Financial Statements

Florida Birth-Related Neurological Injury Compensation Association

Year ended June 30, 2012
with Report of Independent Auditors

Thomas Howell
Ferguson P.A.

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Financial Statements

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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 (NICA) as of June 30, 2012, and the related statement of revenues, expenses, and changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of 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 previously present fairly, in all material respects, the financial position of Florida Birth-Related Neurological Injury Compensation Association as of June 30, 2012, 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 September 7, 2012, on our consideration of 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Thomas Howell Ferguson P.A.

September 7, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Florida Birth-Related Neurological Injury Compensation Association's (NICA) financial performance provides an overview of the Association's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with NICA's basic financial statements, which begin on page six. NICA 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 referenced in the Florida Statutes are collectively known as NICA.

As of June 30, 2012, NICA's total assets increased by $79,114,139 (or 9%), primarily due to increases in investments and securities lending collateral which were somewhat offset by a decrease in reinsurance recoverable (see Table 1). Investments increased by $38,381,990 (or 5%) resulting primarily from gains realized on proceeds from securities sold, investment income earned during the fiscal year, and assessments received. The increase in securities lending collateral of $43,368,065 (or 110%) is attributable to increases in the securities on loan as of June 30, 2012, which was driven primarily by an increase in the market value of lendable securities resulting from changes in asset allocations. The decrease in reinsurance recoverable of $4,661,302 (or 6%) is due to changes in the estimates of accumulated reported claims made by management primarily resulting from changes in life expectancy estimates.

Total liabilities of NICA increased by $95,970,960 (or 11%) as of June 30, 2012, due to increases in claims reserves combined with increases in obligations under security lending and increases in payable for securities purchased (see Table 1). The increase in claims reserves of $35 million (or 4%) is primarily due to new claims reported during the year, actuarial estimates for claims incurred but not reported (IBNR), and revisions to the estimates made by management of accumulated reported claims. The increase in payable for securities purchased of $18,108,199 (or 143%) 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.

The increase in obligations under securities lending collateral of $43,369,615 (or 110%) is attributable to increases in the securities on loan as of June 30, 2012, which was driven primarily by an increase in the market value of lendable securities resulting from changes in asset allocations.

Table 1 – Net Assets

	2012	2011
Investments	**$800,516,517**	$762,134,527
Receivable for securities sold	**6,650,346**	5,216,266
Securities lending collateral	**82,792,913**	39,424,848
Reinsurance recoverable	**78,991,045**	83,652,347
Other assets	**6,464,785**	5,873,480
Total assets	**975,415,606**	896,301,468
Claims reserves	**819,000,000**	784,000,000
Payable for securities purchased	**30,764,909**	12,656,710
Obligations under securities lending	**82,789,967**	39,420,352
Other liabilities	**390,131**	896,985
Total liabilities	**932,945,007**	836,974,047
Net assets, committed	**$ 42,470,599**	$ 59,327,421

During the year, operating revenues from assessments increased $338,897 (approximately 1.5%), while operating expenses decreased by $47,951,597 (or 46%) primarily due to a decrease in claims expenses. The decrease in claims expenses of $47,979,938 (or 47%) is due primarily to decreases in actuarial estimates for claims incurred but not reported (IBNR) for prior birth years, changes in life expectancy estimates, and revisions to the estimates of accumulated reported claims made by management.

NICA recorded net investment income and other income of $15,037,010 for the year ended June 30, 2012 (see Table 2). NICA's net investment income is primarily comprised of, realized gains of approximately $27.7 million, interest and dividend income of approximately $19 million, and is offset by unrealized losses of approximately $28.7 million and investment management fees of approximately $3 million.

While operating expenses decreased in the current year, the decrease was more than offset by the larger decrease in investment income which resulted in a decrease in committed net assets of approximately $16.9 million. (see Tables 1 and 2).

Table 2 – Changes in Net Assets

	2012	2011
Hospital assessments	**$ 3,589,500**	$ 3,646,650
Physician assessments	**19,960,320**	19,564,273
Total operating revenues	**23,549,820**	23,210,923
Claims expenses	**53,801,361**	101,781,298
Other operating expenses	**1,642,292**	1,613,952
Total operating expenses	**55,443,653**	103,395,250
Operating income (loss)	**(31,893,833)**	(80,184,327)
Investment income and other income	**17,678,775**	111,039,225
Investment fees	**(2,863,623)**	(3,167,414)
Securities lending, net	**221,857**	187,375
Total nonoperating revenues and expenses	**15,037,009**	108,059,186
Change in net assets	**$ (16,856,824)**	$ 27,874,859

