

VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM

Balance sheet at
December 31, 1992

ASSETS

Current Assets

Cash and cash equivalents	\$ 928,698
Accounts receivable:	
Participating doctors	165,000
Participating hospitals	129,350
Interest	978,307
Prepaid expenses	<u>9,672</u>
Total Current Assets	<u>2,211,027</u>

<u>Investments</u> (Net of unamortized (discounts) premiums of \$1,151,741) (Note 4)	<u>48,635,741</u>
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Property and equipment

Office furniture and fixtures	6,279
Computer equipment and software	<u>25,404</u>
	31,683
Less: Accumulated depreciation and amortization	<u>11,522</u>
	<u>20,161</u>

Total Assets	<u>\$50,866,929</u>
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EXHIBIT A

VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM

Balance sheet at
December 31, 1992

LIABILITIES AND FUND BALANCE

Current liabilities

Accounts payable:

Trade

\$ 39,278

Payroll processing (Note 2)

4,089

Deferred revenue

4,024,088

Total Current Liabilities

4,067,455

Estimated claims reserve (Note 5)

32,600,000

Fund balance (Exhibit B)

14,199,474

Total Liabilities and Fund Balance

\$50,866,929

The accompanying independent auditors' report and notes are an integral part of the financial statements.

EXHIBIT BVIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAMStatements of revenue, expenses and
changes in fund balance for the
year ended December 31, 1992Revenue

◦ Non-participating doctors	\$ 2,637,372
◦ Participating doctors	1,864,583
◦ Participating hospitals	2,183,800
◦ Investment income	3,146,699
◦ Gain on sale of investments	<u>588,594</u>
Total Revenue	<u>10,421,048</u>

Expenses

◦ Investment fees	191,777
◦ Salaries	45,654
◦ Postage and mailing	11,797
◦ Rent (Note 3)	13,091
◦ Reimbursed claims cost	14,780
◦ Temporary help	2,530
◦ Computer services	11,517
◦ Professional fees	16,775
◦ Office	1,119
◦ Payroll taxes	3,438
◦ Depreciation and amortization	5,001
◦ Telephone	2,927
◦ Bank service charges	1,315
◦ Parking	940
◦ Miscellaneous	1,472
◦ Estimated claims cost (Note 5)	<u>9,300,000</u>
Total Expenses	<u>9,624,133</u>

Excess (Deficiency) of revenue over expenses 796,915Fund balance, beginning 13,402,559Fund balance, ending (Exhibit A) \$14,199,474

The accompanying independent auditors' report and notes are an integral part of the financial statements.

**VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM**

Statements of cash flows for the
year ended December 31, 1992

<u>Cash flows from operating activities</u>	
Excess (deficiency) of revenue over expenses (Exhibit B)	\$ 796,915
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:	
Depreciation and amortization	5,001
Amortization of investment discounts and premiums (net)	171,345
Gain on sale of investments	(588,594)
(Increase) decrease in:	
Receivables	(19,823)
Prepays	(1,339)
Increase (decrease) in:	
Accounts payable	(39,505)
Estimated claims reserve	9,300,000
Deferred revenue	(2,583,504)
Total adjustments	<u>6,243,581</u>
Net Cash Provided by Operating Activities	7,040,496
<u>Cash flows from investing activities</u>	
Purchases of property and equipment	(3,703)
Purchase of investment securities	(37,926,804)
Proceeds from sale and maturity of investment securities	<u>26,025,217</u>
<u>Net cash used in investing activities</u>	(11,905,290)
<u>Net decrease in cash and cash equivalents</u>	(4,864,794)
<u>Cash and cash equivalents - beginning</u>	<u>5,793,492</u>
<u>Cash and cash equivalents - ending</u>	<u>\$ 928,698</u>

The accompanying independent auditors' report and notes are an integral part of the financial statements.

**VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM**

Notes to financial statements
December 31, 1992

NOTE 1 - Nature of Activities and Significant Accounting Policies

Nature of Activities - The Program is organized to implement the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The Act creates a compensation program which assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments against participating physicians (\$5,000) and participating hospitals (\$50 per delivery, subject to maximum of \$150,000), and all other physicians practicing in Virginia (\$250). Liability insurers contribute to the fund, if necessary, based upon actual experience of the fund, as determined by the State Corporation Commission. Liability insurers are subject to a maximum of 1/4 of one percent of net direct premiums written. The Program receives no funding from the government.

Significant Accounting Policies

Cash and Cash Equivalents - For purposes of reporting cash flows, the Program considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment - Property and equipment is 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>
Office furniture and equipment	7 years
Computer equipment	5 years
Computer software	5 years

Revenue Recognition - The Program recognizes revenue from assessments and related costs in the applicable assessment period. Assessments received or due prior to the assessment period are recorded as deferred revenue.

(Continued on next page)

**VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM**

Notes to financial statements
December 31, 1992

Income Taxes - The Program is deemed to be a state agency and, as such, is exempt from income taxes. If the Program is determined not to be a state agency and is denied tax-exempt status, a liability for income taxes would be based on any excess of revenue over expenses for the period.

NOTE 2 - Payroll Processing

Payroll for the Program's only employee is processed by the Attorney General's office and is reimbursed by the Program. Reimbursements due to the Attorney General's office at December 31, 1992, were \$4,089.

