Financial Statements

Florida Birth-Related Neurological Injury Compensation Association

Year ended June 30, 2013
with Report of Independent Auditors

Thomas Howell Ferguson P.A.

Florida Birth-Related Neurological Injury Compensation Association

Financial Statements

Year ended June 30, 2013

Contents

Report of Independent Auditors

Board of Directors
Florida Birth-Related Neurological Injury Compensation Association

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Birth-Related Neurological Injury Compensation Association (NICA) which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013, and the respective changes in its financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 6 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2013 on our consideration of NICA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering NICA's internal control over financial reporting and compliance.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
August 15, 2013

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, 2013. Please read it in conjunction with NICA’s basic financial statements, which begin on page 7. 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, 2013, NICA’s total assets increased by $86,589,310 (or 9%), primarily due to increases in investments and securities lending collateral which were offset by a decrease in reinsurance recoverable (see Table 1). Investments increased by $90,269,883 (or 11%) resulting primarily from investment holding gains, gains realized on proceeds from securities sold, investment income earned during the fiscal year, assessments received and reinsurance recoveries received. The increase in securities lending collateral of $24,367,642 (or 29%) is attributable to increases in the securities on loan as of June 30, 2013 which was driven by increased demand for certain government fixed income securities combined with increases in the market value of lendable securities. The increase in receivable for securities sold of $12,661,296 (or 190%) is due to timing differences that occur when securities are traded by investment managers but are not scheduled to settle until after the end of the fiscal year. The decrease in reinsurance recoverable of $40,674,073 (or 51%) is due to the commutation of reinsurance policies pertaining to birth years 1994-2001.

Total liabilities of NICA increased by $126,422,435 (or 14%) as of June 30, 2013, 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 $88 million (or 11%) is primarily due to new claims reported during the year, actuarial estimates for claims incurred but not reported (IBNR), revisions to the estimates made by management of accumulated reported claims and an increase in the risk margin reserve. The increase in payable for securities purchased of $13,819,520 (or 45%) 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 $24,374,148 (or 29%) is attributable to increases in the securities on loan as of June 30, 2013 which was driven by increased demand for certain government fixed income securities combined with increases in the market value of lendable securities.

Table 1 – Net Assets

	2013	2012
Investments	**$ 890,786,400**	$ 800,516,517
Receivable for securities sold	**19,311,642**	6,650,346
Securities lending collateral	**107,160,555**	82,792,913
Reinsurance recoverable	**38,316,972**	78,991,045
Other assets	**6,429,347**	6,464,785
Total assets	**1,062,004,916**	975,415,606
Claims reserves	**907,000,000**	819,000,000
Payable for securities purchased	**44,584,429**	30,764,909
Obligations under securities lending	**107,164,115**	82,789,967
Other liabilities	**618,898**	390,131
Total liabilities	**1,059,367,442**	932,945,007
Net investment in capital assets	**881,368**	1,106,933
Restricted	**1,756,106**	41,363,666
Total net position	**$ 2,637,474**	$ 42,470,599

During the year, operating revenues from assessments decreased $454,284 (approximately 2%), while operating expenses increased by $78,196,257 (or 141%) primarily due to an increase in claims expenses. The increase in claims expenses of $78,048,318 (or 145%) is due primarily to increases in the estimates of accumulated reported claims made by management including revised estimates of the cost of intermediate care facilities and revised estimates of the cost of parental provided care. These revisions are unusual in that the cost of parental provided care is an adjustment based on settlement of a class action in the current fiscal year, and the change in the cost of intermediate care facilities is a result of prices published by the Agency for Health Care Administration. These should not be recurring adjustments. Claims expenses were also affected by adjustments to amounts recoverable under reinsurance, increases in actuarial estimates for claims incurred but not reported (IBNR) for prior birth years and an increase in the risk margin reserve.

NICA recorded net investment income and other income of $70,711,248 for the year ended June 30, 2013 (see Table 2). NICA's net investment income is primarily comprised of unrealized gains of approximately $34.5 million, realized gains of approximately $21.1 million, interest and dividend income of approximately $18.5 million, and is offset by investment management fees of approximately $3.4 million.

