses primarily on higher quality, fixed income securities, limits it exposure in any one investment, and monitors quality.

### Assessments Receivable

The management of the Plan considers assessments receivable to be fully collectible; accordingly, no allowance for doubtful accounts has been recorded.

### Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets.

### Claims Reserves

The liability for claims reserves is based on an actuarial determination and represents the estimated ultimate net cost of all unpaid reported and unreported claims and claim adjustment expenses. These liabilities are necessarily subject to the impact of future changes in claim severity and other factors. The unpaid claims and claim adjustment expense estimates are continually reviewed and, as adjustments become necessary, such adjustments are reflected in current operations. There is an absence of a significant amount of historical experience as to whether the Plan's actual incurred claims and claim adjustment expenses will conform to the actuarial assumptions inherent in the determination of the liability. Accordingly, the ultimate settlement of claims and claim adjustment expenses may vary significantly from the actuarial estimates.

## 1. Summary of Significant Accounting Policies (continued)

### Net Assets

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

### Revenue Recognition

Operating revenues consist of hospital and physicians assessments and are recognized when earned. Nonoperating revenues consist of various forms of investment income.

### Use of Estimates

The preparation 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

### Subsequent Events

The Plan has evaluated subsequent events through August 17, 2010, the date the financial statements were available to be issued. During the period from June 10, 2010 to August 17, 2010, the Plan did not have any material recognizable subsequent events.

## 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 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 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.

## 3. Investments

As of June 30, 2010, investments of the Plan were as follows:

| Types of Investments<br>Classifiable Investments: | Fair Value | Effective Duration |
|---|---|---|
| Annuities | $ 9,107,000 | n/a |
| Asset-backed securities | 19,114,000 | 0.63 |
| Corporate bonds | 98,844,000 | 7.14 |
| Federal Home Loan Mortgage | 21,140,000 | 2.06 |
| Federal National Mortgage Association | 39,055,000 | 2.59 |
| Government National Mortgage Association | 9,410,000 | 1.66 |
| International corporate bonds | 2,665,000 | 4.50 |
| International government bonds | 4,170,000 | 7.44 |
| U.S. government bond | 60,201,000 | 10.87 |
| Collateralized Mortgage Obligation | 27,942,000 | 2.76 |
| Municipal bond | 3,012,000 | 10.31 |
| Other U.S. agency securities | 3,877,000 | 9.67 |
| Pooled investment in Florida State Treasury | 24,109,000 | 1.81 |
| Equity securities | 312,721,000 | n/a |
| Total classifiable investments | 635,367,000 | |
| **Non-classifiable Investments:** | | |
| Money market | 16,835,115 | |
| Total non-classifiable investments | 16,835,115 | |
| Total investments | $ 652,202,115 | |

Investments are diversified to minimize the risk of loss resulting from over compensation 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. To mitigate investment risk, 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.

**3. Investments (continued)**

Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Custody of the Plan's investments is 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 Range |
|---|---|
| Domestic equity | 25% - 40% |
| International equity | 5% - 20% |
| Fixed income | 40% - 60% |
| Cash | 2% - 4% |

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 rating 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.

### 3. Investments (continued)

| Debt Security Type | Quality Rating Moody's | Fair Value |
|---|---|---|
| Asset-backed | AAA+ | $ 131,000 |
| Asset-backed | AAA | 16,343,000 |
| Asset-backed | A | 74,000 |
| Asset-backed | BA | 249,000 |
| Asset-backed | B | 214,000 |
| Asset-backed | CAA | 270,000 |
| Asset-backed | CA | 13,000 |
| Asset-backed | NR | 1,820,000 |
| Corporate bonds | AAA | 6,478,000 |
| Corporate bonds | AA | 16,023,000 |
| Corporate bonds | A | 33,844,000 |
| Corporate bonds | BAA | 41,579,000 |
| Corporate bonds | BA | 854,000 |
| Corporate bonds | C | 65,000 |
| International corporate bonds | AA | 891,000 |
| International corporate bonds | A | 665,000 |
| International corporate bonds | BAA | 113,000 |
| International corporate bonds | NR | 998,000 |
| International government bonds | AA | 1,597,000 |
| International government bonds | A | 1,013,000 |
| International government bonds | BAA | 1,560,000 |
| Mortgage bonds | AAA+ | 1,053,000 |
| Mortgage bonds | AAA | 15,117,000 |
| Mortgage bonds | AA | 179,000 |
| Mortgage bonds | A | 444,000 |
| Mortgage bonds | BAA | 134,000 |
| Mortgage bonds | BA | 18,000 |
| Mortgage bonds | B | 19,000 |
| Mortgage bonds | CAA | 114,000 |
| Mortgage bonds | NR | 10,864,000 |
| Municipal bonds | AA | 2,394,000 |
| Municipal bonds | A | 618,000 |
| Other U.S. agency securities | AAA+ | 3,469,000 |
| Other U.S. agency securities | AA | 191,000 |
| Other U.S. agency securities | A | 216,000 |
| Pooled investments in Florida State Treasury | Af | 24,109,000 |
| | | $ 183,733,000 |

## 3. Investments (continued)

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.