NOTE 3 - Lease

The Program leases office space under a one-year lease which automatically renews at the end of the lease term. The lease provides for a \$1,095 monthly rental and may be terminated upon three months written notice.

NOTE 4 - Investments

Investments are carried at amortized cost. Amortized cost and market values at December 31, 1992 are summarized as follows:

	<u>Amortized cost</u>	<u>Market value</u>
U. S. Government obligations	\$17,713,973	\$17,988,227
Foreign bonds	2,115,459	2,200,860
Corporate bonds	26,819,222	27,486,182
Other bonds	1,987,087	2,036,250
	<u>\$48,635,741</u>	<u>\$49,711,519</u>

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**VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM**

Notes to financial statements
December 31, 1992

NOTE 5 - Estimated Claims - The estimated claims reserve is the present value of the estimated ultimate cost of payments for claims expected to be filed under the Program. Eligible costs under the Program are costs not otherwise paid by private insurance and other government programs. Costs included are initial medical and hospital, ongoing medical rehabilitation and custodial care, loss of earnings and claim filing expenses. Loss of earnings is based on Virginia private non-farm wages.

Significant assumptions include:

Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%
Rate of increase in Virginia private non-farm wages	5.0%
Investment Earnings Rate	7.5%

During 1992, the estimated claims reserve was increased, based on the actual experience of the Program. The result was to recognize \$9,300,000 in estimated claims expense for 1992.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

BALANCE SHEETS

December 31, 1991 and 1990

A S S E T S

	<u>1991</u>	<u>1990</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,793,492	\$ 1,805,890
Accounts receivable:		
Non-participating doctors	254,575	229,650
Participating doctors	55,000	409,834
Participating hospitals	150,000	26,050
Interest	792,009	655,880
Other	1,250	-
Prepaid expenses	<u>8,333</u>	<u>-</u>
Total Current Assets	<u>\$ 7,054,659</u>	<u>\$ 3,127,304</u>
INVESTMENTS (Net of unamortized (discounts) premiums of (\$44,095) and \$54,790 for 1991 and and 1990, respectively) (Note 4)	<u>\$36,316,905</u>	<u>\$30,710,790</u>
PROPERTY AND EQUIPMENT:		
Office furniture and fixtures	\$ 6,094	\$ 4,716
Computer equipment and software	<u>21,886</u>	<u>5,330</u>
	\$ 27,980	\$ 10,046
Less: Accumulated depreciation and amortization	<u>6,521</u>	<u>3,485</u>
	<u>\$ 21,459</u>	<u>\$ 6,561</u>
	<u>\$43,393,023</u>	<u>\$33,844,655</u>

LIABILITIES AND FUND BALANCE

	<u>1991</u>	<u>1990</u>
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 56,126	\$ 34,922
Payroll processing (Note 2)	26,746	36,462
Deferred revenue	<u>6,607,592</u>	<u>6,467,659</u>
Total Current Liabilities	\$ 6,690,464	\$ 6,539,043
ESTIMATED CLAIMS RESERVE (Note 5)	23,300,000	32,600,000
FUND BALANCE (Exhibit "B")	<u>13,402,559</u>	<u>(5,294,388)</u>
	<u>\$43,393,023</u>	<u>\$33,844,655</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

For The Years Ended December 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
REVENUE:		
• Non-participating doctors	\$ 2,361,364	\$ 2,268,362
• Participating doctors	2,181,608	2,025,913
• Participating hospitals	2,193,650	2,838,000
• Estimated claims revenue (Note 5)	9,300,000	-
• Investment income	2,807,072	2,162,880
• Gain on sale of investments	<u>122,064</u>	<u>26,339</u>
Total Revenue	<u>\$18,965,758</u>	<u>\$ 9,321,494</u>
EXPENSES:		
• Investment fees	\$ 154,932	\$ 115,262
• Salaries	41,931	39,960
• Postage and mailing	15,037	24,998
• Rent (Note 3)	11,662	7,335
• Claims investigation	7,345	4,246
• Temporary help	7,340	2,843
• Brochure	6,589	-
• Professional fees	5,200	10,700
• Office	3,724	3,669
• Payroll taxes	3,208	3,057
• Depreciation and amortization	3,036	1,640
• Telephone	2,430	952
• Bank service charges	2,324	2,037
• Parking	1,100	1,169
• Meals and entertainment	1,096	177
• Travel	833	527
• Advertising	638	159
• Storage	240	240
• Miscellaneous	146	171
• Estimated claims cost (Note 5)	<u>-</u>	<u>12,000,000</u>
Total Expenses	<u>\$ 268,811</u>	<u>\$12,219,142</u>
Excess (Deficiency) of Revenue Over Expenses	\$18,696,947	(\$ 2,897,648)
FUND BALANCE, BEGINNING	(<u>5,294,388</u>)	(<u>2,396,740</u>)
FUND BALANCE, ENDING (Exhibit "A")	<u>\$13,402,559</u>	<u>(\$ 5,294,388)</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 1991 and 1990

