

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

Financial Statements

December 31, 1996

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

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TERRY, HAGEN & ATWOOD, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To 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, 1996, and the related statements of revenue, expenses and changes in net assets and cash flows for the year 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. The financial statements of Virginia Birth-Related Neurological Injury Compensation Program for the year ended December 31, 1995 were audited by other auditors whose report, dated June 25, 1996, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with generally accepted auditing standards and *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 the Virginia Birth-Related Neurological Injury Compensation Program as of December 31, 1996, and changes in its net assets and its cash flows for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 1 to the financial statements, the Program has adopted Financial Accounting Standards Board Statements No. 117, "Financial Statements of Not-for-Profit Organizations" and No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations".

In accordance with *Government Auditing Standards*, we have also issued a report dated May 12, 1998, on our consideration of Virginia Birth-Related Neurological Injury Compensation Program's internal control structure and a report dated May 12, 1998, on its compliance with laws and regulations.

May 12, 1998

Terry, Hagen & Atwood

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

Balance Sheets

A S S E T S

	December 31	
	1996	1995
Current assets		
Cash and cash equivalents	\$ 3,286,426	\$ 3,754,191
Interest receivable	1,018,609	1,205,851
Other receivables	2,280	-
Total current assets	4,307,315	4,960,042
Investments	62,111,640	60,398,122
Real estate held in trust	2,293,729	-
Property and equipment		
Office furniture and fixtures	6,279	6,279
Computer equipment and software	37,021	31,301
	43,300	37,580
Less accumulated depreciation and amortization	33,505	28,661
	9,795	8,919
	\$68,722,479	\$65,367,083

L I A B I L I T I E S A N D N E T A S S E T S

Current liabilities		
Accounts payable	\$ 2,047	\$ 26,788
Accrued expenses	7,282	5,929
Deferred revenue, participant assessments	994,040	928,042
Total current liabilities	1,003,369	960,759
Estimated claims reserve	20,500,000	37,300,000
Net assets	47,219,110	27,106,324
	\$68,722,479	\$65,367,083

See Notes to Financial Statements

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

**Statements of Revenue, Expenditures and
Changes in Net Assets**

	<u>Years Ended December 31</u>	
	<u>1996</u>	<u>1995</u>
Revenue		
Participating doctors	\$ 658,623	\$ 837,680
Participating hospitals	367,169	535,637
Interest income	3,873,954	3,832,227
Reduction in estimated claims reserve	16,800,000	1,500,000
Gain (loss) on sale of investments	24,115	(67,523)
Unrealized loss on investments	(1,082,342)	-
Total unrestricted revenue	<u>20,641,519</u>	<u>6,638,021</u>
Expenses		
Investment fees	105,083	104,197
Salaries	86,530	66,278
Postage and mailing	13,854	1,975
Rent	13,140	13,148
Reimbursed claims cost	1,682,819	1,355,597
Computer services	3,720	2,139
Professional fees	24,950	18,697
Office	2,296	1,552
Payroll taxes	7,043	6,703
Depreciation and amortization	4,844	5,629
Telephone	3,403	3,500
Travel	2,682	9,135
Meals and entertainment	78	214
Employee benefits	-	192
Education	1,547	697
Occupancy costs	7,980	5,975
Brochures	15,046	2,240
Equipment rental	-	4,191
Board retreat	14,180	-
Miscellaneous	375	-
Total expenses	<u>1,989,570</u>	<u>1,602,059</u>
Change in net assets before change in accounting principle	18,651,949	5,035,962
Change in accounting principle (Notes 1 and 6)	<u>1,460,837</u>	<u>-</u>
Change in net assets	20,112,786	5,035,962
Net assets, beginning of year	<u>27,106,324</u>	<u>22,070,362</u>
Net assets, end of year	<u>\$47,219,110</u>	<u>\$27,106,324</u>

See Notes to Financial Statements

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

Statements of Cash Flows

	Years Ended December 31	
	1996	1995
Cash flows from operating activities		
Change in net assets	<u>\$20,112,786</u>	<u>\$ 5,035,962</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	4,844	5,629
Amortization of discounts and premiums on investments, net	112,077	192,590
(Gain) loss on sale of investments	(24,115)	67,523
Unrealized loss on investments	143,848	-
Change in operating assets and liabilities		
(Increase) decrease in		
Accounts receivable	(2,280)	-
Accrued interest receivable	187,242	(113,855)
Prepaid expenses	-	6,685
Increase (decrease) in		
Accounts payable	(24,741)	(2,257)
Accrued expenses	1,353	184
Estimated claims reserve	(16,800,000)	(1,500,000)
Deferred revenue, participant assessments	<u>65,998</u>	<u>(237,087)</u>
Total adjustments	<u>(16,335,774)</u>	<u>(1,580,588)</u>
Net cash provided by operating activities	<u>3,777,012</u>	<u>3,455,374</u>
Cash flows from investing activities		
Purchase of property and equipment	(5,720)	-
Purchases of investment securities	(21,929,918)	(27,052,123)
Proceeds from sale and maturity of investment securities	19,984,590	24,104,483
Purchases of real estate	<u>(2,293,729)</u>	<u>-</u>
Net cash used in investing activities	<u>(4,244,777)</u>	<u>(2,947,640)</u>
Net increase (decrease) in cash and cash equivalents	(467,765)	507,734
Cash and cash equivalents, beginning of year	<u>3,754,191</u>	<u>3,246,457</u>
Cash and cash equivalents, end of year	<u>\$ 3,286,426</u>	<u>\$ 3,754,191</u>

