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**REPORT OF INDEPENDENT AUDITORS**

Board of Directors  
**Virginia Birth-Related Neurological  
Injury Compensation Program**

We have audited the accompanying statements of financial position of the **Virginia Birth-Related Neurological Injury Compensation Program** as of December 31, 2000 and 1999, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Virginia Birth-Related Neurological Injury Compensation Program** as of December 31, 2000 and 1999, and changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 25, 2001, on our consideration of **Virginia Birth-Related Neurological Injury Compensation Program's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Goodman & Company, L.L.P.*

Richmond, Virginia  
June 25, 2001

7301 Forest Avenue, Suite 300, Richmond, VA 23226-3700  
ph: 804.282.7626 fax: 804.282.1461 www.goodmanco.com

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**VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM**  
**STATEMENTS OF FINANCIAL POSITION**

<b>December 31,</b>	<b>2000</b>	<b>1999</b>
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 7,900,383	\$ 4,404,959
Accrued income	624,440	560,176
Other receivables	57,294	27,265
Prepaid expenses	14,891	-
<b>Total current assets</b>	<b>8,596,808</b>	<b>4,992,400</b>
<b>Investments</b>	<b>64,036,109</b>	<b>66,864,917</b>
<b>Real estate held in trust</b>	<b>5,411,125</b>	<b>5,338,475</b>
<b>Security deposit</b>	<b>3,009</b>	<b>-</b>
<b>Property and equipment</b>		
Automobiles	17,238	17,238
Office furniture and fixtures	13,384	13,384
Computer equipment and software	50,547	42,764
	81,169	73,386
Less - accumulated depreciation and amortization	(53,758)	(45,498)
	27,411	27,888
	<b>\$ 78,074,462</b>	<b>\$ 76,221,680</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current liabilities</b>		
Accrued expenses	\$ 43,950	\$ 7,371
Deferred revenue - participant assessments	3,312,750	1,039,716
<b>Total current liabilities</b>	<b>3,356,700</b>	<b>1,047,087</b>
<b>Estimated claims reserve</b>	<b>146,700,000</b>	<b>70,586,000</b>
<b>Total liabilities</b>	<b>150,066,700</b>	<b>71,633,087</b>
<b>Net assets (deficit)</b>		
Unrestricted	(77,393,363)	(747,882)
Unrestricted - board designated - real estate held in trust	5,411,125	5,338,475
<b>Total net assets (deficit)</b>	<b>(71,982,238)</b>	<b>4,590,593</b>
	<b>\$ 78,074,462</b>	<b>\$ 76,221,680</b>

*The accompanying notes are an integral part of these financial statements*

**VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM****STATEMENTS OF ACTIVITIES**

<b>Years Ended December 31,</b>	<b>2000</b>	<b>1999</b>
<b>Revenue</b>		
Interest income	\$ 2,987,677	\$ 2,671,968
Participating doctors	709,900	687,250
Gain on sale of investments	3,688,053	610,542
Participating hospitals	374,902	533,329
Unrealized gain (losses) on investments	(1,848,472)	356,062
Dividend income	297,032	326,688
Gain on sale of real estate	5,954	-
<b>Total revenue</b>	<b>6,216,046</b>	<b>5,185,839</b>
<b>Expenses</b>		
Increase in estimated claims reserve	76,114,000	45,886,000
Claims cost	5,984,783	3,669,291
Advertising and brochures	238,630	22,044
Investment fees	214,879	254,719
Salaries and benefits	106,957	96,202
Professional fees	44,820	51,203
Computer services	24,290	12,387
Rent	19,675	20,076
Payroll taxes	9,546	9,253
Depreciation and amortization	8,260	4,618
Telephone	7,339	10,764
Other	5,529	11,303
Postage and mailing	3,558	10,253
Office	2,300	8,755
Automobile	2,061	4,176
Occupancy costs	250	9,464
<b>Total expenses</b>	<b>82,786,877</b>	<b>50,082,008</b>
<b>Change in unrestricted net assets</b>	<b>(76,570,831)</b>	<b>(44,896,169)</b>
<b>Unrestricted net assets - beginning of year</b>	<b>4,588,593</b>	<b>49,484,762</b>
<b>Unrestricted net assets (deficit) - end of year</b>	<b>\$ (71,982,238)</b>	<b>\$ 4,588,593</b>