	<u>1991</u>	<u>1990</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess (deficiency) of revenue over expenses (Exhibit "B")	<u>\$18,696,947</u>	<u>(\$ 2,897,648)</u>
Adjustments to reconcile excess (deficiency) of revenue over expenses to net cash provided by operating activities:		
Depreciation and amortization	\$ 3,036	\$ 1,640
Amortization of investment discounts and premiums (net)	(70,979)	(11,033)
Gain on sale of investments	(122,064)	(26,339)
(Increase) decrease in:		
Receivables	68,580	2,900,025
Prepays	(8,333)	90
Increase (decrease) in:		
Accounts payable	11,487	42,629
Estimated claims reserve	(9,300,000)	12,000,000
Deferred revenue	<u>139,933</u>	<u>(694,096)</u>
Total adjustments	<u>(\$ 9,278,340)</u>	<u>\$14,212,916</u>
Net Cash Provided by Operating Activities	<u>\$ 9,418,607</u>	<u>\$11,315,268</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(\$ 17,934)	(\$ 1,612)
Purchase of investment securities	(25,584,077)	(17,490,140)
Proceeds from sale and maturity of investment securities	<u>20,171,006</u>	<u>6,090,718</u>
Net Cash Used in Investing Activities	<u>(\$ 5,431,005)</u>	<u>(\$11,401,034)</u>
Net Decrease in Cash and Cash Equivalents	\$ 3,987,602	(\$ 85,766)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,805,890</u>	<u>1,891,656</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 5,793,492</u>	<u>\$ 1,805,890</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

December 31, 1991

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Program is organized to implement the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The Act creates a compensation program which assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments against participating physicians (\$5,000) and participating hospitals (\$50 per delivery, subject to a maximum of \$150,000), and all other physicians practicing in Virginia (\$250). Liability insurers contribute to the fund, if necessary, based upon actual experience of the fund, as determined by the State Corporation Commission. Liability insurers are subject to a maximum of 1/4 of one percent of net direct premiums written. The Program receives no funding from the government.

Significant Accounting Policies:

Cash and Cash Equivalents

For purposes of reporting cash flows, the Program considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is 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>
Office furniture and equipment	7 years
Computer equipment	5 years
Computer software	5 years

Revenue Recognition

The Program recognizes revenue from assessments and related costs in the applicable assessment period. Assessments received or due prior to the assessment period are recorded as deferred revenue.

Income Taxes

The Program is deemed to be a state agency and, as such, is exempt from income taxes. If the Program is determined not to be a state agency and is denied tax-exempt status, a liability for income taxes would be based on any excess of revenue over expenses for the periods.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1991

NOTE 2: PAYROLL PROCESSING:

Payroll for the Program's only employee is processed by the Attorney General's office and is reimbursed by the Program. Reimbursements due to the Attorney General's office at December 31, 1991 and 1990 were \$26,746 and \$36,462, respectively.

NOTE 3: LEASE:

The Program leases office space under a one-year lease which automatically renews at the end of the lease term. The lease provides for a \$1,095 monthly rental and may be terminated upon three months written notice.

NOTE 4: INVESTMENTS:

Investments are carried at cost. Amortized cost and unrealized appreciation at December 31, 1991 and 1990 are summarized as follows:

<u>December 31, 1991</u>	<u>Amortized Cost</u>	<u>Unrealized Appreciation</u>
U. S. Government obligations	\$ 8,711,109	\$ 446,549
Foreign bonds	1,000,213	35,327
Corporate bonds	24,579,645	1,122,244
Other bonds	2,025,938	92,902
	<u>\$36,316,905</u>	<u>\$1,697,022</u>
<u>December 31, 1990</u>	<u>Amortized Cost</u>	<u>Unrealized Appreciation</u>
U. S. Government obligations	\$10,189,745	\$ 89,445
Foreign bonds	1,000,356	7,334
Corporate bonds	18,634,129	76,125
Other bonds	886,560	15,960
	<u>\$30,710,790</u>	<u>\$ 188,864</u>

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1991

NOTE 5: ESTIMATED CLAIMS:

The estimated claims reserve is the present value of the estimated ultimate cost of payments for claims expected to be filed under the Program. Eligible costs under the Program are costs not otherwise paid by private insurance and other government programs. Costs included are initial medical and hospital, ongoing medical rehabilitation and custodial care, loss of earnings and claim filing expenses. Loss of earnings is based on Virginia private non-farm wages.

Significant assumptions include:

	<u>1991</u>	<u>1990</u>
Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%	7.5%
Rate of increase in Virginia private non-farm wages	5.0%	5.0%
Present value discount factor	8.0%	8.0%

During 1991, the estimated claims reserve was lowered, based on the actual experience of the Program. The result was to recognize \$9,300,000 in additional revenue for 1991.