See Notes to Financial Statements

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

Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

The Program was established under 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 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 funding from the government.

Significant Accounting Policies

Basis of Accounting

The Program prepares its financial statements on an accrual basis in accordance with generally accepted accounting principles.

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 on the accompanying balance sheets. At December 31, 1995, the Program had cash balances in a financial institution that exceeded federal depository insurance limits.

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

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

Notes to Financial Statements

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 expenditures for the periods.

Use of Estimates in the Preparation of Financial Statements

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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Current Accounting Developments

The Program adopted Financial Accounting Standards Board (FASB) Statement No. 117, "Financial Statements of Not-for-Profit Organizations". The Statement requires classification of the Program's net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted and unrestricted - be displayed in a balance sheet and that the amounts of change in each of those classes of net assets be displayed in the statement of revenue, expenses and change in net assets.

The Program has adopted FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". The Statement requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of revenue, expenses and changes in net assets. It also requires certain disclosures about investments held and return on those investments. The effect on the Program from adopting this statement was the recognition of a cumulative change in accounting principle of \$938,495.

NOTE 2 - LEASE COMMITMENT

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. Rent for 1996 and 1995, respectively, was \$13,140 and \$13,148.

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

Notes to Financial Statements

NOTE 3 - INVESTMENTS, CAPITOLINE INVESTMENT ACCOUNT

Investments are carried at market value. An analysis of investments at December 31, 1996 and 1995, is as follows:

	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government obligations	\$35,967,286	\$ 224,514	\$ 282,155	\$35,909,645
Corporate bonds	<u>26,288,203</u>	<u>135,366</u>	<u>221,574</u>	<u>26,201,995</u>
	<u>\$62,255,489</u>	<u>\$ 359,880</u>	<u>\$ 503,729</u>	<u>\$62,111,640</u>

	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government obligations	\$35,442,384	\$ 578,685	\$ 85,877	\$35,935,192
Corporate bonds	<u>24,955,738</u>	<u>451,533</u>	<u>5,846</u>	<u>25,401,425</u>
	<u>\$60,398,122</u>	<u>\$1,030,218</u>	<u>\$ 91,723</u>	<u>\$ 61,336,617</u>

NOTE 4 - ESTIMATED CLAIMS RESERVE

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 nonfarm wages.

Significant assumptions include:

Rate of inflation of medical, hospital custodial and rehabilitation expenses	7.1%
Rate of increase in Virginia private nonfarm wages	2.9%
Investment earnings rate	5.8%

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

Notes to Financial Statements

NOTE 4 - ESTIMATED CLAIMS RESERVE (Continued)

During 1996, the estimated claims reserve was decreased, based on the actual experience of the Program. The result was to recognize \$16,800,000 and \$1,500,000 in revenue from the decrease in estimated claims expense for 1996 and 1995, respectively.

NOTE 5 - SALARIES AND BENEFITS

Included in salaries expense on the statements of revenue, expenses and changes in net assets for 1996 and 1995, 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 1996 and 1995, these additional amounts paid were equal to 24% of the employees' base salaries.

NOTE 6 - HOUSING COSTS AND CHANGE IN ACCOUNTING METHOD

Under guidelines established by the Board of Directors, the Program may approve the purchase or construction of a home for the family of a claimant subject to certain restrictions. The home will be held in a trust and will remain 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 the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

During 1996, the Program changed its method of accounting for these housing costs in order to better reflect the nature of these assets. The homes are now recorded as investments in real estate. Previously, these costs were included with reimbursed claims costs on the statement of revenue, expenses and changes in net assets each year. The effect of this change for 1996 resulted in an increase in investments in real estate of \$2,293,729. The cumulative effect of this change on years prior to January 1, 1996, of \$522,342, has been credited to operations in 1996.

NOTE 7 - RECLASSIFICATION

Certain expenses on the statement of revenue, expenses and changes in net assets for 1995 have been reclassified for comparative purposes.

TERRY, HAGEN & ATWOOD, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL

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

We have audited the financial statements of Virginia Birth-Related Neurological Injury Compensation Program as of and for the year ended December 31, 1996, and have issued our report thereon dated May 12, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *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 misstatements.