The net effect of the increase in operating expenses and the recognition of investment was a decrease in restricted net assets of $39,833,126 (see Tables 1 and 2). This includes a $5,000,000 increase in the risk margin reserve to acknowledge the increase in liabilities and volatility that may result.

During the Fiscal Year the Office of Insurance Regulation of the Department of Financial Affairs performed an Actuarial Review and a Market Conduct Examination of NICA. The Actuarial Review Report indicated that the Association assets are adequate to fund current loss liabilities, although, depending on investment results and a change in claim frequency or severity, increases in the level of assessment may be necessary at some time in the future. The Market Conduct Examination Report was clean with no adverse findings.

Table 2 – Changes in Net Assets

	2013	2012
Hospital assessments	**$ 3,000,550**	$ 3,589,500
Physician assessments	**20,094,986**	19,960,320
Total operating revenues	**23,095,536**	23,549,820
Claims expenses	**131,849,679**	53,801,361
Other operating expenses	**1,790,230**	1,642,292
Total operating expenses	**133,639,909**	55,443,653
Operating income (loss)	**(110,544,373)**	(31,893,833)
Investment Income and other income	**73,775,304**	17,678,777
Investment fees	**(3,263,491)**	(2,863,623)
Securities lending, net	**199,435**	221,857
Total nonoperating revenues and expenses	**70,711,248**	15,037,011
Change in net assets	**$ (39,833,125)**	$ (16,856,822)

Florida Birth-Related Neurological Injury Compensation Association

Statement of Net Position

June 30, 2013

Assets	
Current assets:	
Cash and cash equivalents	$ 163,355
Prepaid expenses and other current assets	41,919
Total current assets	205,274
Receivable for securities sold	19,311,642
Investment income receivable	3,377,555
Assessments receivable	1,965,150
Investments	890,786,400
Reinsurance recoverables	38,316,972
Property and equipment, net	881,368
Securities lending collateral	107,160,555
Total assets	$1,062,004,916
Liabilities and net position	
Current liabilities:	
Accounts payable and accrued expenses	$ 140,123
Accrued investment fees	440,425
Total current liabilities	580,548
Assessments refundable	38,350
Payable for securities purchased	44,584,429
Obligations under securities lending	107,164,115
Claims reserves	907,000,000
Total liabilities	1,059,367,442
Net position:	
Net investment in capital assets	881,368
Restricted	1,756,106
Total net position	2,637,474
Total liabilities and net position	$1,062,004,916

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Revenues, Expenses, and Changes in Net Position

Year ended June 30, 2013

Changes in net position:	
Operating revenues:	
Hospital assessments	$ 3,000,550
Physicians assessments	20,094,986
Total operating revenues	23,095,536
Expenses:	
Claims expenses	129,671,032
General and administrative expenses	1,501,676
Depreciation and amortization	288,554
Commutation expense	2,178,647
Total expenses	133,639,909
Operating loss	(110,544,373)
Nonoperating revenues (expenses):	
Investment income	73,775,304
Investment fees	(3,263,491)
Securities lending income	383,417
Securities lending fees	(183,982)
Total nonoperating revenues (expenses)	70,711,248
Change in restricted net position	(39,833,125)
Net position at beginning of year	42,470,599
Net position at end of year	$ 2,637,474

See accompanying notes.

Florida Birth-Related Neurological Injury Compensation Association

Statement of Cash Flows

Year ended June 30, 2013

Operating activities	
Cash received from hospitals and physicians	$ 22,913,638
Cash received from reinsurers	20,600,000
Cash payments to claimants and vendors	(23,775,605)
Cash payments to service providers and supplies	(559,757)
Cash payments to employees for service	(644,355)
Cash payments to employees for benefits	(218,426)
Net cash provided by operating activities	18,315,495
Capital financing activities	
Purchase of property and equipment	(62,990)
Net cash used in capital financing activities	(62,990)
Investing activties	
Purchase of investments	(1,584,546,225)
Proceeds from sales of investments	1,549,066,457
Receivable from securities sold	(12,661,297)
Payable for securities purchased	13,819,525
Interest and dividends from investments and other	19,244,640
Investment management fees	(3,095,575)
Net cash used in investing activities	(18,172,475)
Net increase in cash and cash equivalents	80,030
Cash and cash equivalents at beginning of year	83,325
Cash and cash equivalents at end of year	$ 163,355
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	$ (110,544,373)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	288,554
Changes in operating assets and liabilities:	
Assessments receivable	(189,647)
Inventory	12,501
Prepaid expenses and other current assets	41,575
Reinsurance recoverable	40,674,073
Accounts payable and accrued expenses	25,062
Claims reserves	88,000,000
Assessments refundable	7,750
Net cash provided by operating activities	$ 18,315,495

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.

