

Financial Statements

Florida Birth-Related Neurological Injury Compensation Association

*Year ended June 30, 2011
with Report of Independent Auditors*

Thomas Howell
 Ferguson P.A.

Florida Birth-Related Neurological Injury Compensation Association

Financial Statements

Year ended June 30, 2011

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Report of Independent Auditors

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association

We have audited the accompanying basic financial statements of Florida Birth-Related Neurological Injury Compensation Association (the NICA), a component unit of the state of Florida, as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the NICA'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, 2011, 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 29, 2011, on our consideration of the NICA'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.

Thomas Howell
▲ Ferguson P.A.

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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 29, 2011

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, 2011. Please read it in conjunction with the Association's basic financial statements, which begin on page 6. The Association was established by 766.315, *Florida Statutes* to administer the Florida Birth-Related Neurological Injury Compensation Plan (the Plan). 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 Association and Plan are collectively known as NICA.

In previous fiscal years, separate financial reports were issued for the Association and the Plan. Although separate reports were issued, all financial results of the Association were included in the financial statements of the Plan as separate line items as Due from Association, Advance to Association and Administrative Expenses. Beginning with the current fiscal year ending June 30, 2011, one financial report will be issued for the entity, and will be reported as the Florida Birth-Related Neurological Injury Compensation Association.

As of June 30, 2011, NICA's total assets increased by \$93,444,047 (or 12%), primarily due to increases in investments which were offset by a decrease in receivable for securities sold (see Table 1). Investments increased by \$109,932,412 (or 17%) 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 increase in securities lending collateral of \$1,798,672 (or 5%) is attributable to increases in the securities on loan as of June 30, 2011. The decrease in receivable for securities sold of \$24,667,013 (or 83%) 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 NICA increased by \$65,569,188 (or 9%) as of June 30, 2011, primarily due to increases in claims reserves combined with increases in obligations under security lending, which were offset by decreases in the payable for securities purchased (see Table 1). The increase in claims reserves of \$94 million (or 14%) is due to new claims reported during the year, increases in actuarial estimates for claims incurred but not reported (IBNR), changes in life expectancy estimates, and revisions to the estimates of accumulated reported claims made by management combined with the establishment of a reserve for unallocated loss adjustment expense. The decrease in payable for securities purchased of \$30,487,666 (or 71%) 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 \$1,791,014 (or 5%) is attributable to increases in the securities on loan as of June 30, 2011.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Table 1 – Net Assets

	2011	2010 *
Investments	\$ 762,134,527	\$ 652,202,115
Receivable for securities sold	5,216,266	29,883,279
Securities lending collateral	39,424,848	37,626,176
Reinsurance recoverable	83,652,347	77,392,577
Other assets	5,873,480	5,753,274
Total assets	896,301,468	802,857,421
Claims reserves	784,000,000	690,000,000
Payable for securities purchased	12,656,710	43,144,376
Obligations under securities lending	39,420,352	37,629,338
Other liabilities	896,985	631,145
Total liabilities	836,974,047	771,404,859
Net assets, committed	\$ 59,327,421	\$ 31,452,562

During the year, operating revenues from assessments decreased minimally (less than 1%), while operating expenses increased by \$51,332,562 (or 99%) primarily due to an increase in claims expenses. The increase in claims expenses of \$51,434,692 (or 102%) is due to new claims reported during the current year, increases in actuarial estimates for claims incurred but not reported (IBNR), changes in life expectancy estimates, and revisions to the estimates of accumulated reported claims made by management combined with the establishment of a reserve for unallocated loss adjustment expense.

NICA recorded net investment income and other income of \$108,059,186 for the year ended June 30, 2011 (see Table 2). NICA's net investment income is primarily comprised of unrealized gains of approximately \$52.3 million, realized gains of approximately \$40.3 million, interest and dividend income of approximately \$18.8 million, and is offset by investment management fees of approximately \$3.3 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 \$27,874,859 (see Tables 1 and 2).