The management of the Program is responsible for establishing and maintaining internal control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of Virginia Birth-Related Neurological Injury Compensation Program for the year ended December 31, 1996, we obtained an understanding of internal control. With respect to internal control, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on internal control. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Program's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the financial statements.

Reportable Condition:

Organizational Structure

Although we have noted improvements in the assignment of accounting duties, a limited number of personnel makes segregation of duties difficult, if not impossible.

Management's Response:

Although the limited number of Program personnel continues to restrict management's ability to achieve an optimal level of segregation of duties, actions have been taken during recent years to provide additional internal controls. The Board continues to review and assess the Program's internal control structure, and additional enhancements will be investigated.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we do not believe the reportable condition described above is a material weakness.

We also noted other matters involving internal control and its operation that we have reported to the management of Virginia Birth-Related Neurological Injury Compensation Program in a separate letter dated May 12, 1998

This report is intended for the information of the Board of Directors, management, and offices of the Commonwealth of Virginia. However, this report is a matter of public record and its distribution is not limited.

Terry, Hogen & Atwood

May 12, 1998

TERRY, HAGEN & ATWOOD, P.C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

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

We have audited the financial statements of Virginia Birth-Related Neurological Injury Compensation Program as of and for the year ended December 31, 1996, and have issued our report thereon dated May 12, 1998.

We conducted our audit in accordance with generally accepted auditing standards and *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.

Compliance with laws, regulations, contracts, and grants applicable to Virginia Birth-Related Neurological Injury Compensation Program is the responsibility of the Program's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Virginia Birth-Related Neurological Injury Compensation Program's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the board of directors, management, and offices of the Commonwealth of Virginia. However, this report is a matter of public record and its distribution is not limited.

Terry, Hagen & Atwood

May 12, 1998

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

Balance Sheets

A S S E T S

	December 31	
	1996	1995
Current assets		
Cash and cash equivalents	\$ 3,286,426	\$ 3,754,191
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L I A B I L I T I E S A N D N E T A S S E T S

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**VIRGINIA BIRTH-RELATED NEUROLOGICAL
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**Statements of Revenue, Expenditures and
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	Years Ended December 31	
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Change in accounting principle (Notes 1 and 6)	1,460,837	-
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Net assets, end of year	\$47,219,110	\$27,106,324

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Statements of Cash Flows

	Years Ended December 31	
	1996	1995
Cash flows from operating activities		
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 Cash and cash equivalents, beginning of year	 <u>3,754,191</u>	 <u>3,246,457</u>
 Cash and cash equivalents, end of year	 <u>\$ 3,286,426</u>	 <u>\$ 3,754,191</u>

See Notes to Financial Statements

**VIRGINIA BIRTH-RELATED NEUROLOGICAL
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Notes to Financial Statements

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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Significant Accounting Policies

Basis of Accounting

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Cash and Cash Equivalents

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<u>Assets</u>	<u>Estimated Useful Life</u>
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Computer equipment	5 years
Computer software	5 years

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Notes to Financial Statements

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

Income Taxes

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Use of Estimates in the Preparation of Financial Statements

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Current Accounting Developments

The Program adopted Financial Accounting Standards Board (FASB) Statement No. 117, "Financial Statements of Not-for-Profit Organizations". The Statement requires classification of the Program's net assets and its revenues, expenses, gains and losses based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of three classes of net assets - permanently restricted, temporarily restricted and unrestricted - be displayed in a balance sheet and that the amounts of change in each of those classes of net assets be displayed in the statement of revenue, expenses and change in net assets.

The Program has adopted FASB Statement No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". The Statement requires that investments in equity securities with readily determinable fair values and all investments in debt securities be reported at fair value with gains and losses included in the statement of revenue, expenses and changes in net assets. It also requires certain disclosures about investments held and return on those investments. The effect on the Program from adopting this statement was the recognition of a cumulative change in accounting principle of \$938,495.

NOTE 2 - LEASE COMMITMENT

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. Rent for 1996 and 1995, respectively, was \$13,140 and \$13,148.

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

Notes to Financial Statements

NOTE 3 - INVESTMENTS, CAPITOLINE INVESTMENT ACCOUNT

Investments are carried at market value. An analysis of investments at December 31, 1996 and 1995, is as follows:

	1996			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government obligations	\$35,967,286	\$ 224,514	\$ 282,155	\$35,909,645
Corporate bonds	<u>26,288,203</u>	<u>135,366</u>	<u>221,574</u>	<u>26,201,995</u>
	<u>\$62,255,489</u>	<u>\$ 359,880</u>	<u>\$ 503,729</u>	<u>\$62,111,640</u>
	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government obligations	\$35,442,384	\$ 578,685	\$ 85,877	\$35,935,192
Corporate bonds	<u>24,955,738</u>	<u>451,533</u>	<u>5,846</u>	<u>25,401,425</u>
	<u>\$60,398,122</u>	<u>\$1,030,218</u>	<u>\$ 91,723</u>	<u>\$ 61,336,617</u>

NOTE 4 - ESTIMATED CLAIMS RESERVE

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 nonfarm wages.