*The accompanying notes are an integral part of these financial statements*

**VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM****STATEMENTS OF CASH FLOWS**

<b>Years Ended December 31,</b>	<b>2000</b>	<b>1999</b>
<b>Cash flows from operating activities</b>		
Change in unrestricted net assets	\$ (76,570,831)	\$ (41,896,169)
Adjustments to reconcile to net cash provided (used) by operating activities:		
Depreciation and amortization	8,260	4,618
Gain on sale of investments	(3,688,053)	(610,542)
Unrealized (gain) losses on investments	1,848,472	(350,062)
Gain on sale of real estate	(6,954)	-
Real estate valuation fluctuation	(24,826)	-
Changes in:		
Accrued income	(64,264)	95,139
Other receivables	(30,029)	(24,985)
Prepaid expenses	(14,691)	-
Security deposit	(3,009)	-
Accrued expenses	36,579	-
Deferred revenue, participant assessments	2,273,034	(94,118)
Estimated claims reserve	76,114,000	45,886,000
<b>Net cash provided (used) by operating activities</b>	<b>(122,314)</b>	<b>3,853</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(7,783)	(22,980)
Purchases of investment securities	(47,583,449)	(66,297,391)
Proceeds from sale and maturity of investment securities	51,251,838	64,267,725
Purchases of real estate	(524,939)	(787,252)
Proceeds from sale of real estate	482,071	-
<b>Net cash provided (used) by investing activities</b>	<b>3,617,738</b>	<b>(2,839,898)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,495,424</b>	<b>(2,836,045)</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>4,404,959</b>	<b>7,241,004</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 7,900,383</b>	<b>\$ 4,404,959</b>

*The accompanying notes are an integral part of these financial statements.*

**VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM****NOTES TO FINANCIAL STATEMENTS**

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**December 31, 2000 and 1999**

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**NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES**

The *Virginia Birth-Related Neurological Injury Compensation Program* ("Program") was established under the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The Program is a related organization for which the elected officials of the Commonwealth of Virginia are accountable as they appoint a voting majority of the board. The Act creates a compensation program which assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments of participating physicians and participating hospitals. Liability insurers and non-participating physicians contribute to the fund, if necessary, based upon actual experience of the fund. The Program receives no federal government funding.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Basis of Accounting***

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Program is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The financial statements reflect unrestricted amounts as those currently available at the discretion of the Program's Board of Directors. The Program has only unrestricted net assets.

***Board Designated – Real Estate Held in Trust***

The Board of Directors has designated a portion of unrestricted net assets for real estate held in trust (see Note 7). Real estate is carried at the lower of cost or market value. The adjustment to market value is reflected in claims cost for each year.

***Cash and Cash Equivalents***

For purposes of reporting the statement of cash flows, the Program includes all cash accounts, which are not subject to withdrawal restrictions or penalties, and all highly liquid debt instruments purchased with a maturity of three months or less as cash and cash equivalents.

***Concentration of Credit Risk***

The Program's financial instruments subject to concentration of credit risk consist of cash, cash equivalents and investments. At times the Program has cash in excess of insured limits. Cash and cash equivalents are deposited in several financial institutions whose credit ratings are monitored by management. Investments are purchased in accordance with the Program's investment policy. These policies mitigate the concentration of credit risk.

*(Notes continued on next page)*

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)*****Property and Equipment***

Property and equipment are recorded at cost. Depreciation is based on estimated useful lives and is computed on the straight-line method as follows:

<u>Asset</u>	<u>Estimated Useful Life</u>
Automobiles	5 years
Office furniture and fixtures	10 years
Computer equipment and software	5 years

***Income Taxes***

The Program is deemed to be a state agency and, as such, is exempt from income taxes.

***Use of Estimates***

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

***Fair Value of Financial Instruments***

The Program estimates that the fair value of all financial instruments at December 31, 2000 and 1999, do not materially differ from the carrying value recorded in the accompanying statements of financial position.

***Advertising***

The Program expenses advertising costs as incurred.

***Reclassification***

Certain amounts in the 1999 financial statements have been reclassified to conform to the 2000 presentation.

**NOTE 3 – LEASE COMMITMENT**

The Program leased office space under a three-year lease which ended July 31, 2000. Subsequent to July 31, 2000, the Program began leasing this space on a month-to-month basis. Rent under this lease was \$18,872 and \$20,976 for 2000 and 1999, respectively.

