FINANCIAL STATEMENTS
YEARS ENDED
DECEMBER 31, 1999 AND 1998

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

GOODMAN & COMPANY, L.L.P.
Certified Public Accountants and Business Consultants

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

CONTENTS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Virginia Birth-Related Neurological
Injury Compensation Program

We have audited the accompanying statements of financial position of the ***Virginia Birth-Related Neurological Injury Compensation Program*** as of December 31, 1999 and 1998, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ***Virginia Birth-Related Neurological Injury Compensation Program*** as of December 31, 1999 and 1998, and changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 8, 2000, on our consideration of ***Virginia Birth-Related Neurological Injury Compensation Program's*** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Goodman & Company, L.L.P.

Richmond, Virginia
September 8, 2000

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF FINANCIAL POSITION

December 31,	1999	1998
ASSETS		
Current assets		
Cash and cash equivalents	**$ 4,404,959**	$ 7,241,004
Accrued income	**560,176**	655,285
Other receivable	**27,265**	2,280
Total current assets	**4,992,400**	7,898,569
Investments	**65,864,917**	62,868,648
Real estate held in trust	**5,336,475**	4,549,223
Property and equipment		
Automobiles	**17,238**	-
Office furniture and fixtures	**13,384**	13,384
Computer equipment and software	**42,764**	37,021
	73,386	50,405
Less - accumulated depreciation and amortization	**(45,498)**	(40,880)
	27,888	9,525
	$ 76,221,680	$ 75,325,965
LIABILITIES AND NET ASSETS		
Current liabilities		
Accrued expenses	**$ 7,371**	$ 7,371
Deferred revenue, participant assessments	**1,039,716**	1,133,832
Total current liabilities	**1,047,087**	1,141,203
Estimated claims reserve	**70,586,000**	24,700,000
Total liabilities	**71,633,087**	25,841,203
Net assets (deficit)		
Unrestricted	**(747,882)**	44,935,539
Unrestricted - board designated - real estate held in trust	**5,336,475**	4,549,223
Total net assets	**4,588,593**	49,484,762
	$ 76,221,680	$ 75,325,965

The accompanying notes are an integral part of these financial statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF CASH FLOWS

Years Ended December 31,	1999	1998
Cash flows from operating activities		
Change in unrestricted net assets	**$ (44,896,169)**	$ 5,012,029
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	**4,618**	3,653
Amortization of discounts and premiums on investments - net	**-**	82,336
Gain on sale of investments	**(610,542)**	(1,394,252)
Unrealized gain on investments	**(356,062)**	(3,095,486)
Loss on sale of real estate	**-**	15,885
Changes in:		
Accrued income	**95,109**	72,216
Other receivable	**(24,985)**	-
Accounts payable	**-**	(3,848)
Accrued expenses	**-**	(1,452)
Deferred revenue, participant assessments	**(94,116)**	184,611
Estimated claims reserve	**45,886,000**	-
Total adjustments	**44,900,022**	(4,136,337)
Net cash provided by operating activities	**3,853**	875,692
Cash flows from investing activities		
Purchase of property and equipment	**(22,980)**	-
Purchases of investment securities	**(66,297,391)**	(59,437,298)
Proceeds from sale and maturity of investment securities	**64,267,725**	59,854,894
Purchases of real estate	**(787,252)**	(779,545)
Proceeds from sale of real estate	**-**	172,647
Net cash used by investing activities	**(2,839,898)**	(189,302)
Net increase (decrease) in cash and cash equivalents	**(2,836,045)**	686,390
Cash and cash equivalents - beginning of year	**7,241,004**	6,554,614
Cash and cash equivalents - end of year	**$ 4,404,959**	$ 7,241,004