Significant assumptions include:

Rate of inflation of medical, hospital custodial and rehabilitation expenses	7.1%
Rate of increase in Virginia private nonfarm wages	2.9%
Investment earnings rate	5.8%

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

Notes to Financial Statements

NOTE 4 - ESTIMATED CLAIMS RESERVE (Continued)

During 1996, the estimated claims reserve was decreased, based on the actual experience of the Program. The result was to recognize \$16,800,000 and \$1,500,000 in revenue from the decrease in estimated claims expense for 1996 and 1995, respectively.

NOTE 5 - SALARIES AND BENEFITS

Included in salaries expense on the statements of revenue, expenses and changes in net assets for 1996 and 1995, 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 1996 and 1995, these additional amounts paid were equal to 24% of the employees' base salaries.

NOTE 6 - HOUSING COSTS AND CHANGE IN ACCOUNTING METHOD

Under guidelines established by the Board of Directors, the Program may approve the purchase or construction of a home for the family of a claimant subject to certain restrictions. The home will be held in a trust and will remain 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 the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

During 1996, the Program changed its method of accounting for these housing costs in order to better reflect the nature of these assets. The homes are now recorded as investments in real estate. Previously, these costs were included with reimbursed claims costs on the statement of revenue, expenses and changes in net assets each year. The effect of this change for 1996 resulted in an increase in investments in real estate of \$2,293,729. The cumulative effect of this change on years prior to January 1, 1996, of \$522,342, has been credited to operations in 1996.

NOTE 7 - RECLASSIFICATION

Certain expenses on the statement of revenue, expenses and changes in net assets for 1995 have been reclassified for comparative purposes.

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

FINANCIAL REPORT

DECEMBER 31, 1995

INDEPENDENT AUDITORS' REPORT

To 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, 1995 and 1994, and the related statements of revenues, expenditures and changes in fund balance 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. 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, 1995 and 1994, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Mitchell, Wiggins & Company, LLP

Richmond, Virginia
June 25, 1996

LIABILITIES AND FUND BALANCE	1995	1994
Current Liabilities		
Accounts payable	\$ 26,788	\$ 29,045
Accrued expenses	5,929	5,745
Deferred revenue, participant assessments	928,042	1,165,129
Total current liabilities	960,759	1,199,919
Estimated claims reserve	37,300,000	38,800,000
Fund balance	27,106,324	22,070,362
	\$ 65,367,083	\$ 62,070,281

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

**STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

Years ended December 31, 1995 and 1994

	1995	1994
Revenue:		
Participating doctors	\$ 837,680	\$ 1,870,555
Participating hospitals	535,637	1,866,039
Investment income	3,832,227	3,414,321
Reduction in estimated claims reserve	1,500,000	1,600,000
Gain (loss) on sale of investments	(67,523)	5,165
Total unrestricted revenue	6,638,021	8,756,080
Expenditures:		
Investment fees	104,197	94,555
Salaries	66,278	60,543
Postage and mailing	1,975	7,391
Rent	13,148	14,235
Reimbursed claims cost	1,355,597	243,268
Temporary help	-	3,234
Computer services	2,139	-
Professional fees	18,697	68,454
Office	3,792	3,550
Payroll taxes	6,703	4,526
Depreciation and amortization	5,629	6,158
Telephone	3,500	2,135
Parking	1,690	1,320
Travel	9,135	1,112
Meals and entertainment	214	79
Employee benefits	192	385
Education	697	1,678
Miscellaneous	8,476	3,895
Total expenditures	1,602,059	516,518
Excess of revenue over expenditures	5,035,962	8,239,562
Fund balance, beginning	22,070,362	13,830,800
Fund balance, ending	\$27,106,324	\$22,070,362

See Notes to Financial Statements.

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Program was established under 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 of participating physicians and participating hospitals based on a sliding scale, 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.

The fund was found to be actuarially sound at the end of 1992, therefore, the mandatory assessment of \$250 per physician was not required after 1992.

The following is a summary of the Program's significant accounting policies.

Cash and cash equivalents: For purposes of reporting the statements 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 on the accompanying balance sheets. At December 31, 1995, the Program had cash balances in a financial institution that exceeded federal depository insurance limits.

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>Assets</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 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 expenditures for the periods.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates in the preparation of financial statements: 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Lease Commitment

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. Rent for the years ended December 31, 1995 and 1994, respectively, was \$13,148 and \$14,235.