NOTE 6: RECLASSIFICATION:

Certain 1990 revenues and expenses have been reclassified for comparative purposes.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

BALANCE SHEETS

December 31, 1990 and 1989

A S S E T S

	<u>1990</u>	<u>1989</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,805,890	\$ 1,891,656
Accounts receivable:		
Non-participating doctors	229,650	640,942
Participating doctors	409,834	387,520
Participating hospitals	26,050	419,800
Insurance assessments	-	2,340,321
Interest receivable	655,880	432,856
Prepaid expenses	<u>-</u>	<u>90</u>
Total Current Assets	<u>\$ 3,127,304</u>	<u>\$ 6,113,185</u>
INVESTMENTS (Net of unamortized premiums of \$54,790 and \$167,996 for 1990 and 1989, respectively) (Note 4)	<u>\$30,710,790</u>	<u>\$19,273,996</u>
PROPERTY AND EQUIPMENT:		
Office furniture and fixtures	\$ 4,716	\$ 3,192
Computer equipment and software	5,330	5,242
	<u>\$ 10,046</u>	<u>\$ 8,434</u>
Less: Accumulated depreciation and amortization	3,485	1,845
	<u>\$ 6,561</u>	<u>\$ 6,589</u>
	<u>\$33,844,655</u>	<u>\$25,393,770</u>

LIABILITIES AND FUND BALANCE

	<u>1990</u>	<u>1989</u>
CURRENT LIABILITIES:		
Accounts payable:		
Trade	\$ 34,922	\$ 21,806
Payroll processing (Note 2)	36,462	6,949
Deferred revenue	<u>6,467,659</u>	<u>7,161,755</u>
Total Current Liabilities	\$ 6,539,043	\$ 7,190,510
CONTINGENCY (Note 6)		
ESTIMATED CLAIMS RESERVE (Note 5)	32,600,000	20,600,000
FUND BALANCE (Exhibit "B")	<u>(5,294,388)</u>	<u>(2,396,740)</u>
	<u>\$33,844,655</u>	<u>\$25,393,770</u>

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

For The Years Ended December 31, 1990 and 1989

	<u>1990</u>	<u>1989</u>
REVENUE:		
Non-participating doctors	\$ 2,269,362	\$ 2,192,981
Participating doctors	2,025,913	1,893,043
Participating hospitals	2,838,000	2,861,190
Insurance assessments	-	<u>2,569,381</u>
Total Revenue	<u>\$ 7,133,275</u>	<u>\$ 9,516,595</u>
OPERATING EXPENSES:		
Estimated claims cost (Note 5)	\$12,000,000	\$10,700,000
Investment fees	115,262	67,378
Wages	39,960	32,636
Postage and mailing	24,998	21,366
Professional fees	10,700	-
Rent (Note 3)	7,335	5,520
Claims investigation	4,246	-
Office	3,669	3,251
Payroll taxes	3,057	2,451
Temporary help	2,843	235
Bank service charges	2,037	143
Depreciation and amortization	1,640	1,501
Parking	1,169	1,025
Telephone	952	1,197
Travel	527	153
Storage	240	240
Meals and entertainment	177	545
Miscellaneous	171	52
Advertising	<u>159</u>	<u>524</u>
Total Operating Expenses	<u>\$12,219,142</u>	<u>\$10,838,217</u>
Excess of Operating Expenses Over Revenue	(\$ 5,085,867)	(\$ 1,321,622)
OTHER REVENUE AND EXPENSES:		
Refunds of prior year assessments	(1,000)	(6,000)
Investment income	2,162,880	1,288,237
Gain on sale of investments	<u>26,339</u>	<u>16,322</u>
Excess of Expenses Over Revenue	(\$ 2,897,648)	(\$ 23,063)
FUND BALANCE, BEGINNING	(<u>2,396,740</u>)	(<u>2,373,677</u>)
FUND BALANCE, ENDING (Exhibit "A")	<u>(\$ 5,294,388)</u>	<u>(\$ 2,396,740)</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 1990 and 1989

	<u>1990</u>	<u>1989</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of expenses over revenue (Exhibit "B")	(\$ 2,897,648)	(\$ 23,063)
Adjustments to reconcile excess of expenses over revenue to net cash provided by operating activities:		
Depreciation and amortization	\$ 1,640	\$ 1,501
Amortization of investment discounts and premiums (net)	(11,033)	(176,856)
Gain on sale of investments	(26,339)	(16,322)
(Increase) decrease in:		
Receivables	2,900,025	(4,028,584)
Prepays	90	(5)
Increase (decrease) in:		
Accounts payable	42,629	(958)
Estimated claims reserve	12,000,000	10,700,000
Deferred revenue	(694,096)	2,531,504
Total adjustments	<u>\$14,212,916</u>	<u>\$ 9,010,280</u>
Net Cash Provided by Operating Activities	<u>\$11,315,268</u>	<u>\$ 8,987,217</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(\$ 1,612)	(\$ 225)
Purchase of investment securities	(17,490,140)	(41,447,474)
Proceeds from sale and maturity of investment securities	<u>6,090,718</u>	<u>32,444,980</u>
Net Cash Used in Investing Activities	<u>(\$11,401,034)</u>	<u>(\$ 9,002,719)</u>
Net Decrease in Cash and Cash Equivalents	(\$ 85,766)	(\$ 15,502)
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,891,656</u>	<u>1,907,158</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,805,890</u>	<u>\$ 1,891,656</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

December 31, 1990

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Program is organized to implement the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The Act creates a compensation program which assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments against participating physicians (\$5,000), participating hospitals (\$50 per delivery, subject to a maximum of \$150,000), and all other physicians practicing in Virginia (\$250). Liability insurers contribute to the fund, if necessary, based upon actual experience of the fund, as determined by the State Corporation Commission. Liability insurers are subject to a maximum of 1/4 of one percent of net direct premiums written. These insurers were required for 1989 to contribute at a rate of 1/10 of one percent of net direct premiums written for 1988. The Program receives no funding from the government.