*(Notes continued on next page)*

**NOTE 3 – LEASE COMMITMENT (Continued)**

The Program has negotiated a new lease for office space which will commence February 2001, and will continue for a seven year term. Future minimum rental payments required under this lease for each of the five succeeding years are as follows:

2001	\$	33,000
2002	\$	37,000
2003	\$	38,000
2004	\$	39,000
2005	\$	40,000

**NOTE 4 – INVESTMENTS**

Investments are carried at market value. An analysis of investments at December 31, 2000 and 1999, is as follows:

	December 31, 2000		
	Cost	Unrealized Gains (Losses)	Estimated Market Value
U.S. Government obligations	\$ 27,190,038	\$ 390,137	\$ 27,580,175
Corporate bonds	18,833,318	(190,079)	18,643,239
Stocks	15,728,968	2,083,727	17,812,695
	<u>\$ 61,752,324</u>	<u>\$ 2,283,785</u>	<u>\$ 64,036,109</u>
	December 31, 1999		
	Cost	Unrealized Gains (Losses)	Estimated Market Value
U.S. Government obligations	\$ 16,516,484	\$ (378,088)	\$ 16,138,396
Corporate bonds	27,834,587	(989,699)	26,844,888
Stocks	17,381,589	5,500,044	22,881,633
	<u>\$ 61,732,660</u>	<u>\$ 4,132,257</u>	<u>\$ 65,864,917</u>

(Notes continued on next page)

**NOTE 5 – ESTIMATED CLAIMS RESERVE**

The estimated claims reserve is the present value of the estimated cost of payments for both claimants admitted to the Program and estimated number of not-yet-admitted claimants with birth dates prior to the date of the statement of financial position that will be admitted to the Program subsequent to the date of the statement of financial position. The present value represents the amount that would need to be invested as of the date of the statement of financial position to pay the claimant expenses as they become due. The reserve is determined based on an actuarial study, which is mandated to be done no less frequently than biennially. Eligible costs under the Program are costs not otherwise paid by private insurance or other government programs. Costs include nursing, housing, hospitals and physicians, physical therapy, vans, medical equipment, prescription drugs, various other incidental items, loss of earnings and claim filing expenses.

In very general terms, the estimated claims reserve is determined as follows:

Estimate of the total number of claimants (actual number of admitted claimants plus estimate of the number of not-yet-admitted claimants).

Forecast of future payments, by category of expense, that will be made by the Program for each claimant. These estimates are based on the actual payments made by the Program on behalf of the claimants who had been in the program for three or more years as of December 31, 2000 (taking into consideration each claimant's insurance coverage and eligibility for Medicaid), as well as assumptions regarding future cost inflation and future increases in the utilization of the benefits and services of the Program.

Projected future payments to each claimant are adjusted to reflect an assumed life expectancy for each claimant and the time value of money.

Significant actuarial assumptions include:

Rate of claims inflation (varies based on category of expense)	3.25% to 5.05%
Investment earnings rate	6.50%
Mortality:	
Average life expectancy of claimant at birth	17.9 years
Average life expectancy of claimant that attains the age of three	20.0 years
Estimated number of claimants born on or before December 31, 2000 not yet admitted to the Program. Estimate is based on review of how long it takes for claimants to be admitted to the Program	31 claimants

*(Notes continued on next page)*



**NOTE 5 – ESTIMATED CLAIMS RESERVE (Continued)**

The increase in the estimated claims reserve amount is primarily attributable to three factors:

Based on the number of claimants admitted to the Program since the last actuarial study, the estimate of the number of claimants born on or before December 31, 2000 that will eventually be admitted to the program was increased.

Based on recent research, the estimated average life expectancy of each claimant has increased.

Based on the analysis of payments made on behalf of each of the claimants who had been in the Program for three or more years as of December 31, 2000, the estimate of the future average annual expenses that will be paid on behalf of admitted claimants has increased significantly.

Though the Program is not actuarially sound as of December 31, 2000, a major finding of the actuarial study is that the Program is not in any immediate danger of defaulting on the payment of benefits and that the Program has sufficient assets to continue to pay for claimants' benefits. The Board of Directors is considering the recommendations for future Program changes presented by actuarial consultants.

**NOTE 6 – SALARIES AND BENEFITS**

Included in salaries expense on the statements of activities for 2000 and 1999, is an additional amount paid to the employees in lieu of a benefits package. These funds are to be used by the employees to acquire certain benefits, if they so choose, and are subject to income and payroll taxes. For 2000 and 1999, these additional amounts paid were equal to 24% of the employees' base salaries.

**NOTE 7 – REAL ESTATE HELD IN TRUST**

Under guidelines established by the Board of Directors, the Program could, up until 1999, approve the purchase or construction of a home for the family of a claimant subject to certain restrictions. The home is held in a trust and remains the property of the Program, subject to use by the claimant's family during the term of the trust and subject to conditions imposed by the trust agreement. The trust expires upon the death or institutionalization of the claimant, and will stipulate that during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

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