Note 3. Investments, Capitoline Investment Account

Investments are carried at amortized cost. An analysis of investments at December 31, 1995 and 1994, is as follows:

	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U. S. Government obligations	\$35,442,384	\$ 578,685	\$ 85,877	\$35,935,192
Corporate bonds	24,955,738	451,533	5,846	25,401,425
	<u>\$60,398,122</u>	<u>\$1,030,218</u>	<u>\$ 91,723</u>	<u>\$61,336,617</u>

	1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U. S. Government obligations	\$36,298,374	\$ 6,698	\$1,553,394	\$34,751,678
Corporate bonds	21,412,222	18,386	552,402	20,878,206
	<u>\$57,710,596</u>	<u>\$ 25,084</u>	<u>\$2,105,796</u>	<u>\$55,629,884</u>

Note 4. Estimated Claims Reserve

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 nonfarm wages.

NOTES TO FINANCIAL STATEMENTS

Note 4. Estimated Claims Reserve (Continued)

Significant assumptions include:

Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%
Rate of increase in Virginia private nonfarm wages	2.8%
Investment earnings rate	6.0%

During 1995, the estimated claims reserve was decreased, based on the actual experience of the Program. The result was to recognize \$1,500,000 and \$1,600,000 in revenue from the decrease in estimated claims expense for 1995 and 1994, respectively.

Note 5. Salaries and Benefits

Included in salaries expense on the statements of revenues, expenditures and changes in fund balance for the years ended December 31, 1995 and 1994, 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 the year ended December 31, 1995 and 1994, these additional amounts paid were equal to 24% of the employees' base salaries.

Note 6. Housing Costs

Under guidelines established by the Board of Directors, the Program may approve the purchase or construction of a home for the family of a claimant subject to certain restrictions. The home will be held in a trust and will remain 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 will expire upon the death or institutionalization of the claimant, and will stipulate that the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

The annual costs associated with the acquisition of the homes is included in reimbursed claim costs on the statements of revenues, expenditures and changes in fund balances each year. Housing costs in the amount of \$511,337 and \$25,000 were incurred for the years ended December 31, 1995 and 1994, respectively. In addition, as of December 31, 1995, the Program had approved the acquisition of four additional homes for claimants with an estimated total cost of approximately \$1,445,000.

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

BALANCE SHEETS

December 31, 1995 and 1994

ASSETS	1995	1994
Current Assets		
Cash and cash equivalents	\$ 3,754,191	\$ 3,246,457
Interest receivable	1,205,851	1,091,996
Prepaid expenses	-	6,685
	<hr/>	<hr/>
Total current assets	4,960,042	4,345,138
	<hr/>	<hr/>
Investments, Capitoline Investment Account	60,398,122	57,710,596
	<hr/>	<hr/>
Property and Equipment		
Office furniture and fixtures	6,279	6,279
Computer equipment and software	31,301	31,301
	<hr/>	<hr/>
	37,580	37,580
Less accumulated depreciation and amortization	28,661	23,033
	<hr/>	<hr/>
	8,919	14,547
	<hr/>	<hr/>
	\$65,367,083	\$62,070,281

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCE	1995	1994
Current Liabilities		
Accounts payable	\$ 26,788	\$ 29,045
Accrued expenses	5,929	5,745
Deferred revenue, participant assessments	928,042	1,165,129
Total current liabilities	960,759	1,199,919
Estimated claims reserve	37,300,000	38,800,000
Fund balance	27,106,324	22,070,362
	\$ 65,367,083	\$ 62,070,281

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

**STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

Years ended December 31, 1995 and 1994

	1995	1994
Revenue:		
Participating doctors	\$ 837,680	\$ 1,870,555
Participating hospitals	535,637	1,866,039
Investment income	3,832,227	3,414,321
Reduction in estimated claims reserve	1,500,000	1,600,000
Gain (loss) on sale of investments	(67,523)	5,165
Total unrestricted revenue	6,638,021	8,756,080
Expenditures:		
Investment fees	104,197	94,555
Salaries	66,278	60,543
Postage and mailing	1,975	7,391
Rent	13,148	14,235
Reimbursed claims cost	1,355,597	243,268
Temporary help	-	3,234
Computer services	2,139	-
Professional fees	18,697	68,454
Office	3,792	3,550
Payroll taxes	6,703	4,526
Depreciation and amortization	5,629	6,158
Telephone	3,500	2,135
Parking	1,690	1,320
Travel	9,135	1,112
Meals and entertainment	214	79
Employee benefits	192	385
Education	697	1,678
Miscellaneous	8,476	3,895
Total expenditures	1,602,059	516,518
Excess of revenue over expenditures	5,035,962	8,239,562
Fund balance, beginning	22,070,362	13,830,800
Fund balance, ending	\$27,106,324	\$22,070,362

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS
Years Ended December 31, 1995 and 1994**