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Table 2 – Changes in Net Assets

	<u>2011</u>	<u>2010 *</u>
Hospital assessments	\$ 3,646,650	\$ 4,239,350
Physician assessments	19,564,273	19,007,839
Total operating revenues	<u>23,210,923</u>	<u>23,247,189</u>
Claims expenses	101,781,298	50,346,606
Other operating expenses	1,613,952	1,716,082
Total operating expenses	<u>103,395,250</u>	<u>52,062,688</u>
Operating income (loss)	<u>(80,184,327)</u>	<u>(28,815,499)</u>
Investment income and other income	111,039,225	86,478,251
Investment fees	(3,167,414)	(2,558,749)
Securities lending, net	187,375	182,675
Total Nonoperating revenues and expenses	<u>108,059,186</u>	<u>84,102,177</u>
Change in net assets	<u>\$ 27,874,859</u>	<u>\$ 55,286,678</u>

* 2010 amounts have been restated to show the combined financial results of the Plan and the Association to be consistent with current year presentation as described above.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Net Assets

June 30, 2011

Assets

Current assets:

Cash and cash equivalents	\$ 93,008
Prepaid expenses and other current assets	<u>35,820</u>
Total current assets	128,828

Receivable for securities sold	5,216,266
Securities lending collateral	39,424,848
Investment income receivable	3,096,912
Assessments receivable	1,358,406
Investments	762,134,527
Reinsurance recoverables	83,652,347
Property and equipment, net	<u>1,289,334</u>
Total assets	<u>\$ 896,301,468</u>

Liabilities and net assets

Current liabilities:

Accounts payable and accrued expenses	\$ 240,908
Accrued investment fees	<u>269,677</u>
Total current liabilities	510,585

Assessments refundable	386,400
Payable for securities purchased	12,656,710
Obligations under securities lending	39,420,352
Claims reserves	<u>784,000,000</u>
Total liabilities	836,974,047

Net assets:

Restricted	<u>59,327,421</u>
Total liabilities and net assets	<u>\$ 896,301,468</u>

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2011

Changes in committed net assets:

Operating revenues:

Hospital assessments	\$ 3,646,650
Physicians assessments	<u>19,564,273</u>
Total operating revenues	23,210,923

Expenses:

Claims expenses	101,781,298
General and administrative expenses	1,374,086
Depreciation and amortization	<u>239,866</u>
Total expenses	103,395,250

Operating loss (80,184,327)

Nonoperating revenues (expenses):

Investment income	111,039,225
Investment fees	(3,167,414)
Securities lending income	343,178
Securities lending fees	<u>(155,803)</u>
Total nonoperating revenues (expenses)	108,059,186

Change in restricted net assets 27,874,859

Net assets at beginning of year 31,452,562

Net assets at end of year \$ 59,327,421

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Cash Flows

Year ended June 30, 2011

Operating activities

Cash received from hospitals and physicians	\$ 23,491,711
Cash payments to claimants and vendors	(13,944,975)
Cash payments to service providers and supplies	(588,764)
Cash payments to employees for service	(578,785)
Cash payments to employees for benefits	<u>(207,561)</u>
Net cash provided by operating activities	<u>8,171,626</u>

Capital financing activities

Purchase of property and equipment	<u>(91,503)</u>
Net cash used in capital financing activities	<u>(91,503)</u>

Investing activities

Purchase of investments	(1,784,735,361)
Proceeds from sales of investments	1,766,776,753
Receivable from securities sold	24,667,013
Payable for securities purchased	(30,487,666)
Interest and dividends from investments and other	18,963,067
Investment management fees	<u>(3,300,893)</u>
Net cash used in investing activities	<u>(8,117,087)</u>

Net decrease in cash and cash equivalents	(36,964)
Cash and cash equivalents at beginning of year	<u>129,972</u>
Cash and cash equivalents at end of year	<u>\$ 93,008</u>

Reconciliation of operating loss to net cash provided by operating activities

Operating loss	\$ (80,184,327)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	239,866
Changes in operating assets and liabilities:	
Assessments receivable	130,338
Prepaid expenses and other current assets	2,003
Reinsurance recoverable	(6,259,770)
Accounts payable and accrued expenses	93,066
Claims reserves	94,000,000
Assessments refundable	<u>150,450</u>
Net cash provided by operating activities	<u>\$ 8,171,626</u>

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

Year ended June 30, 2011

1. Summary of Significant Accounting Policies

Nature of the Business

The Florida Birth-Related Neurological Injury Compensation Association (the Association) was established by Florida Statutes, Chapter 766.315, in July 1, 1988 to administer the Florida Birth-Related Neurological Injury Compensation Plan (the Plan). The Plan was 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 Association and Plan are collectively known as NICA.