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

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENTS OF ACTIVITIES

Years Ended December 31,	1999	1998
Revenue		
Interest income	**2,671,968**	2,985,022
Participating doctors	**$ 687,250**	$ 622,250
Gain on sale of investments	**610,542**	1,394,252
Participating hospitals	**533,329**	399,003
Unrealized gain on investments	**356,062**	3,095,486
Dividends	**326,688**	241,438
Loss on sale of real estate	**-**	(15,885)
Total revenue	**5,185,839**	8,721,566
Expenses		
Increase in estimated claims reserve	**45,886,000**	-
Claims cost	**3,669,291**	3,244,358
Investment fees	**254,719**	244,164
Salaries and benefits	**96,202**	88,961
Professional fees	**51,203**	20,575
Advertising and brochures	**22,644**	18,155
Rent	**20,976**	17,753
Computer services	**12,387**	23,024
Telephone	**10,764**	7,303
Postage and mailing	**10,253**	2,458
Occupancy costs	**9,464**	6,799
Payroll taxes	**9,253**	8,232
Office	**8,755**	3,350
Miscellaneous	**6,495**	7,679
Depreciation and amortization	**4,618**	3,653
Automobile	**4,176**	-
Printing	**2,835**	-
Travel	**1,135**	1,477
Equipment rental	**600**	1,050
Education	**150**	344
Bank service charges	**56**	-
Dues and subscriptions	**32**	-
Meals and entertainment	**-**	10,202
Total expenses	**50,082,008**	3,709,537
Change in unrestricted net assets	**(44,896,169)**	5,012,029
Unrestricted net assets - beginning of year	**49,484,762**	44,472,733
Unrestricted net assets - end of year	**$ 4,588,593**	$ 49,484,762

The accompanying notes are an integral part of these financial statements

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The ***Virginia Birth-Related Neurological Injury Compensation Program*** ("Program") was established under the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The 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 government funding.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Program is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The financial statements report amounts separately by class of assets as follows:

> **Unrestricted** amounts are those currently available at the discretion of the Program's Board of Directors. The Program has only unrestricted net assets.

Board Designated – Real Estate Held in Trust

The Board of Directors has designated a portion of unrestricted net assets for real estate held in trust (see Note 7) totaling $5,336,475 and $4,549,223 at December 31, 1999 and 1998, respectively.

Cash and Cash Equivalents

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

Concentration of Credit Risk

The Program's financial instruments subject to concentration of credit risk consist of cash and cash equivalents. At times the Program has cash in excess of insured limits. Cash and cash equivalents are deposited in several financial institutions whose credit ratings are monitored by management. This policy mitigates the concentration of credit risk.

(Notes continued on next page)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

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

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

Income Taxes

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

Use of Estimates

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

Fair Value of Financial Instruments

The Program estimates that the fair value of all financial instruments at December 31, 1999 and 1998, do not materially differ from the carrying value recorded in the accompanying statements of financial position.

Advertising

The Program expenses advertising costs as incurred.

Reclassification

Certain amounts in the 1998 financial statements have been reclassified to conform to the 1999 presentation.

NOTE 3 – LEASE COMMITMENT

The Program leases office space under a three-year lease ending July 31, 2000. Rent under this lease was $20,976 and $17,753 for 1999 and 1998, respectively. Future minimum rental expense for the year ended 2000 is $12,000. Subsequent to July 31, 2000, the Program began leasing this space on a month-to-month basis and will continue to do so until a new lease for office space is negotiated.

(Notes continued on next page)

NOTE 4 – INVESTMENTS

Investments are carried at market value. An analysis of investments at December 31, 1999 and 1998, is as follows:

	December 31, 1999		
	Cost	**Unrealized Gains (Losses)**	**Estimated Market Value**
U.S. Government obligations	$ 16,516,484	$ (378,088)	$ 16,138,396
Corporate bonds	27,834,587	(989,699)	26,844,888
Stocks	17,381,589	5,500,044	22,881,633
	$ 61,732,660	$ 4,132,257	$ 65,864,917

	December 31, 1998		
	Cost	Unrealized Gains	Estimated Market Value
U.S. Government obligations	$ 18,701,268	$ 432,122	$ 19,133,390
Corporate bonds	21,842,224	319,933	22,162,157
Stocks	18,548,961	3,024,140	21,573,101
	$ 59,092,453	$ 3,776,195	$ 62,868,648

NOTE 5 – 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. The reserve is determined based on an actuarial study, which is mandated to be done no less frequently than biennially. Eligible costs under the Program are costs not otherwise paid by private insurance or other government programs. Costs 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 claims inflation	5.0%
Rate of increase in Virginia private nonfarm wages	3.7%
Investment earnings rate	4.3%

During 1999, an actuarial study was performed. Based on this study, the Program increased the estimated claims reserve at December 31, 1999 and recorded expense in 1999 for this increase in the amount of $45,886,000. Such a significant increase is a result of changes in assumptions used for the actuarial study. These changes are based on the actual experience of the Program.