	1995	1994
Cash Flows From Operating Activities		
Excess of revenue over expenditures	\$ 5,035,962	\$ 8,239,562
Adjustments to reconcile excess of revenue over expenditures to net cash provided by operating activities:		
Depreciation and amortization	5,629	6,158
Amortization of discounts and premiums on investments, net	192,590	286,088
(Gain) loss on sale of investments	67,523	(5,165)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Account receivable	-	185,400
Accrued interest receivable	(113,855)	(290,300)
Prepaid expenses	6,685	(5,327)
Increase (decrease) in:		
Accounts payable	(2,257)	(5,584)
Accrued expenses	184	(2,407)
Estimated claims reserve	(1,500,000)	(1,600,000)
Deferred revenue, participant assessments	(237,087)	(2,533,280)
Net cash provided by operating activities	<u>3,455,374</u>	<u>4,275,145</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	-	(4,639)
Purchases of investment securities	(27,052,123)	(16,542,391)
Proceeds from sale and maturity of investment securities	24,104,483	11,269,350
Net cash (used in) investing activities	<u>(2,947,640)</u>	<u>(5,277,680)</u>
Net increase (decrease) in cash and cash equivalents	507,734	(1,002,535)
Cash and cash equivalents, beginning	3,246,457	4,248,992
Cash and cash equivalents, ending	<u>\$ 3,754,191</u>	<u>\$ 3,246,457</u>

See Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies

Nature of activities: The Program was established under 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 of participating physicians and participating hospitals based on a sliding scale, 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.

The fund was found to be actuarially sound at the end of 1992, therefore, the mandatory assessment of \$250 per physician was not required after 1992.

The following is a summary of the Program's significant accounting policies.

Cash and cash equivalents: For purposes of reporting the statements 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 on the accompanying balance sheets. At December 31, 1995, the Program had cash balances in a financial institution that exceeded federal depository insurance limits.

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>Assets</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 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 expenditures for the periods.

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Significant Accounting Policies (Continued)

Use of estimates in the preparation of financial statements: 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Lease Commitment

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. Rent for the years ended December 31, 1995 and 1994, respectively, was \$13,148 and \$14,235.

Note 3. Investments, Capitoline Investment Account

Investments are carried at amortized cost. An analysis of investments at December 31, 1995 and 1994, is as follows:

	1995			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U. S. Government obligations	\$35,442,384	\$ 578,685	\$ 85,877	\$35,935,192
Corporate bonds	24,955,738	451,533	5,846	25,401,425
	<u>\$60,398,122</u>	<u>\$1,030,218</u>	<u>\$ 91,723</u>	<u>\$61,336,617</u>

	1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U. S. Government obligations	\$36,298,374	\$ 6,698	\$1,553,394	\$34,751,678
Corporate bonds	21,412,222	18,386	552,402	20,878,206
	<u>\$57,710,596</u>	<u>\$ 25,084</u>	<u>\$2,105,796</u>	<u>\$55,629,884</u>

Note 4. Estimated Claims Reserve

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 nonfarm wages.

NOTES TO FINANCIAL STATEMENTS

Note 4. Estimated Claims Reserve (Continued)

Significant assumptions include:

Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%
Rate of increase in Virginia private nonfarm wages	2.8%
Investment earnings rate	6.0%

During 1995, the estimated claims reserve was decreased, based on the actual experience of the Program. The result was to recognize \$1,500,000 and \$1,600,000 in revenue from the decrease in estimated claims expense for 1995 and 1994, respectively.

Note 5. Salaries and Benefits

Included in salaries expense on the statements of revenues, expenditures and changes in fund balance for the years ended December 31, 1995 and 1994, 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 the year ended December 31, 1995 and 1994, these additional amounts paid were equal to 24% of the employees' base salaries.

Note 6. Housing Costs

Under guidelines established by the Board of Directors, the Program may approve the purchase or construction of a home for the family of a claimant subject to certain restrictions. The home will be held in a trust and will remain 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 will expire upon the death or institutionalization of the claimant, and will stipulate that the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations.

The annual costs associated with the acquisition of the homes is included in reimbursed claim costs on the statements of revenues, expenditures and changes in fund balances each year. Housing costs in the amount of \$511,337 and \$25,000 were incurred for the years ended December 31, 1995 and 1994, respectively. In addition, as of December 31, 1995, the Program had approved the acquisition of four additional homes for claimants with an estimated total cost of approximately \$1,445,000.

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

FINANCIAL REPORT

DECEMBER 31, 1994

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of Virginia Birth-Related Neurological Injury Compensation Program as of December 31, 1994, and the related statements of revenues, expenditures and changes in fund balance and cash flows for the year 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 audit. The financial statements of Virginia Birth-Related Neurological Injury Compensation Program for the year ended December 31, 1993, were audited by other auditors whose report, dated August 22, 1994, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 1994 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, 1994, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Mitchell, Wiggins & Company, LLP