Florida Birth-Related Neurological Injury Compensation Association

Statement of Net Assets

June 30, 2012

Assets	
Current assets:	
Cash and cash equivalents	$ 83,325
Prepaid expenses and other current assets	95,993
Total current assets	179,318
Receivable for securities sold	6,650,346
Investment income receivable	3,403,032
Assessments receivable	1,770,502
Investments	800,516,517
Reinsurance recoverables	78,991,045
Property and equipment, net	1,106,933
Accounts receivable - other	5,000
Securities lending collateral	82,792,913
Total assets	$ 975,415,606
Liabilities and net assets	
Current liabilities:	
Accounts payable and accrued expenses	$ 115,060
Accrued investment fees	244,471
Total current liabilities	359,531
Assessments refundable	30,600
Payable for securities purchased	30,764,909
Obligations under securities lending	82,789,967
Claims reserves	819,000,000
Total liabilities	932,945,007
Net assets:	
Restricted	42,470,599
Total liabilities and net assets	$ 975,415,606

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2012

Changes in committed net assets:	
Operating revenues:	
Hospital assessments	$ 3,589,500
Physicians assessments	19,960,320
Total operating revenues	23,549,820
Expenses:	
Claims expenses	53,281,229
General and administrative expenses	1,388,927
Depreciation and amortization	253,365
Commutation expense	520,132
Total expenses	55,443,653
Operating loss	(31,893,833)
Nonoperating revenues (expenses):	
Investment income	17,678,777
Investment fees	(2,863,623)
Securities lending income	398,471
Securities lending fees	(176,614)
Total nonoperating revenues (expenses)	15,037,011
Change in restricted net assets	(16,856,822)
Net assets at beginning of year	59,327,421
Net assets at end of year	$ 42,470,599

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Cash Flows

Year ended June 30, 2012

Operating activities	
Cash received from hospitals and physicians	$ 22,776,924
Cash payments to claimants and vendors	(14,239,671)
Cash payments to service providers and supplies	(661,493)
Cash payments to employees for service	(603,199)
Cash payments to employees for benefits	(210,644)
Net cash provided by operating activities	7,061,917
Capital financing activities	
Purchase of property and equipment	(70,963)
Net cash used in capital financing activities	(70,963)
Investing activties	
Purchase of investments	(1,194,026,554)
Proceeds from sales of investments	1,153,457,571
Receivable from securities sold	(1,434,080)
Payable for securities purchased	18,108,198
Interest and dividends from investments and other	19,959,671
Investment management fees	(3,065,443)
Net cash used in investing activities	(7,000,637)
Net decrease in cash and cash equivalents	(9,683)
Cash and cash equivalents at beginning of year	93,008
Cash and cash equivalents at end of year	$ 83,325
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	$ (31,893,833)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	253,365
Changes in operating assets and liabilities:	
Assessments receviable	(417,096)
Inventory	(4,988)
Prepaid expenses and other current assets	(52,799)
Reinsurance recoverable	4,661,302
Taxes refundable	(2,386)
Accounts payable and accrued expenses	(125,848)
Claims reserves	35,000,000
Assessments refundable	(355,800)
Net cash provided by operating activities	$ 7,061,917

See accompanying notes.

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 finanical 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.

1. Summary of Significant Accounting Policies (continued)

Basis of Accounting (continued)

NICA uses the accrual basis of accounting. 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. NICA has elected to apply all Financial Accounting Standards Board (FASB) standards issued after November 30, 1989, except for those that conflict with GASB pronouncements in accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*.

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.

1. Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents (continued)

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.

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 it 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.

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 September 7, 2012, the date the financial statements were available to be issued. During the period from June 30, 2012 to September 7, 2012, NICA 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 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, 2012, investments of NICA were as follows:

Types of Investments **Classifiable Investments:**	**Fair Value**	**Effective Duration (in Years)**
Annuities	$ 12,545,000	**n/a**
Asset-backed securities	6,087,000	**0.10**
Corporate bonds	108,303,000	**10.08**
Federal Home Loan Mortgage	28,600,000	**2.53**
Federal National Mortgage Association	36,503,000	**2.49**
Futures contracts	(109,000)	**n/a**
Government National Mortgage Association	5,567,000	**2.11**
International corporate bonds	5,456,000	**9.44**
International government bonds	3,566,000	**13.63**
U.S. government bond	96,900,000	**13.55**
Collateralized Mortgage Obligation	15,158,000	**2.10**
Municipal bond	15,167,000	**9.66**
Other U.S. agency securities	8,221,000	**8.00**
U.S. debt	71,970,900	**n/a**
Pooled investment in Florida State Treasury	12,825,000	**2.38**
Equity securities	347,795,000	**n/a**
Total classifiable investments	774,554,900	
Non-classifiable Investments:		
Money market	25,961,617	
Total non-classifiable investments	25,961,617	
Total investments	$ 800,516,517	

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.

3. Investments (continued)

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.

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:

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 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.