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 (SPIA), 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. A copy of SPIA's most recent financial statements can be found at http://www.fltreasury.org/fs_01.html. 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 Position

The net position of NICA is 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 15, 2013, the date the financial statements were available to be issued. During the period from June 30, 2013 to August 15, 2013, 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, 2013, investments of NICA were as follows:

Types of Investments **Classifiable Investments:**	**Fair Value**	**Effective Duration (in Years)**
Annuities	$ 12,439,000	**n/a**
Asset-backed securities	5,445,000	**0.54**
Corporate bonds	110,916,000	**10.03**
Federal Home Loan Mortgage	12,360,000	**2.96**
Federal National Mortgage Association	19,306,000	**3.56**
Futures contracts	(135,000)	**n/a**
Government National Mortgage Association	4,395,000	**4.46**
International corporate bonds	1,382,000	**9.40**
International government bonds	3,106,000	**13.22**
U.S. government bond	104,229,000	**10.95**
Collateralized Mortgage Obligation	17,384,000	**2.91**
Municipal bond	13,171,000	**10.56**
Fixed income	1,002,000	**7.19**
Other U.S. agency securities	10,371,000	**8.49**
U.S. debt	88,017,000	**n/a**
Pooled investment in Florida State Treasury	16,159,000	**2.65**
Equity securities	443,844,000	**n/a**
Total classifiable investments	863,391,000	
Non-classifiable Investments:		
Money market	27,395,400	
Total non-classifiable investments	27,395,400	
Total investments	$ 890,786,400	

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	$ 3,796,000
Asset-backed	AA	555,000
Asset-backed	A	58,000
Asset-backed	NR	970,000
Corporate bonds	AAA	480,000
Corporate bonds	AA	5,197,000
Corporate bonds	A	35,030,000
Corporate bonds	BAA	65,018,000
Corporate bonds	BA	2,809,000
Corporate bonds	B	1,240,000
Corporate bonds	C	71,000
Corporate bonds	NR	808,000
Futures Contracts	NR	(133,000)
International corporate bonds	A	131,000
International corporate bonds	BAA	1,260,000
International government bonds	AA	369,000
International government bonds	BAA	2,535,000
International government bonds	BA	220,000
Mortgage bonds	AAA	9,152,000
Mortgage bonds	AA	97,000
Mortgage bonds	A	404,000
Mortgage bonds	BAA	140,000
Mortgage bonds	NR	7,436,000
Municipal bonds	AAA	1,865,000
Municipal bonds	AA	7,314,000
Municipal bonds	A	3,439,000
Municipal bonds	BAA	131,000
Municipal bonds	NR	452,000
Fixed income	-	1,007,000
Preferred Securities	BAA	321,000
Preferred Securities	NR	820,000
Other U.S. agency securities	AAA	10,346,000
Pooled investments in Florida State Treasury	A+f	16,159,000
		$ 179,497,000

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 $17,420,000. 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, 2013, NICA's exposure to possible foreign currency risk by monetary unit is as follows:

Investment Type	Currency Type	Maturity	Fair Value
Currency	Canadian Dollar	n/a	$ 3,139
	Euro	n/a	30,740
	Hong Kong Dollar	n/a	14,751
	Swiss Franc	n/a	24
	Japanese Yen	n/a	6,812
	Singapore Dollar	n/a	19,648
	South African Rand	n/a	1
Common stock	Australian Dollar	n/a	887,761
	British Pound	n/a	24,127,814
	Canadian Dollar	n/a	2,915,434
	Danish Krone	n/a	683,162
	Euro	n/a	37,730,800
	Hong Kong Dollar	n/a	4,370,076
	Israeli Shekel	n/a	915,722
	Japanese Yen	n/a	22,143,856
	Norwegian Krone	n/a	1,757,484
	Singapore Dollar	n/a	3,564,575
	Swedish Krona	n/a	2,331,495
	Swiss Franc	n/a	12,772,285
			$ 114,275,579

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 position. Assets and liabilities include the value of the collateral held.