Richmond, Virginia
December 22, 1995

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

**STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

Years ended December 31, 1994 and 1993

	1994	1993
Revenue:		
• Participating doctors	\$ 1,870,555	\$ 2,065,352
• Participating hospitals	1,866,039	2,004,550
• Investment income	3,414,321	3,263,896
• Reduction in estimated claims reserve	1,600,000	-
• Gain on sale of investments	5,165	499,707
Total unrestricted revenue	8,756,080	7,833,505
Expenditures:		
• Investment fees	94,555	189,568
• Salaries	60,543	49,301
• Postage and mailing	7,391	9,685
• Rent	14,235	13,140
• Reimbursed claims cost	243,268	97,768
• Temporary help	3,234	160
• Computer services	-	2,851
• Professional fees	68,454	16,542
• Office	3,550	2,763
• Payroll taxes	4,526	3,772
• Depreciation and amortization	6,158	5,353
• Telephone	2,135	2,774
• Bank service charges	-	619
• Parking	1,320	978
• Travel	1,112	2,296
• Advertising	-	1,222
• Meals and entertainment	79	1,102
• Employee benefits	385	-
• Education	1,678	-
• Estimated claims cost	-	7,800,000
• Miscellaneous	3,895	2,285
Total expenditures	516,518	8,202,179
Excess (deficiency) of revenue over expenditures	8,239,562	(368,674)
Fund balance, beginning	13,830,800	14,199,474
Fund balance, ending	\$ 22,070,362	\$13,830,800

See Notes to Financial Statements.

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

**STATEMENTS OF CASH FLOWS
Years Ended December 31, 1994 and 1993**

	1994	1993
Cash Flows From Operating Activities		
Excess (deficiency) of revenue over expenditures	\$ 8,239,562	\$ (368,674)
Adjustments to reconcile excess (deficiency) of revenue over expenditures to net cash provided by operating activities:		
Depreciation and amortization	6,158	5,353
Amortization of investment discounts and premiums on investments, net	286,088	328,291
Gain on sale of investments	(5,165)	(499,707)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Account receivable	185,400	285,561
Accrued interest receivable	(290,300)	-
Prepaid expenses	(5,327)	8,314
Increase (decrease) in:		
Accounts payable	(5,584)	(586)
Accrued expenses	(2,407)	-
Estimated claims reserve	(1,600,000)	7,800,000
Deferred revenue, participant assessments	(2,533,280)	(325,679)
Net cash provided by operating activities	4,275,145	7,232,873
Cash Flows From Investing Activities		
Purchases of property and equipment	(4,639)	(1,258)
Purchases of investment securities	(16,542,391)	(24,497,234)
Proceeds from sale and maturity of investment securities	11,269,350	20,585,913
Net cash (used in) investing activities	(5,277,680)	(3,912,579)
Net increase (decrease) in cash and cash equivalents	(1,002,535)	3,320,294
Cash and cash equivalents, beginning	4,248,992	928,698
Cash and cash equivalents, ending	\$ 3,246,457	\$ 4,248,992

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

Note 2. Lease Commitment

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. Rent for the year ended December 31, 1994 and 1993, respectively, was \$14,235 and \$13,140.

Note 3. Investments, Capitoline Investment Account

Investments are carried at amortized cost. An analysis of investments at December 31, 1994 and 1993, is as follows:

	1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U. S. Government obligations	\$36,298,374	\$ 6,698	\$1,553,394	\$34,751,678
Corporate bonds	21,412,222	18,386	552,402	20,878,206
	<u>\$57,710,596</u>	<u>\$ 25,084</u>	<u>\$2,105,796</u>	<u>\$55,629,884</u>

	1993			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U. S. Government obligations	\$27,803,207	\$ 238,849	\$ -	\$28,042,056
Corporate bonds	24,915,271	812,549	-	25,727,820
	<u>\$52,718,478</u>	<u>\$1,051,398</u>	<u>\$ -</u>	<u>\$53,769,876</u>

Note 4. Estimated Claims Reserve

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 nonfarm wages.

NOTES TO FINANCIAL STATEMENTS

Note 4. Estimated Claims Reserve (Continued)

Significant assumptions include:

Rate of inflation of medical, hospital, custodial and rehabilitation expenses	7.5%
Rate of increase in Virginia private nonfarm wages	3.1%
Investment earnings rate	7.0%

During 1994, the estimated claims reserve was decreased, based on the actual experience of the Program. The result was to recognize \$1,600,000 in revenue from the decrease in estimated claims expense for 1994.

Note 5. Housing Costs

During 1994, \$25,000 was paid towards building a home for a claimant, not including associated legal fees. This amount has been included in reimbursed claim costs for the year ended December 31, 1994. The estimated total cost for the house, which was completed in 1995 is \$473,000. The house will be held in trust for the claimant and will revert back to the Program should the claimant die.

Note 6. Salaries and Benefits

Included in salaries expense on the statement of revenues, expenditures and changes in fund balance for the year ended December 31, 1994, 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 the year ended December 31, 1994, these additional amounts paid were equal to 24% of the employees' base salaries.