Significant Accounting Policies:

Cash and Cash Equivalents

For purposes of reporting cash flows, the Program considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is 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>
Office furniture and equipment	7 years
Computer equipment	5 years
Computer software	5 years

Revenue Recognition

The Program recognizes revenue from assessments and related costs in the applicable assessment period. Assessments received or due prior to the assessment period are recorded as deferred revenue.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1990

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes

The Program is deemed to be a state agency and, as such, is exempt from income taxes. If the Program is determined not to be a state agency and is denied tax-exempt status, a liability for income taxes would be based on any excess of revenue over expenses for the periods.

NOTE 2: PAYROLL PROCESSING:

Payroll for the Program's only employee is processed by the Attorney General's office and is reimbursed by the Program. Reimbursements due to the Attorney General's office at December 31, 1990 and 1989 were \$36,462 and \$6,949, respectively.

NOTE 3: LEASE:

The Program leases office space under a one-year lease which automatically renews at the end of the lease term. The lease provides for a \$615 monthly rental and may be terminated upon three months written notice.

NOTE 4: INVESTMENTS:

Investments are carried at cost. Amortized cost and unrealized appreciation (depreciation) at December 31, 1990 and 1989 are summarized as follows:

<u>December 31, 1990</u>	<u>Amortized Cost</u>	<u>Unrealized Appreciation</u>
U. S. Government obligations	\$10,189,745	\$ 89,445
Foreign bonds	1,000,356	7,334
Corporate bonds	18,634,129	76,125
Other bonds	886,560	15,960
	<u>\$30,710,790</u>	<u>\$ 188,864</u>
 <u>December 31, 1989</u>	 <u>Amortized Cost</u>	 <u>Unrealized Depreciation</u>
U. S. Government obligations	\$ 6,284,925	(\$ 23,335)
Foreign bonds	1,000,498	(10,498)
Corporate bonds	11,988,573	(75,056)
	<u>\$19,273,996</u>	<u>(\$ 108,889)</u>

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1990

NOTE 5: ESTIMATED CLAIMS:

The estimated claims reserve is the present value of payments for claims expected to be filed under the Program. Eligible costs under the Program are costs not otherwise paid by private insurance and other government programs. Costs included are initial medical and hospital, ongoing medical rehabilitation and custodial care, loss of earnings and claim filing expenses. Loss of earnings is based on Virginia private non-farm wages.

Significant assumptions include:

	<u>1990</u>	<u>1989</u>
Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%	7.5%
Rate of increase in Virginia private non-farm wages	5.0%	5.0%
Present value discount factor	8.0%	8.0%

NOTE 6: CONTINGENCY:

A group of physicians has challenged the constitutionality of the \$250 assessments on nonparticipating physicians. The case was heard by the Circuit Court of the City of Richmond which denied judgment for the plaintiffs. The plaintiffs have filed an appeal to the Virginia State Supreme Court which is pending. The Program is not able at this time to predict the ultimate effect of this litigation on the Program's financial position or results of operations.

VIRGINIA BIRTH-RELATED NEUROLOGICAL
INJURY COMPENSATION PROGRAM

FINANCIAL STATEMENTS

December 31, 1989

C O N T E N T S

December 31, 1989

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CHARLES M. TERRY & COMPANY

A PROFESSIONAL CORPORATION

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Virginia Birth-Related Neurological Injury
Compensation Program
Richmond, Virginia

We have audited the accompanying balance sheets of Virginia Birth-Related Neurological Injury Compensation Program as of December 31, 1989, 1988 and 1987, and the related statements of revenue, expenses and changes in fund balance and cash flows for the years ended December 31, 1989 and 1988 and the initial one month ended December 31, 1987. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits 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, 1989, 1988 and 1987, and the results of its operations and its cash flows for the years ended December 31, 1989 and 1988 and for the initial one month ended December 31, 1987 in conformity with generally accepted accounting principles.

Charles M. Terry & Company

October 12, 1990

L I A B I L I T I E S A N D F U N D B A L A N C E

	<u>1989</u>	<u>1988</u>	<u>1987</u>
CURRENT LIABILITIES:			
Accounts payable:			
Trade	\$ 21,806	\$ 13,038	\$ -
Payroll processing (Note 2)	6,949	16,675	-
Accrued expenses:			
Salaries	-	-	960
Payroll taxes and withholding	-	-	376
Deferred revenue	<u>7,161,755</u>	<u>4,630,251</u>	<u>1,647,500</u>
Total Current Liabilities	\$ 7,190,510	\$ 4,659,964	\$ 1,648,836
ESTIMATED CLAIMS RESERVE (Note 5)	20,600,000	9,900,000	-
FUND BALANCE (Exhibit "B")	(<u>2,396,740</u>)	(<u>2,373,677</u>)	(<u>2,022</u>)
	<u>\$25,393,770</u>	<u>\$12,186,287</u>	<u>\$ 1,646,814</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

For The Years Ended December 31, 1989 and 1988 and
For The One Month Ended December 31, 1987