Initial funding for NICA 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 NICA 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 NICA 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, NICA 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.

Reporting Entity

Activities of NICA are reported in the state of Florida financial statements with other discretely presented component units.

Basis of Accounting

NICA 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.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

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 NICA as a component unit of the state of Florida.

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 NICA. 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 NICA. Additionally, each hospital licensed under Chapter 395, Florida Statute, must pay NICA 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 NICA. The amount of physician and hospital assessments is subject to change based on the actuarial analysis of NICA. Any increase in assessment is recommended by the Board of Directors, but must be approved by the Office of Insurance Regulation.

Cash and Cash Equivalents

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

Cash 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. NICA has not experienced any losses in such accounts.

Additionally, NICA 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 NICA's demand deposits in excess of FDIC protection would be fully insured or collateralized.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

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. NICA 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 NICA 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, NICA 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 NICA's investment policy permit NICA 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 NICA. Credit risk is a consequence of carrying investment positions. To manage credit risk, NICA focuses primarily on higher quality, fixed income securities, limits its exposure in any one investment, and monitors quality.

Assessments Receivable

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

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 fifteen years using primarily the straight-line method. The building is depreciated over forty years using the straight-line method. NICA's policy is to capitalize asset acquisitions greater than \$500.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

1. Summary of Significant Accounting Policies (continued)

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 NICA'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.

Net Assets

Net assets of NICA 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

NICA has evaluated subsequent events through August 29, 2011, the date the financial statements were available to be issued. During the period from June 30, 2011 to August 29, 2011, NICA did not have any material recognizable subsequent events.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

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 NICA 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 NICA on an actuarially sound basis. The entire \$20 million is presently deposited in the Insurance Regulatory Trust Fund and is not reported by NICA.

3. Investments

As of June 30, 2011, investments of NICA were as follows:

Types of Investments		Effective Duration (in Years)
<u>Classifiable Investments:</u>	<u>Fair Value</u>	
Annuities	\$ 8,333,000	n/a
Asset-backed securities	8,219,000	.07
Corporate bonds	80,888,000	9.48
Federal Home Loan Mortgage	29,930,000	3.67
Federal National Mortgage Association	31,102,000	3.83
Government National Mortgage Association	8,877,000	2.91
International corporate bonds	4,140,000	9.09
International government bonds	3,138,000	12.02
U.S. government bond	62,646,000	10.34
Collateralized Mortgage Obligation	16,169,000	2.50
Municipal bond	4,071,000	10.20
Other U.S. agency securities	4,324,000	10.76
U.S. debt	66,970,430	n/a
Pooled investment in Florida State Treasury	18,418,000	2.13
Equity securities	<u>401,774,000</u>	n/a
Total classifiable investments	<u>748,999,430</u>	
 Non-classifiable Investments:		
Money market	<u>13,135,097</u>	
Total non-classifiable investments	<u>13,135,097</u>	
 Total investments	 <u>\$ 762,134,527</u>	

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*.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

3. Investments (continued)

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.

Custodial credit risk is the risk that, in the event of the failure of the counterparty, NICA 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 NICA's investments is currently maintained in NICA's name by Bank of New York Mellon pursuant to a custodial agreement. Additional accounts are maintained in NICA's name under separate agreements with BlackRock Institutional Trust Company, N.A.; Neuberger Berman Fixed Income, LLC; and the Division of Treasury of the state of Florida. 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 NICA to implement established investment policies.