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 flow 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. The Plan is invested in collateralized mortgage obligations with a fair market value of $27,942,000. These securities and obligations are based on cash flows from payments on underlying mortgages. Therefore, they are sensitive to prepayments by mortgagees, which may result from a decline in interest rates.

Foreign Currency Risk is the risk that changes in the 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, 2010, the Plan's exposure to possible foreign currency risk by monetary unit is as follows:

| Investment Type | Currency Type | Maturity | Fair Value |
|---|---|---|---|
| Currency | Euro | n/a | $ 3,392 |
| | Israeli Shekel | n/a | 38,407 |
| | South African Rand | n/a | 4 |
| Common stock | Australian Dollar | n/a | 1,870,552 |
| | Brazil Real | n/a | 961,997 |
| | British Pound | n/a | 22,241,272 |
| | Canadian Dollar | n/a | 2,422,625 |
| | Euro | n/a | 24,921,573 |
| | Hong Kong Dollar | n/a | 4,996,290 |
| | Israeli Shekel | n/a | 922,373 |
| | Japanese Yen | n/a | 11,989,860 |
| | Norwegian Krone | n/a | 1,678,456 |
| | South African Rand | n/a | 459,303 |
| | Singapore Dollar | n/a | 1,674,493 |
| | Swedish Krona | n/a | 636,268 |
| | Swiss Franc | n/a | 5,555,503 |
| Preferred stock | Euro | n/a | 1,060,887 |
| | | | $ 81,433,255 |

## 3. 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.

## 4. 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 (the Bank) 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 noncash 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 fees paid to the Bank are reported on the Plan's statement of revenues, expenses, and changes in net assets. Assets and liabilities include the value of the collateral held.

During the fiscal year ended June 30, 2010, income generated by the securities lending program totaled $334,796 with fees totaling $152,121.

The following represents the balances relating to the securities lending transactions as of June 30, 2010:

| Types of Securities Lent | Fair Value of Underlying Securities | Cash Collateral Received |
|---|---|---|
| U.S. corporate fixed income | $ 814,283 | $ 831,102 |
| U.S. equities | 28,663,888 | 29,918,860 |
| Non-U.S. equities | 6,429,782 | 6,879,376 |
| Total | $ 35,907,953 | $ 37,629,338 |

## 4. Securities Lending (continued)

| Securities Lending Investments | Amount Invested | Market Value |
|---|---|---|
| Certificates of deposit | $ 1,200,000 | $ 1,196,567 |
| Commercial paper | 999,501 | 999,229 |
| Repurchase agreements | 31,012,828 | 31,012,828 |
| U.S. Corporate floating rate | 4,417,258 | 4,417,552 |
| Total | $ 37,629,587 | $ 37,626,176 |

At June 30, 2010, the collateral held for 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.

## 5. Property and Equipment

Activity within the property and equipment accounts consists of the following for the year ended June 30, 2010:

| | Beginning Balances | Additions | Deletions | Ending Balances |
|---|---|---|---|---|
| Property and equipment | $ 582,897 | $ 6,810 | $ 7,746 | $ 581,961 |
| Software | 616,706 | 394,805 | - | 1,011,511 |
| | 1,199,603 | 401,615 | 7,746 | 1,593,472 |
| Less accumulated depreciation and amortization | (513,068) | (164,225) | (7,746) | (669,547) |
| | $ 686,535 | $ 237,390 | $ - | $ 923,925 |

Depreciation and amortization expense was $164,225 for the year ended June 30, 2010.

## 6. Related Party Transactions

The Due from Association balance of $66,578 represents funds transferred to the Association for the payment of claims on behalf of the Plan and reimbursement of administrative costs.

The Advance to Association balance of $507,985 represents funds transferred to the Association for the purchase of property to house their administrative office. 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, 2010 totaled $21,295.

## 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 and claims incurred but not reported. The claim reserve is actuarially determined for birth years 1989 through June 30, 2010. 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 assumption based on the actuaries' historical analyses of investment income and inflation experienced by the Plan since inception.