	<u>1989</u>	<u>1988</u>	<u>1987</u>
REVENUE:			
Non-participants	\$ 2,192,981	\$ 2,100,777	\$ -
Participating doctors	1,893,043	2,039,167	-
Participating hospitals	2,861,190	3,028,458	-
Insurance assessments	<u>2,569,381</u>	<u>-</u>	<u>-</u>
Total Revenue	<u>\$ 9,516,595</u>	<u>\$ 7,168,402</u>	<u>\$ -</u>
OPERATING EXPENSES:			
Estimated claims cost (Note 5)	\$10,700,000	\$ 9,900,000	\$ -
Investment fees	67,378	26,062	-
Wages	32,636	29,180	1,945
Postage and mailing	21,366	25,593	-
Rent (Note 3)	5,520	2,530	-
Office	3,486	1,070	-
Payroll taxes	2,451	2,191	138
Depreciation	1,501	344	-
Telephone	1,197	1,617	-
Parking	1,025	944	91
Meals and entertainment	545	119	-
Advertising	524	2,065	-
Storage	240	60	-
Travel	153	-	-
Computer usage	-	8,181	-
Bank service charges	143	1,789	68
Miscellaneous	<u>52</u>	<u>293</u>	<u>-</u>
Total Operating Expenses	<u>\$10,838,217</u>	<u>\$10,002,038</u>	<u>\$ 2,242</u>
Excess of Operating Expenses Over Revenue	(\$ 1,321,622)	(\$ 2,833,636)	(\$ 2,242)
OTHER REVENUE AND EXPENSES:			
Refunds of prior year assessments	(6,000)	-	-
Investment income	1,288,237	465,885	220
Gain (loss) on sale of investments	<u>16,322</u>	<u>(3,904)</u>	<u>-</u>
Excess of Expenses Over Revenue	(\$ 23,063)	(\$ 2,371,655)	(\$ 2,022)
FUND BALANCE, BEGINNING	(2,373,677)	(2,022)	-
FUND BALANCE, ENDING (Exhibit "A")	<u>(\$ 2,396,740)</u>	<u>(\$ 2,373,677)</u>	<u>(\$ 2,022)</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 1989 and 1988 and
For The One Month Ended December 31, 1987

	<u>1989</u>	<u>1988</u>	<u>1987</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of expenses over revenue (Exhibit "B")	(\$ 23,063)	(\$ 2,371,655)	(\$ 2,022)
Adjustments to reconcile excess of expenses over revenue to net cash provided by operating activities:			
Depreciation	\$ 1,501	\$ 344	\$ -
Amortization of investment discounts and premiums (net)	(176,856)	(25,182)	-
(Gain) loss on sale of investments	(16,322)	3,904	-
Increase in receivables	(4,028,584)	(192,635)	(220)
Increase in prepaids	(5)	(15)	(70)
Increase (decrease) in accounts payable	(958)	29,713	-
Increase (decrease) in accrued expenses	-	(1,336)	1,336
Increase in estimated claims reserve	10,700,000	9,900,000	-
Increase in deferred revenue	<u>2,531,504</u>	<u>2,982,751</u>	<u>1,647,500</u>
Total adjustments	<u>\$ 9,010,280</u>	<u>\$12,697,544</u>	<u>\$ 1,648,546</u>
Net Cash Provided by Operating Activities	<u>\$ 8,987,217</u>	<u>\$10,325,889</u>	<u>\$ 1,646,524</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchases of property and equipment	(\$ 225)	(\$ 8,209)	\$ -
Purchase of investment securities	(41,447,474)	(17,416,316)	-
Proceeds from sale and maturity of investment securities	<u>32,444,980</u>	<u>7,359,270</u>	<u>-</u>
Net Cash Used in Financing Activities	<u>(\$ 9,002,719)</u>	<u>(\$10,065,255)</u>	<u>\$ -</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(\$ 15,502)	\$ 260,634	\$ 1,646,524
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,907,158</u>	<u>1,646,524</u>	<u>-</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,891,656</u>	<u>\$ 1,907,158</u>	<u>\$ 1,646,524</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

December 31, 1989

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

The Program is organized to implement the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The Act creates a compensation program which assures lifetime care of infants with severe neurological injuries. The Program is funded through annual assessments against participating physicians (\$5,000), participating hospitals (\$50 per delivery, subject to a maximum of \$150,000), and all other physicians practicing in Virginia (\$250). Liability insurers contribute to the fund, if necessary, based upon actual experience of the fund, as determined by the State Corporation Commission. Liability insurers are subject to a maximum of 1/4 of one percent of net direct premiums written. These insurers are required to contribute at a rate of 1/10 of one percent of net direct premiums written for 1988. The Program receives no funding from the government.

Significant Accounting Policies:

Cash and Cash Equivalents

For purposes of reporting cash flows, the Program considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Property and Equipment

Property and equipment is 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>
Office furniture and equipment	7 years
Computer equipment	5 years

Revenue Recognition

The Program recognizes revenue from assessments and related costs in the applicable assessment period. Assessments received or due prior to the assessment period are recorded as deferred revenue.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1989

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes

The Program is deemed to be a state agency and, as such, is exempt from income taxes. If the Program is determined not to be a state agency and is denied tax-exempt status, a liability for income taxes would be based on any excess of revenue over expenses for the periods.