NICA's Asset Allocation Policy is as follows:

<u>Asset Class</u>	<u>Permissible Range</u>
Domestic equity	25% - 40%
International equity	5% - 20%
Fixed income	40% - 60%
Cash	2% - 4%

Credit Quality Rating. Section 215.47, *Florida Statutes*, and NICA'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.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

3. Investments (continued)

<u>Debt Security Type</u>	<u>Quality Rating</u> Moody's	<u>Fair Value</u>
Asset-backed	AAA	\$ 7,259,000
Asset-backed	NR	960,000
Corporate bonds	AAA	577,000
Corporate bonds	AA	9,672,000
Corporate bonds	A	23,332,000
Corporate bonds	BAA	44,272,000
Corporate bonds	BA	1,717,000
Corporate bonds	B	1,093,000
Corporate bonds	C	69,000
Corporate bonds	NR	154,000
International corporate bonds	AA	591,000
International corporate bonds	A	640,000
International corporate bonds	BAA	2,414,000
International corporate bonds	NR	495,000
International government bonds	AA	169,000
International government bonds	BAA	2,969,000
Mortgage bonds	AAA+	339,000
Mortgage bonds	AAA	5,637,000
Mortgage bonds	AA	899,000
Mortgage bonds	NR	9,294,000
Municipal bonds	AA	3,037,000
Municipal bonds	A	892,000
Municipal bonds	BAA	142,000
Other U.S. agency securities	AAA+	4,324,000
Pooled investments in Florida State Treasury		<u>18,418,000</u>
		<u>\$ 139,365,000</u>

Concentration of Credit Risk is the risk of loss attributed to the magnitude of NICA's investment in a single issuer. NICA assets are expected to be diversified across and within asset classes. However, NICA does not specify a limit on the amount that may be invested in any one issuer.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

3. Investments (continued)

Interest Rate Risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments that are held for longer periods are subject to increased risk of adverse interest rate changes. NICA 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.

NICA is invested in collateralized mortgage obligations with a fair market value of \$16,263,000. 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. NICA's investment policy permits it to invest up to 20 percent of total investments in international equities. At June 30, 2011, NICA's exposure to possible foreign currency risk by monetary unit is as follows:

<u>Investment Type</u>	<u>Currency Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Currency	British Pound	n/a	\$ 22,412
	Canadian Dollar	n/a	9,914
	Euro	n/a	43,097
	Hong Kong Dollar	n/a	13,331
	Israeli Shekel	n/a	11,992
	Japanese Yen	n/a	41,220
	South African Rand	n/a	4
	Common stock	Australian Dollar	n/a
British Pound		n/a	24,706,222
Canadian Dollar		n/a	3,396,327
Danish Krone		n/a	731,510
Euro		n/a	34,114,526
Hong Kong Dollar		n/a	4,647,685
Israeli Shekel		n/a	1,394,700
Japanese Yen		n/a	16,477,381
Norwegian Krone		n/a	1,799,383
South African Rand		n/a	673,311
Singapore Dollar		n/a	2,825,158
Swedish Krona		n/a	682,332
Swiss Franc		n/a	<u>6,546,842</u>
		n/a	<u>\$ 100,226,310</u>

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

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 NICA to enter into securities lending transactions. Accordingly, NICA 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 NICA'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. NICA cannot pledge or sell noncash collateral in the absence of a default by the borrower. Cash collateral is invested in accordance with NICA'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 NICA'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, 2011, income generated by the securities lending program totaled \$343,178 with fees totaling \$155,803.

The following represents the balances relating to the securities lending transactions as of June 30, 2011:

<u>Types of Securities Lent</u>	<u>Fair Value of Underlying Securities</u>	<u>Cash Collateral Received</u>
U.S. government and agencies	\$ 7,101,452	\$ 7,265,362
U.S. corporate fixed income	733,089	750,470
U.S. equities	26,675,916	27,190,832
Non-U.S. equities	<u>4,103,264</u>	<u>4,213,688</u>
Total	<u>\$ 38,613,721</u>	<u>\$ 39,420,352</u>