The net effect of the change in assumptions resulted in a decrease in the claims reserve approximating $53 million as of June 30, 2009.

During the year ended June 30, 2002, legislation was enacted that provided 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.

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

In prior years, the Plan maintained a reinsurance program which addressed both the frequency and severity of claims. As discussed at Note 10, excess insurance coverage for the Plan expired effective December 31, 2003. 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 super longevity and to reduce the mortality risk on certain claims, which is statutorily borne by the Plan. The Plan has also adjusted claim reserves to provide for a risk margin in the event claims incurred but not yet reported significantly exceed management's best estimate. The risk margin was $55 million as of June 30, 2010.

## 7. Claim Reserves (continued)

Activity in the liability for unpaid claims and claim adjustment expenses is summarized as follows:

| | June 30, 2010 | June 30, 2009 |
|---|---|---|
| Balance at beginning of year, including risk margin | **$ 641,000,000** | $ 642,000,000 |
| Claims incurred related to: | | |
| Current birth year | **39,133,236** | 43,833,494 |
| Prior birth years | **2,337,020** | 17,993,103 |
| Total claims incurred | **41,470,256** | 61,826,597 |
| Claims adjusted related to prior birth years | **18,520,072** | (5,015,964) |
| Change in reserve liability resulting from change in actuarial assumptions as described above | **-** | (53,095,606) |
| Claims paid related to: | | |
| Prior years | **(10,990,328)** | (9,715,027) |
| Increase in risk margin | **-** | 5,000,000 |
| Balance at end of year | **$ 690,000,000** | $ 641,000,000 |

## 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.

## 9. Commitments and Contingencies

During the ordinary course of business, the Plan is involved in various litigation, including a case seeking class action against the Plan in reference to payments to parents for the care of their child. The ultimate outcome of such litigation is uncertain. Accordingly, no provision has been made in the financial statements for these contingencies.

**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 $2.5 million on individual claims reported during the annual contract terms in excess of $4.25 million for 1998, $4.0 million for years 1992-1997, and aggregate coverage of $10 million on aggregate in excess of $23.5 million for 1998; $22.9 million for 1997; $19.9 million for 1996 and 1995; and $21.5 million 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, provided coverage of $2.5 million on individual claims reported during the annual contract term in excess of $4.25 million and aggregate coverage of $10 million on aggregate claims in excess of $23 million for birth years 1999 through 2001. The second policy, through General Reinsurance Corporation, provided aggregate coverage of $3 million on aggregate claims in excess of $20 million for birth years 1999 through 2001.

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 $2.5 million on individual claims in excess of $4.25 million and aggregate coverage of $13 million in excess of aggregate claims of $20 million 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 million will be proportionately increased by the actual number of physicians divided by 690.

The policies with American Re-insurance Company 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.

As of June 30, 2010, the Plan was not covered by a reinsurance policy for the 2004 through 2010 birth years. Due to differences in the reinsurance contract language, development of case reserves is included for some years but not others. The actuarial estimate of reinsurance recoverables under previous years' policies is $77,392,577 at June 30, 2010.

# Other Reports

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# Independent Auditors' 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*

The Board of Directors
Florida Birth-Related Neurological Injury Compensation Plan

We have audited the financial statements of the Florida Birth-Related Neurological Injury Compensation Plan (the Plan), and have issued our report thereon dated August 17, 2010. 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 the 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 the Plan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Plan's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the 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 and is not intended to be and should not be used by anyone other than those specified parties.

Thomas Howell Ferguson P.A.

August 17, 2010

Financial Statements
and Other Financial Information

# Florida Birth-Related Neurological Injury Compensation Association

*Year ended June 30, 2010*
*with Report of Independent Auditors*

Thomas Howell
Ferguson P.A.

Florida Birth-Related Neurological Injury Compensation Association

Financial Statements
and Other Financial Information

Year ended June 30, 2010

## Contents

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# Report of Independent Auditors

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association

We have audited the accompanying statement of net assets of Florida Birth-Related Neurological Injury Compensation Association (the Association), a component unit of the state of Florida, as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Birth-Related Neurological Injury Compensation Association as of June 30, 2010, and the changes in its net assets 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 17, 2010, on our consideration of the Association's internal control over financial reporting and 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 *3* is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Association's basic financial statements. The accompanying other financial information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Thomas Howell Ferguson P.A.

August 17, 2010

# 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, 2010. Please read it in conjunction with the Association's basic financial statements, which begin on page 4. 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 management of the Association monitors expenditures for adherence to the Board approved budget.

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 $9,409 (or 1.4%), primarily due to an increase in cash and cash equivalents, offset by a decrease in prepaid expenses. (See Table 1.)