NOTE 2: PAYROLL PROCESSING:

Payroll for the Program's only employee is processed by the Attorney General's office and is reimbursed by the Program on a quarterly basis. Reimbursements due to the Attorney General's office at December 31, 1989 and 1988 were \$6,950 and \$16,675, respectively.

NOTE 3: LEASE:

The Program leases office space under a one-year lease which automatically renews at the end of the lease term. The lease provides for a \$460 monthly rental and may be terminated upon three months written notice.

NOTE 4: INVESTMENTS:

Investments are carried at cost. Amortized cost and unrealized depreciation at December 31, 1989 and 1988 are summarized as follows:

<u>December 31, 1989</u>	<u>Amortized Cost</u>	<u>Unrealized Depreciation</u>
U. S. Government obligations	\$ 6,284,925	(\$ 23,335)
Foreign bonds	1,000,498	(10,498)
Corporate bonds	<u>11,988,573</u>	<u>(75,056)</u>
	<u>\$19,273,996</u>	<u>(\$ 108,889)</u>
 <u>December 31, 1988</u>		
U. S. Government obligations	<u>\$10,078,324</u>	<u>(\$ 24,200)</u>

Declines in market value are deemed to be temporary declines.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1989

NOTE 5: ESTIMATED CLAIMS:

The estimated claims reserve is the present value of payments for claims expected to be filed under the Program. Eligible costs under the Program are costs not otherwise paid by private insurance and other government programs. Costs included are initial medical and hospital, ongoing medical rehabilitation and custodial care, loss of earnings and claim filing expenses. Loss of earnings is based on Virginia private non-farm wages.

Significant assumptions include:

	<u>1989</u>	<u>1988</u>
Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%	7.5%
Rate of increase in Virginia private non-farm wages	5.0%	5.0%
Present value discount factor	8.0%	8.0%

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

BALANCE SHEETS

December 31, 1989, 1988 and 1987

A S S E T S

	<u>1989</u>	<u>1988</u>	<u>1987</u>
CURRENT ASSETS:			
Cash and cash equivalents	\$ 1,891,656	\$ 1,907,158	\$ 1,646,524
Accounts receivable:			
Non-participants	640,942	6,250	-
Participating doctors	387,520	-	-
Participating hospitals	419,800	-	-
Insurance assessments	2,340,321	-	-
Interest receivable	432,856	186,605	220
Prepaid expenses	<u>90</u>	<u>85</u>	<u>70</u>
Total Current Assets	<u>\$ 6,113,185</u>	<u>\$ 2,100,098</u>	<u>\$ 1,646,814</u>
INVESTMENTS (Net of unamortized premiums of \$167,996 for 1989 and unamortized discounts of \$71,676 for 1988) (Note 4)			
	<u>\$19,273,996</u>	<u>\$10,078,324</u>	<u>\$ -</u>
PROPERTY AND EQUIPMENT:			
Office furniture and fixtures	\$ 3,192	\$ 2,967	\$ -
Computer equipment	<u>5,242</u>	<u>5,242</u>	<u>-</u>
	\$ 8,434	\$ 8,209	\$ -
Less: Accumulated depreciation	<u>1,845</u>	<u>344</u>	<u>-</u>
	<u>\$ 6,589</u>	<u>\$ 7,865</u>	<u>\$ -</u>
	<u>\$25,393,770</u>	<u>\$12,186,287</u>	<u>\$ 1,646,814</u>

LIABILITIES AND FUND BALANCE

	<u>1989</u>	<u>1988</u>	<u>1987</u>
CURRENT LIABILITIES:			
Accounts payable:			
Trade	\$ 21,806	\$ 13,038	\$ -
Payroll processing (Note 2)	6,949	16,675	-
Accrued expenses:			
Salaries	-	-	960
Payroll taxes and withholding	-	-	376
Deferred revenue	<u>7,161,755</u>	<u>4,630,251</u>	<u>1,647,500</u>
Total Current Liabilities	\$ 7,190,510	\$ 4,659,964	\$ 1,648,836
ESTIMATED CLAIMS RESERVE (Note 5)	20,600,000	9,900,000	-
FUND BALANCE (Exhibit "B")	(<u>2,396,740</u>)	(<u>2,373,677</u>)	(<u>2,022</u>)
	<u>\$25,393,770</u>	<u>\$12,186,287</u>	<u>\$ 1,646,814</u>

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN FUND BALANCE

For The Years Ended December 31, 1989 and 1988 and
For The One Month Ended December 31, 1987