(Notes continued on next page)

NOTE 6 – SALARIES AND BENEFITS

Included in salaries expense on the statements of activities for 1999 and 1998, 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 1999 and 1998, these additional amounts paid were equal to 24% of the employees' base salaries.

NOTE 7 – REAL ESTATE HELD IN TRUST

Under guidelines established by the Board of Directors, the Program 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 during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations. The real estate is valued at the lower of cost or market value. The adjustment to market value is reflected in claim cost for each year.

* * * * *

REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of ***Virginia Birth-Related Neurological Injury Compensation Program*** as of and for the year ended December 31, 1999, and have issued our report thereon dated September 8, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether ***Virginia Birth-Related Neurological Injury Compensation Program's*** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered ***Virginia Birth-Related Neurological Injury Compensation Program's*** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Virginia Birth-Related Neurological Injury Compensation Program's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying management letter dated September 8, 2000.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the 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 over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition mentioned above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Goodman & Company, L.L.P.

Richmond, Virginia
September 8, 2000

BALANCE SHEET

December 31, 1998 (With Comparative Totals for 1997)

ASSETS

	1998	1997
Current assets		
Cash and cash equivalents	**$ 7,241,004**	$ 6,554,614
Interest receivable	**655,285**	727,501
Other receivable	**2,280**	2,280
Total current assets	**7,898,569**	7,284,395
Investments	**62,868,648**	58,878,842
Real estate held in trust	**4,549,223**	3,958,210
Property and equipment		
Office furniture and fixtures	**13,384**	13,384
Computer equipment and software	**37,021**	37,021
	50,405	50,405
Less - accumulated depreciation and amortization	**(40,880)**	(37,227)
	9,525	13,178
	$ 75,325,965	$ 70,134,625

LIABILITIES AND NET ASSETS

	1998	1997
Current liabilities		
Accounts payable	**$ -**	$ 3,848
Accrued expenses	**7,371**	8,823
Deferred revenue, participant assessments	**1,133,832**	949,221
Total current liabilities	**1,141,203**	961,892
Estimated claims reserve	**24,700,000**	24,700,000
Unrestricted net assets	**49,484,762**	44,472,733
	$ 75,325,965	$ 70,134,625

The accompanying notes are an integral part of these financial statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN UNRESTRICTED NET ASSETS

Year Ended December 31, 1998 (With Comparative Totals for 1997)

	1998	1997
Revenue		
Participating doctors	$ 622,250	$ 743,081
Participating hospitals	399,003	461,628
Interest and dividends	3,226,460	3,821,405
Gain on sale of investments	1,394,252	113,980
Unrealized gain on investments	3,095,486	822,085
Loss on sale of real estate	(15,885)	-
Total revenue	8,721,566	5,962,179
Expenses		
Claims cost	3,244,358	4,015,113
Increase in estimated claims reserve	-	4,200,000
Investment fees	244,164	181,634
Salaries and benefits	88,961	93,812
Computer services	23,024	18,607
Professional fees	20,575	106,050
Brochures	18,155	13,459
Rent	17,753	18,718
Meals and entertainment	10,202	4,930
Payroll taxes	8,232	7,138
Miscellaneous	7,679	8,373
Telephone	7,303	11,600
Occupancy costs	6,799	3,894
Depreciation and amortization	3,653	3,722
Office	3,350	3,460
Postage and mailing	2,458	9,347
Travel	1,477	3,515
Equipment rental	1,050	695
Continuing education	344	2,011
Insurance	-	2,478
Total program expenses	3,709,537	8,708,556
Changes in unrestricted net assets	5,012,029	(2,746,377)
Unrestricted net assets - beginning of year	44,472,733	47,219,110
Unrestricted net assets - end of year	$ 49,484,762	$ 44,472,733