3. Investments (continued)

Debt Security Type	Quality Rating Moody's	Fair Value
Asset-backed	AAA	$ 4,972,000
Asset-backed	AA	810,000
Asset-backed	A	85,000
Asset-backed	NR	219,000
Corporate bonds	AAA	643,000
Corporate bonds	AA	3,763,000
Corporate bonds	A	36,035,000
Corporate bonds	BAA	65,285,000
Corporate bonds	BA	866,000
Corporate bonds	B	396,000
Corporate bonds	C	67,000
Corporate bonds	NR	408,000
Futures Contracts	NR	(109,000)
International corporate bonds	AA	500,000
International corporate bonds	A	2,219,000
International corporate bonds	BAA	2,736,000
International government bonds	BAA	3,566,000
Mortgage bonds	AAA	7,295,000
Mortgage bonds	AA	305,000
Mortgage bonds	A	282,000
Mortgage bonds	NR	7,277,000
Municipal bonds	AAA	1,573,000
Municipal bonds	AA	8,525,000
Municipal bonds	A	3,275,000
Municipal bonds	BAA	110,000
Municipal bonds	NR	1,684,000
Preferred Securities	BAA	129,000
Preferred Securities	NR	712,000
Other U.S. agency securities	AAA	8,221,000
Pooled investments in Florida State Treasury		12,825,000
		$ 174,674,000

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.

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 $15,217,000. 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, 2012, NICA's exposure to possible foreign currency risk by monetary unit is as follows:

Investment Type	Currency Type	Maturity	Fair Value
Currency	British Pound	n/a	$ 8,901
	Canadian Dollar	n/a	10,400
	Euro	n/a	20,400
	Japanese Yen	n/a	45,961
	Sinagpore Dollar	n/a	22,103
	South African Rand	n/a	1
Common stock	Australian Dollar	n/a	2,398,225
	British Pound	n/a	27,674,719
	Canadian Dollar	n/a	2,082,638
	Danish Krone	n/a	705,035
	Euro	n/a	29,953,141
	Hong Kong Dollar	n/a	3,394,213
	Israeli Shekel	n/a	1,299,789
	Japanese Yen	n/a	16,312,354
	Norwegian Krone	n/a	2,422,332
	Singapore Dollar	n/a	2,880,458
	Swedish Krona	n/a	610,733
	Swiss Franc	n/a	7,944,445
		n/a	$ 97,785,848

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, 2012, income generated by the securities lending program totaled $398,471 with fees totaling $176,614.

The following represents the balances relating to the securities lending transactions as of June 30, 2012:

Types of Securities Lent	Fair Value of Underlying Securities	Cash Collateral Received
U.S. government and agencies	$ 24,570,829	$ 25,234,720
U.S. corporate fixed income	4,634,953	4,786,068
U.S. equities	49,429,988	49,179,138
Non-U.S. equities	3,262,480	3,382,774
Non-U.S. fixed income	204,024	207,267
Total	$ 82,102,274	$ 82,789,967

4. Securities Lending (continued)

Securities Lending Investments	Amount Invested	Market Value
Agencies	$ 699,491	$ 699,444
Floating rate notes	6,151,486	6,154,479
Repurchase agreements	75,938,990	75,938,990
Total	$ 82,789,967	$ 82,792,913

At June 30, 2012, 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, 2012:

	Beginning Balances	Additions	Deletions	Ending Balances
Land	$ 209,088	$ -	$ -	$ 209,088
Building	320,585	-	-	320,585
Building improvements	37,083	10,064	-	47,147
Property and equipment	605,292	10,264	(327,067)	288,489
Software	1,091,611	50,636	-	1,142,247
	2,263,659	70,964	(327,067)	2,007,556
Less accumulated depreciation and amortization	(974,325)	(253,365)	327,067	(900,623)
	$ 1,289,334	$ (182,401)	$ -	$ 1,106,933

Depreciation and amortization expense was $253,365 for the year ended June 30, 2012.

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, 2012. The reserves utilize adjustment factors for the assumption of the annual investment return and the annual inflation rate.

6. Claim Reserves (continued)

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.

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, 2012.

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

	June 30, 2012
Balance at beginning of year, including risk margin	$ 784,000,000
Claims incurred related to:	
Current birth year	47,636,104
Prior birth years	(6,152,003)
Total claims incurred	41,484,101
Claims adjusted related to prior birth years	7,654,358
Claims paid related to:	
Current year	(58)
Prior years	(13,619,869)
Total claims paid	(13,619,927)
Change in unallocated loss adjustment expense	(518,532)
Balance at end of year	$ 819,000,000

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 years ended June 30, 2012. The contribution was $80,783 for the year ended June 30, 2012.

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.

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, 2012, NICA was not covered by a reinsurance policy for the 2004 through 2012 birth years. Due to differences in the reinsurance contract language, development of case reserves is included for some years but not others.

In September 2011, certain reinsurers commenced an arbitration proceeding asserting that the amount claimed by NICA to be due should be substantially reduced. The parties are actively engaged in an arbitration proceeding which is scheduled for a final hearing in December 2012.

Other Reports

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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, 2012, and have issued our report thereon dated September 7, 2012. 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

Management of NICA is responsible for establishing and maintaining effective 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 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 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, 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.

September 7, 2012