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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, 2001 and 2000, 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 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 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, 2001 and 2000, and changes in its net assets and its cash flows for the years 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 a report dated August 13, 2002 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
August 13, 2002

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VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF FINANCIAL POSITION

December 31,	2001	2000
ASSETS		
Current assets		
Cash and cash equivalents	$ 18,682,097	$ 7,900,383
Accrued income	601,730	624,440
Other receivables	2,709	57,294
Prepaid expenses	35,558	14,691
Total current assets	19,322,094	8,596,808
Investments	64,904,716	64,036,109
Real estate held in trust	5,458,725	5,411,125
Security deposit	3,009	3,009
Property and equipment		
Automobiles	17,238	17,238
Office furniture and fixtures	22,264	13,384
Computer equipment and software	47,295	50,547
	86,797	81,169
Less - accumulated depreciation and amortization	(56,276)	(53,758)
	30,521	27,411
	$ 89,719,065	$ 78,074,462
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued expenses	$ 57,867	$ 43,950
Deferred revenue	11,628,760	3,312,750
Total current liabilities	11,686,627	3,356,700
Estimated claims reserve	159,200,000	146,700,000
Total liabilities	170,886,627	150,056,700
Net assets (deficit)		
Unrestricted	(86,626,287)	(77,393,363)
Unrestricted - board designated - real estate held in trust	5,458,725	5,411,125
Total net assets (deficit)	(81,167,562)	(71,982,238)
	$ 89,719,065	$ 78,074,462

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

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF ACTIVITIES

Years Ended December 31,		2001		2000
Revenue				
Interest income	$	3,381,669	$	2,987,677
Participating hospitals		1,891,950		374,902
Participating doctors		1,775,050		709,900
Unrealized gain (losses) on investments		1,167,166		(1,848,472)
Gain on sale of investments		972,593		3,688,053
Dividend income		399,839		297,032
Gain (loss) on sale of real estate		(5,145)		6,954
Total revenue		9,583,122		6,216,046
Expenses				
Increase in estimated claims reserve		12,500,000		76,114,000
Claims cost		5,715,946		5,984,783
Investment fees		205,351		214,879
Salaries and benefits		130,698		106,957
Professional fees		51,628		44,820
Advertising and brochures		45,826		238,630
Rent		36,688		19,675
Other		13,222		5,407
Postage and mailing		12,541		4,489
Payroll taxes		12,462		9,546
Computer services		12,325		24,290
Depreciation and amortization		9,405		8,260
Printing		9,010		1,503
Telephone		8,841		7,339
Office		4,503		2,300
Total expenses		18,768,445		82,786,877
Change in unrestricted net assets		(9,185,324)		(76,570,831)
Unrestricted net assets (deficit) - beginning of year		(71,982,238)		4,588,593
Unrestricted net assets (deficit) - end of year	$	(81,167,562)	$	(71,982,238)

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

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF CASH FLOWS

Years Ended December 31,	2001	2000
Cash flows from operating activities		
Change in unrestricted net assets	$ (9,185,324)	$ (76,570,831)
Adjustments to reconcile to net cash from operating activities:		
Depreciation and amortization	9,405	8,260
Gain on sale of investments	(972,593)	(3,688,053)
Unrealized (gain) losses on investments	(1,167,166)	1,848,472
(Gain) loss on sale of real estate	5,145	(6,954)
Real estate valuation	(219,824)	(24,828)
Change in:		
Accrued income	22,710	(64,264)
Other receivables	54,585	(30,029)
Prepaid expenses	(20,867)	(14,691)
Security deposit	-	(3,009)
Accounts payable and accrued expenses	13,917	36,579
Deferred revenue	8,316,010	2,273,034
Estimated claims reserve	12,500,000	76,114,000
Net cash from operating activities	9,355,998	(122,314)
Cash flows from investing activities		
Purchase of property and equipment	(12,515)	(7,783)
Purchases of investment securities	(23,343,280)	(47,583,449)
Proceeds from sale and maturity of investment securities	24,614,432	51,251,838
Alterations/purchases of real estate	(14,276)	(524,939)
Proceeds from sale of real estate	181,355	482,071
Net cash from investing activities	1,425,716	3,617,738
Net change in cash and cash equivalents	10,781,714	3,495,424
Cash and cash equivalents - beginning of year	7,900,383	4,404,959
Cash and cash equivalents - end of year	$ 18,682,097	$ 7,900,383

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

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

1. Organization and Nature of Activities

The *Virginia Birth-Related Neurological Injury Compensation Program* (the "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.

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.

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:

Asset	Estimated Useful Life
Automobiles	5 years
Office furniture and fixtures	10 years
Computer equipment and software	5 years

Income Taxes

The Program is deemed to be an agency of the Commonwealth 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, 2001 and 2000, 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 2000 financial statements have been reclassified to conform to the 2001 presentation.

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 through February 2001. Rent under this lease was $5,127 and $18,872 for 2001 and 2000, respectively.

The Program entered into a new lease for office space which commenced 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:

2002	$	37,000
2003	$	38,000
2004	$	39,000
2005	$	40,000
2006	$	41,000

4. Investments

Investments are carried at market value. An analysis of investments at December 31, 2001 and 2000, follows:

	December 31, 2001		
	Cost	**Unrealized Gains (Losses)**	**Estimated Market Value**
U.S. Government obligations	**$ 22,675,349**	**$ 913,682**	**$ 23,589,031**
Corporate bonds	**20,164,601**	**150,202**	**20,314,803**
Stocks	**18,613,815**	**2,387,067**	**21,000,882**
	$ 61,453,765	**$ 3,450,951**	**$ 64,904,716**

	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
	$ 61,752,324	$ 2,283,785	$ 64,036,109

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 (done annually for 2001 and 2000). 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, 2001 (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)	3.27% to 5.00%
Investment earnings rate	6.50%
Mortality:	
Average life expectancy of claimant at birth	18.2 years
Average life expectancy of claimant that attains the age of three	20.4 years
Estimated number of claimants born on or before December 31, 2001 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

The increase in the estimated claims reserve amount is primarily attributable to the estimate of the total number of claimants (admitted claimants and not-yet-admitted claimants) being 99 claimants as of December 31, 2001 and 92 claimants as of December 31, 2001.

Though the Program is not actuarially sound as of December 31, 2001, 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.

6. Salaries and Benefits

Included in salaries expense on the statements of activities for 2001 and 2000, 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 2001 and 2000, additional amounts paid were equal to 24% of the employees' base salaries.

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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