During the year, the Association's total operating expenses increased minimally by $3,427 (or less than 1%). This is primarily due to an increase in legal services related to reinsurance commutation and tax issues offset by decreases in other professional services and insurance. In the current year, total non-operating expenses of $21,295 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**

| | 2010 | 2009 |
|---|---|---|
| Total assets | **$ 681,568** | $ 672,159 |
| Total liabilities | **681,568** | 672,159 |
| Net assets | **$ –** | $ – |

**Table 2 – Change in Net Assets**

| | 2010 | 2009 |
|---|---|---|
| Total revenues | **$ 1,551,857** | $ 1,551,983 |
| Total operating expenses | **1,530,562** | 1,527,135 |
| Total nonoperating expenses | **21,295** | 21,663 |
| Income before taxes | – | 3,185 |
| Provision for income taxes | – | 3,185 |
| Change in net assets | **$ –** | $ – |

Florida Birth-Related Neurological Injury Compensation Association

Statement of Net Assets

June 30, 2010

| | | |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | $ | 129,972 |
| Deposits and prepaid expenses | | 24,513 |
| Inventory | | 13,310 |
| Total current assets | | 167,795 |
| | | |
| Property and equipment, net | | 513,773 |
| Total assets | $ | 681,568 |
| | | |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ | 107,005 |
| Due to Plan | | 66,578 |
| Total current liabilities | | 173,583 |
| | | |
| Advance from Plan | | 507,985 |
| Total liabilities | | 681,568 |
| | | |
| Net assets | | - |
| | | |
| Total liabilities and net assets | $ | 681,568 |

*See accompanying notes.*

Florida Birth-Related Neurological Injury Compensation Association

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2010

| | |
|---|---|
| **Changes in unrestricted net assets:** | |
| Operating revenues: | |
| Administrative fees | $ 1,551,857 |
| Total operating revenues | 1,551,857 |
| | |
| Operating expenses: | |
| General and administrative expenses | 1,530,562 |
| Total operating expenses | 1,530,562 |
| | |
| Nonoperating expenses: | |
| Interest expense | 21,295 |
| Total nonoperating expenses | 21,295 |
| | |
| Change in net assets | - |
| | |
| Net assets at beginning of year | - |
| | |
| Net assets at end of year | $ - |

*See accompanying notes.*

Florida Birth-Related Neurological Injury Compensation Association

Statement of Cash Flows

Year ended June 30, 2010

| | |
|---|---|
| **Operating activities** | |
| Receipts from the Plan | $ 1,557,404 |
| Payments to service providers and suppliers | (707,229) |
| Payments to employees for service | (579,218) |
| Payments for employee benefits | (198,574) |
| Net cash provided by operating activities | 72,383 |
| | |
| **Capital and related financing activities** | |
| Reduction of advance from Plan | (8,896) |
| Interest on advance | (21,295) |
| Net cash used in capital and related financing activities | (30,191) |
| | |
| Net increase in cash and cash equivalents | 42,192 |
| Cash and cash equivalents at beginning of year | 87,780 |
| Cash and cash equivalents at end of year | $ 129,972 |
| | |
| **Reconciliation of change in net assets to net cash provided by operating activities** | |
| Change in net assets | $ - |
| Adjustments to reconcile the change in net assets to net cash provided by operating activities: | |
| Depreciation | 7,562 |
| Interest on advance | 21,295 |
| Changes in operating assets and liabilities: | |
| Deposits and prepaid expenses | 30,340 |
| Inventory | (5,119) |
| Accounts payable and accrued expenses | 12,758 |
| Due to Plan | 5,547 |
| Net cash provided by operating activities | $ 72,383 |

*See accompanying notes.*

## 1. Organization and Description of Company

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. The Plan and Association are collectively known as NICA.

### 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 Association uses the accrual basis of accounting. The financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America.

### 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 and Cash Equivalents

Cash and cash equivalents consists of demand deposits with financial institutions. Deposits with financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per depositor. Bank deposits at times may exceed federally insured limits. The Association has not experienced any losses in such accounts.

Additionally, the Association maintains certain demand deposit accounts with qualified public depositories. Qualified public depositories of public funds are required to provide collateral each month pursuant to Chapter 280.04, Florida Statutes. The collateral is held by the Florida Division of Treasury or other custodian with full legal rights maintained by the Florida Division of Treasury to transfer ownership. Any loss not covered by the pledged securities and deposit insurance would be assessed by the Florida Division of Treasury and paid by the other public depositories. Therefore, any amount of the Association's demand deposits in excess of FDIC protection would be fully insured or collateralized.