	<u>1989</u>	<u>1988</u>	<u>1987</u>
REVENUE:			
Non-participants	\$ 2,192,981	\$ 2,100,777	\$ -
Participating doctors	1,893,043	2,039,167	-
Participating hospitals	2,861,190	3,028,458	-
Insurance assessments	<u>2,569,381</u>	-	-
Total Revenue	<u>\$ 9,516,595</u>	<u>\$ 7,168,402</u>	<u>\$ -</u>
OPERATING EXPENSES:			
Estimated claims cost (Note 5)	\$10,700,000	\$ 9,900,000	\$ -
Investment fees	67,378	26,062	-
Wages	32,636	29,180	1,945
Postage and mailing	21,366	25,593	-
Rent (Note 3)	5,520	2,530	-
Office	3,486	1,070	-
Payroll taxes	2,451	2,191	138
Depreciation	1,501	344	-
Telephone	1,197	1,617	-
Parking	1,025	944	91
Meals and entertainment	545	119	-
Advertising	524	2,065	-
Storage	240	60	-
Travel	153	-	-
Computer usage	-	8,181	-
Bank service charges	143	1,789	68
Miscellaneous	<u>52</u>	<u>293</u>	-
Total Operating Expenses	<u>\$10,838,217</u>	<u>\$10,002,038</u>	<u>\$ 2,242</u>
Excess of Operating Expenses Over Revenue	(\$ 1,321,622)	(\$ 2,833,636)	(\$ 2,242)
OTHER REVENUE AND EXPENSES:			
Refunds of prior year assessments	(6,000)	-	-
Investment income	1,288,237	465,885	220
Gain (loss) on sale of investments	<u>16,322</u>	<u>(3,904)</u>	-
Excess of Expenses Over Revenue	(\$ 23,063)	(\$ 2,371,655)	(\$ 2,022)
FUND BALANCE, BEGINNING	(2,373,677)	(2,022)	-
FUND BALANCE, ENDING (Exhibit "A")	<u>(\$ 2,396,740)</u>	<u>(\$ 2,373,677)</u>	<u>(\$ 2,022)</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF CASH FLOWS

For The Years Ended December 31, 1989 and 1988 and
For The One Month Ended December 31, 1987

	<u>1989</u>	<u>1988</u>	<u>1987</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess of expenses over revenue (Exhibit "B")	(\$ 23,063)	(\$ 2,371,655)	(\$ 2,022)
Adjustments to reconcile excess of expenses over revenue to net cash provided by operating activities:			
Depreciation	\$ 1,501	\$ 344	\$ -
Amortization of investment discounts and premiums (net)	(176,856)	(25,182)	-
(Gain) loss on sale of investments	(16,322)	3,904	-
Increase in receivables	(4,028,584)	(192,635)	(220)
Increase in prepaids	(5)	(15)	(70)
Increase (decrease) in accounts payable	(958)	29,713	-
Increase (decrease) in accrued expenses	-	(1,336)	1,336
Increase in estimated claims reserve	10,700,000	9,900,000	-
Increase in deferred revenue	<u>2,531,504</u>	<u>2,982,751</u>	<u>1,647,500</u>
Total adjustments	<u>\$ 9,010,280</u>	<u>\$12,697,544</u>	<u>\$ 1,648,546</u>
Net Cash Provided by Operating Activities	<u>\$ 8,987,217</u>	<u>\$10,325,889</u>	<u>\$ 1,646,524</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchases of property and equipment	(\$ 225)	(\$ 8,209)	\$ -
Purchase of investment securities	(41,447,474)	(17,416,316)	-
Proceeds from sale and maturity of investment securities	<u>32,444,980</u>	<u>7,359,270</u>	-
Net Cash Used in Financing Activities	<u>(\$ 9,002,719)</u>	<u>(\$10,065,255)</u>	<u>\$ -</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(\$ 15,502)	\$ 260,634	\$ 1,646,524
CASH AND CASH EQUIVALENTS - BEGINNING	<u>1,907,158</u>	<u>1,646,524</u>	-
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 1,891,656</u>	<u>\$ 1,907,158</u>	<u>\$ 1,646,524</u>

See Notes To Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

December 31, 1989

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES:

Nature of Activities:

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<u>Asset</u>	<u>Estimated Useful Life</u>
Office furniture and equipment	7 years
Computer equipment	5 years

Revenue Recognition

The Program recognizes revenue from assessments and related costs in the applicable assessment period. Assessments received or due prior to the assessment period are recorded as deferred revenue.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS
(Continued)
December 31, 1989

NOTE 1: NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Taxes

The Program is deemed to be a state agency and, as such, is exempt from income taxes. If the Program is determined not to be a state agency and is denied tax-exempt status, a liability for income taxes would be based on any excess of revenue over expenses for the periods.

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The Program leases office space under a one-year lease which automatically renews at the end of the lease term. The lease provides for a \$460 monthly rental and may be terminated upon three months written notice.

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U. S. Government obligations	\$ 6,284,925	(\$ 23,335)
Foreign bonds	1,000,498	(10,498)
Corporate bonds	11,988,573	(75,056)
	<u>\$19,273,996</u>	<u>(\$ 108,889)</u>
 <u>December 31, 1988</u>		
U. S. Government obligations	<u>\$10,078,324</u>	<u>(\$ 24,200)</u>

Declines in market value are deemed to be temporary declines.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

(Continued)

December 31, 1989

NOTE 5: ESTIMATED CLAIMS:

The estimated claims reserve is the present value of payments for claims expected to be filed under the Program. Eligible costs under the Program are costs not otherwise paid by private insurance and other government programs. Costs included are initial medical and hospital, ongoing medical rehabilitation and custodial care, loss of earnings and claim filing expenses. Loss of earnings is based on Virginia private non-farm wages.

Significant assumptions include:

	<u>1989</u>	<u>1988</u>
Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%	7.5%
Rate of increase in Virginia private non-farm wages	5.0%	5.0%
Present value discount factor	8.0%	8.0%