During the fiscal year ended June 30, 2013, income generated by the securities lending program totaled $383,417 with fees totaling $183,982.

The following represents the balances relating to the securities lending transactions as of June 30, 2013:

Types of Securities Lent	Fair Value of Underlying Securities	Cash Collateral Received
U.S. government and agencies	$ 29,547,605	$ 30,091,295
U.S. corporate fixed income	9,687,501	9,862,081
U.S. equities	59,813,214	61,498,543
Non-U.S. equities	5,406,502	5,712,196
Total	$ 104,454,822	$ 107,164,115

4. Securities Lending (continued)

Securities Lending Investments	Amount Invested	Market Value
Agencies	$ 5,899,251	$ 5,902,388
Floating rate notes	16,386,599	16,381,821
Repurchase agreements	84,871,975	84,876,346
Total	$ 107,157,825	$ 107,160,555

At June 30, 2013, 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, 2013:

	Beginning Balances	Additions	Deletions	Ending Balances
Land	$ 209,088	$ -	$ -	$ 209,088
Building	320,585	-	-	320,585
Building improvements	47,146	1,286	-	48,432
Property and equipment	288,489	6,824	-	295,313
Software	1,142,247	54,880	-	1,197,127
	2,007,555	62,990	-	2,070,545
Less accumulated depreciation and amortization	(900,623)	(288,554)	-	(1,189,177)
	$ 1,106,932	$ (225,564)	$ -	$ 881,368

Depreciation and amortization expense was $288,554 for the year ended June 30, 2013.

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, 2013. The reserves utilize adjustment factors for the assumption of the annual investment return and the annual inflation rate.

6. Claim Reserves (continued)

A class action settlement agreement was entered into in September 2012, which was approved pursuant to a November 26, 2012 Final Judgment and Order by the Florida Circuit Court. The settlement terms may impact benefits payable to all parents or guardians of a child born with a "birth-related neurological injury" in the state of Florida during the time period of January 1, 1989 through June 6, 2002, who obtained a final order which imposed on NICA the "continuing obligation under provisions of Section 766.31, Florida Statutes, to pay future expenses as incurred". The estimated impact on the case reserves of this settlement agreement have been incorporated into the case reserve estimates as provided by NICA for the period ending December 31, 2012.

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 $60 million as of June 30, 2013.

6. Claim Reserves (continued)

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

	June 30, 2013
Balance at beginning of year, including risk margin	$ 819,000,000
Claims incurred related to:	
Current birth year	45,367,736
Prior birth years	2,323,358
Total claims incurred	47,691,094
Claims adjusted related to prior birth years	57,392,109
Claims paid related to:	
Current year	-
Prior years	(21,596,958)
Total claims paid	(21,596,958)
Change in unallocated loss adjustment expense	(486,245)
Change in contingency loss reserve	5,000,000
Balance at end of year	$ 907,000,000

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, 2013. The contribution was $93,432 for the year ended June 30, 2013.

8. Commitments and Contingencies

During the ordinary course of business, NICA is involved in various litigation. The ultimate outcome of this litigation is not known. Management believes the outcome of this litigation will not have a material impact on the results of operations or net position of NICA.

9. Excess Insurance

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 occurred during the 2012-2013 fiscal year for $10 million.

For the period January 1, 1999 through December 31, 2001, NICA had entered into two reinsurance contracts. The first policy, through Munich RE f/k/a 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. Commutation of birth years 1999 to 2001 occurred during the 2012-2013 fiscal year for $10.6 million associated with the Munich RE layer.

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.

General Reinsurance provides 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, 2013, NICA was not covered by a reinsurance policy for the 2004 through 2013 birth years.

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, in accordance with the 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, the financial statements of Florida Birth-Related Neurological Injury Compensation Association (NICA), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 15, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the NICA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 NICA's internal control. Accordingly, we do not express an opinion on the effectiveness of the NICA's internal control.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the NICA's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Thomas Howell Ferguson P.A.

Tallahassee, Florida
August 15, 2013