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

4. Securities Lending (continued)

<u>Securities Lending Investments</u>	<u>Amount</u> <u>Invested</u>	<u>Market Value</u>
Certificates of deposit	\$ 7,564,685	\$ 7,568,791
Repurchase agreements	<u>31,856,759</u>	<u>31,856,057</u>
Total	<u>\$ 39,421,444</u>	<u>\$ 39,424,848</u>

At June 30, 2011, the collateral held for security lending transactions exceeded the fair value of the securities underlying the agreements. Therefore, NICA 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, 2011:

	<u>Beginning</u> <u>Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balances</u>
Land	\$ 209,088	\$ -	\$ -	\$ 209,088
Building	320,585	-	-	320,585
Building improvements	26,372	10,711	-	37,083
Property and equipment	604,600	692	-	605,292
Software	<u>1,011,511</u>	<u>80,100</u>	<u>-</u>	<u>1,091,611</u>
	2,172,156	91,503	-	2,263,659
Less accumulated depreciation and amortization	<u>(734,458)</u>	<u>(239,867)</u>	<u>-</u>	<u>(974,325)</u>
	<u>\$ 1,437,698</u>	<u>\$ (148,364)</u>	<u>\$ -</u>	<u>\$ 1,289,334</u>

Depreciation and amortization expense was \$239,867 for the year ended June 30, 2011.

6. 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, 2011. The reserves utilize adjustment factors for the assumption of the annual investment return and the annual inflation rate.

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. NICA has adjusted the claims reserves to acknowledge the family care benefit.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

6. Claim Reserves (continued)

Medical liability claims are volatile by nature. Although management of NICA 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, NICA maintained a reinsurance program which addressed both the frequency and severity of claims. As discussed at Note 9, excess insurance coverage for NICA expired effective December 31, 2003. During 2007, NICA invested in structured settlement annuities for selected claimants to fund a portion of its future obligations. The purpose of the annuities is to protect NICA against the financial effects of super longevity and to reduce the mortality risk on certain claims, which is statutorily borne by NICA. NICA 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, 2011.

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

	June 30,	
	2011	2010
Balance at beginning of year, including risk margin	\$ 690,000,000	\$ 641,000,000
Claims incurred related to:		
Current birth year	51,228,845	39,133,236
Prior birth years	<u>18,435,678</u>	<u>2,337,020</u>
Total claims incurred	<u>69,664,523</u>	<u>41,470,256</u>
Claims adjusted related to prior birth years	26,996,380	18,520,072
Claims paid related to:		
Current year	(813)	-
Prior years	<u>(13,713,762)</u>	<u>(10,990,328)</u>
Total claims paid	<u>(13,714,575)</u>	<u>(10,990,328)</u>
Change in unallocated loss adjustment expense	<u>11,053,672</u>	<u>-</u>
Balance at end of year	<u>\$ 784,000,000</u>	<u>\$ 690,000,000</u>

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

7. Retirement Plan

Effective July 1, 2003, NICA 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. NICA contributed 15% of the participating employees' salaries for the fiscal year ended June 30, 2011. The contribution for the year was \$83,309.

8. Commitments and Contingencies

During the ordinary course of business, NICA is involved in various litigation, including a case seeking class action against NICA 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.

9. Excess Insurance

In the normal course of business, NICA 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, NICA 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 claims 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, NICA 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.

Florida Birth-Related Neurological Injury Compensation Association

Notes to Financial Statements

9. Excess Insurance (continued)

For the period January 1, 2002 through December 31, 2003, NICA 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, 2011, NICA was not covered by a reinsurance policy for the 2004 through 2011 birth years. Due to differences in the reinsurance contract language, development of case reserves is included for some years but not others.

Other Reports

Report of Independent Auditors 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*

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association

We have audited the financial statements of Florida Birth-Related Neurological Injury Compensation Association (NICA) as of and for the year ended June 30, 2011, and have issued our report thereon dated August 29, 2011. 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 NICA'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 NICA's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of NICA'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 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 first paragraph of this section 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 NICA'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,

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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 of Florida Birth-Related Neurological Injury Compensation Association, and the Office of Insurance Regulation, and is not intended to be, and should not be, used by anyone other than these specified parties.

Thomas Howell Ferguson P.A.

August 29, 2011