## 1. Organization and Description of Company (continued)

### Cash and Cash Equivalents (continued)

For purposes of the statements of cash flows, the Association considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash.

### 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 is recorded at cost less accumulated depreciation. Property and equipment is depreciated over its estimated useful lives ranging from three to ten years using primarily the straight-line method. The building is depreciated over forty years using the straight-line method. The Association's policy is to capitalize asset acquisitions greater than $500.

### Income Taxes

On May 10, 2010, the Association filed with the Internal Revenue Service a request for private letter ruling regarding the Association's exemption from paying federal income tax on its income. The Association believes it is exempt from federal income tax, therefore, the Association did not record a provision for income taxes in the accompanying basic financial statements.

### Subsequent Events

The Association has evaluated subsequent events through August 17, 2010, the date the financial statements were available to be issued. During the period from June 30, 2010 to August 17, 2010, the Association did not have any material recognizable subsequent events.

### Use of Estimates

The preparation 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 assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

## 2. Property and Equipment

Activity within the property and equipment accounts consists of the following for the year ended June 30, 2010:

| | Beginning Balances | Additions | Deletions | Ending Balances |
|---|---|---|---|---|
| Land | $ 209,088 | $ - | $ - | $ 209,088 |
| Building | 320,585 | - | - | 320,585 |
| Building improvements | 26,372 | - | - | 26,372 |
| Other assets | 22,639 | - | - | 22,639 |
| | 578,684 | - | - | 578,684 |
| Less accumulated depreciation | (57,349) | (7,562) | - | (64,911) |
| | $ 521,335 | $ (7,562) | $ - | $ 513,773 |

Depreciation expense was $7,562 for the year ended June 30, 2010.

## 3. Related Party Transactions

The Due to Plan balance of $66,578 represents monies advanced to the Association for payment of claims and administrative costs on behalf of the Plan.

The Advance from Plan balance of $507,985 represents monies advanced to the Association for the purchase of property to house their administrative office, net of accumulated depreciation. 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, 2010 totaled $21,295.

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.

## 4. 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 one year 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, 2010. The contribution for the year was $79,408.

## 5. Commitments and Contingencies

During the ordinary course of business, the Association is involved in various litigation, including a case seeking class action against the Association in reference to payments to parents for the care of their child. The ultimate outcome of such litigation is uncertain. Accordingly, no provision has been made in the financial statements for these contingencies.

# Other Financial Information

Florida Birth-Related Neurological Injury Compensation Association

Schedule of General and Administrative Expenses
Budget to Actual

Year ended June 30, 2010

| | Budget | Actual | Variance - Positive (Negative) |
|---|---|---|---|
| Accounting services | $ 91,000 | $ 80,615 | $ 10,385 |
| Bank charges | 6,000 | 9,420 | (3,420) |
| Depreciation | 14,500 | 7,562 | 6,938 |
| Dues and subscriptions | 1,400 | 1,826 | (426) |
| Insurance | 117,000 | 114,881 | 2,119 |
| Legal - general attorney fees and expenses | 116,750 | 194,839 | (78,089) |
| Miscellaneous | 870 | 383 | 487 |
| Office supplies | 7,700 | 6,682 | 1,018 |
| Outreach | 20,300 | 14,556 | 5,744 |
| Payroll taxes | 48,000 | 44,161 | 3,839 |
| Postage | 55,500 | 48,263 | 7,237 |
| Printing services | 36,150 | 28,891 | 7,259 |
| Professional fees | 198,000 | 239,356 | (41,356) |
| Repairs and maintenance | 27,000 | 24,712 | 2,288 |
| Retirement | 79,000 | 79,408 | (408) |
| Salaries | 584,000 | 584,864 | (864) |
| Taxes and licenses | 1,000 | 543 | 457 |
| Telephone | 13,200 | 11,439 | 1,761 |
| Training and education | 2,000 | 665 | 1,335 |
| Travel | 29,000 | 27,346 | 1,654 |
| Utilities | 9,500 | 10,150 | (650) |
| | $ 1,457,870 | $ 1,530,562 | $ (72,692) |

*See report of independent auditors.*

# Other Reports

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# Independent Auditors' 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*

The Board of Directors
Florida Birth-Related Neurological Injury Compensation Association

We have audited the financial statements of the Florida Birth-Related Neurological Injury Compensation Association (the Association), and have issued our report thereon dated August 17, 2010. 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 the 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 the Association's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described above and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 the 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 and is not intended to be and should not be used by anyone other than those specified parties.

Thomas Howell Ferguson P.A.

August 17, 2010