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

BALANCE SHEETS

December 31, 1994 and 1993

ASSETS	1994	1993
Current Assets		
Cash and cash equivalents	\$ 3,246,457	\$ 4,248,992
Accounts receivable:		
Participating doctors	-	110,000
Participating hospitals	-	75,400
Interest	1,091,996	801,696
Prepaid expenses	6,685	1,358
Total current assets	4,345,138	5,237,446
 Investments, Capitoline investment account	 57,710,596	 52,718,478
 Property and Equipment		
Office furniture and fixtures	6,279	6,279
Computer equipment and software	31,301	26,662
	37,580	32,941
Less accumulated depreciation and amortization	23,033	16,875
	14,547	16,066
	 \$62,070,281	 \$57,971,990

See Notes to Financial Statements.

LIABILITIES AND FUND BALANCE

	<u>1994</u>	<u>1993</u>
Current Liabilities		
Accounts payable	\$ 29,045	\$ 34,629
Accrued expenses	5,745	8,152
Deferred revenue, participant assessments	<u>1,165,129</u>	<u>3,698,409</u>
Total current liabilities	<u>1,199,919</u>	<u>3,741,190</u>
Estimated claims reserve	<u>38,800,000</u>	<u>40,400,000</u>
Fund balance	<u>22,070,362</u>	<u>13,830,800</u>
	<u>\$62,070,281</u>	<u>\$57,971,990</u>

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

**STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE**

Years ended December 31, 1994 and 1993

	1994	1993
Revenue:		
Participating doctors	\$ 1,870,555	\$ 2,065,352
Participating hospitals	1,866,039	2,004,550
Investment income	3,414,321	3,263,896
Reduction in estimated claims reserve	1,600,000	-
Gain on sale of investments	5,165	499,707
Total unrestricted revenue	8,756,080	7,833,505
Expenditures:		
Investment fees	94,555	189,568
Salaries	60,543	49,301
Postage and mailing	7,391	9,685
Rent	14,235	13,140
Reimbursed claims cost	243,268	97,768
Temporary help	3,234	160
Computer services	-	2,851
Professional fees	68,454	16,542
Office	3,550	2,763
Payroll taxes	4,526	3,772
Depreciation and amortization	6,158	5,353
Telephone	2,135	2,774
Bank service charges	-	619
Parking	1,320	978
Travel	1,112	2,296
Advertising	-	1,222
Meals and entertainment	79	1,102
Employee benefits	385	-
Education	1,678	-
Estimated claims cost	-	7,800,000
Miscellaneous	3,895	2,285
Total expenditures	516,518	8,202,179
Excess (deficiency) of revenue over expenditures	8,239,562	(368,674)
Fund balance, beginning	13,830,800	14,199,474
Fund balance, ending	\$ 22,070,362	\$ 13,830,800

See Notes to Financial Statements.

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

STATEMENTS OF CASH FLOWS

Years Ended December 31, 1994 and 1993

	1994	1993
Cash Flows From Operating Activities		
Excess (deficiency) of revenue over expenditures	\$ 8,239,562	\$ (368,674)
Adjustments to reconcile excess (deficiency) of revenue over expenditures to net cash provided by operating activities:		
Depreciation and amortization	6,158	5,353
Amortization of investment discounts and premiums on investments, net	286,088	328,291
Gain on sale of investments	(5,165)	(499,707)
Changes in operating assets and liabilities:		
(Increase) decrease in:		
Account receivable	185,400	285,561
Accrued interest receivable	(290,300)	-
Prepaid expenses	(5,327)	8,314
Increase (decrease) in:		
Accounts payable	(5,584)	(586)
Accrued expenses	(2,407)	-
Estimated claims reserve	(1,600,000)	7,800,000
Deferred revenue, participant assessments	(2,533,280)	(325,679)
Net cash provided by operating activities	<u>4,275,145</u>	<u>7,232,873</u>
Cash Flows From Investing Activities		
Purchases of property and equipment	(4,639)	(1,258)
Purchases of investment securities	(16,542,391)	(24,497,234)
Proceeds from sale and maturity of investment securities	11,269,350	20,585,913
Net cash (used in) investing activities	<u>(5,277,680)</u>	<u>(3,912,579)</u>
Net increase (decrease) in cash and cash equivalents	(1,002,535)	3,320,294
Cash and cash equivalents, beginning	4,248,992	928,698
Cash and cash equivalents, ending	<u>\$ 3,246,457</u>	<u>\$ 4,248,992</u>

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

NOTES TO FINANCIAL STATEMENTS

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.

The fund was found to be actuarially sound at the end of 1992, therefore, the mandatory assessment of \$250 per physician was not required for 1993 or 1994.

The following is a summary of the Program's significant accounting policies.

Cash and cash equivalents: For purposes of reporting the statements 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 on the accompanying balance sheets. At December 31, 1994, the Program had cash balances in a financial institution that exceeded federal depository insurance limits.

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>Assets</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 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 expenditures for the periods.

NOTES TO FINANCIAL STATEMENTS

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