The accompanying notes are an integral part of these financial statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

STATEMENT OF CASH FLOWS

Year Ended December 31, 1998 (With Comparative Totals for 1997)

	1998	1997
Cash flows from operating activities		
Change in unrestricted net assets	$ 5,012,029	$ (2,746,377)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	3,653	3,722
Amortization of discounts and premiums on investments -net	82,336	30,620
Gain on sale of investments	(1,394,252)	(113,980)
Unrealized gain on investments	(3,095,486)	(822,085)
Loss on sale of real estate	15,885	-
Changes in:		
Interest receivable	72,216	291,108
Accounts payable	(3,848)	1,801
Accrued expenses	(1,452)	1,541
Deferred revenue, participant assessments	184,611	(44,819)
Estimated claims reserve	-	4,200,000
Total adjustments	(4,136,337)	(652,092)
Net cash provided by operating activities	875,692	801,531
Cash flows from investing activities		
Purchase of property and equipment	-	(7,106)
Purchases of investment securities	(59,437,298)	(33,571,357)
Proceeds from sale and maturity of investment securities	59,854,894	37,709,601
Purchases of real estate	(779,545)	(1,664,481)
Proceeds from sale of real estate	172,647	-
Net cash provided (used) by investing activities	(189,302)	2,466,657
Net increase in cash and cash equivalents	686,390	3,268,188
Cash and cash equivalents - beginning of year	6,554,614	3,286,426
Cash and cash equivalents - end of year	$ 7,241,004	$ 6,554,614

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

NOTE 1 – NATURE OF ACTIVITIES

The ***Virginia Birth-Related Neurological Injury Compensation Program*** ("Program") was established under the Virginia Birth-Related Neurological Injury Compensation Act (1987, c.540). The 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 government funding.

NOTE 2 – SUMMARY OF 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.

Concentration of Credit Risk

The Program's financial instruments subject to concentration of credit risk consist of cash and cash equivalents. At times the Program has cash in excess of insured limits. Cash and cash equivalents are deposited in several financial institutions whose credit ratings are monitored by management. This policy mitigates the concentration of credit risk.

Property and Equipment

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

Asset	Estimated Useful Life
Office furniture and equipment	7 years
Computer equipment	5 years
Computer software	5 years

Income Taxes

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

(Notes continued on next page)

NOTE 2 – SUMMARY OF 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. Such estimates also affect the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the 1997 financial statements have been reclassified to conform with the 1998 presentation.

NOTE 3 – LEASE COMMITMENT

The Program leases office space under a three-year lease ending July 31, 2000. Rent under this lease was $17,753 and $18,718 for 1998 and 1997, respectively. Future minimum rental expense is as follows:

1999	$ 20,283
2000	$ 6,222

NOTE 4 – INVESTMENTS

Investments are carried at market value. An analysis of investments at December 31, 1998 and 1997, is as follows:

	December 31, 1998			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Market Value**
U.S. Government obligations	**$ 18,701,268**	**$ 440,276**	**$ 8,154**	**$ 19,133,390**
Corporate bonds	**21,842,224**	**324,576**	**4,643**	**22,162,157**
Stocks	**18,548,961**	**4,006,114**	**981,974**	**21,573,101**
	$ 59,092,453	**$ 4,770,966**	**$ 994,771**	**$ 62,868,648**

	December 31, 1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government obligations	$ 27,599,569	$ 269,368	$ 47,788	$ 27,821,149
Corporate bonds	19,801,998	161,692	46,452	19,917,238
Stocks	10,799,038	631,214	289,797	11,140,455
	$ 58,200,605	$ 1,062,274	$ 384,037	$ 58,878,842

(Notes continued on next page)

NOTE 5 – 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 and is revalued every other year. 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%

During 1997, the estimated claims reserve was increased, based on the actual experience of the Program. The result was to recognize $4,200,000 in expense from the increase in estimated claims expense.

NOTE 6 – SALARIES AND BENEFITS

Included in salaries expense on the statements of revenue, expenses and changes in net assets for 1998 and 1997, 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 1998 and 1997, these additional amounts paid were equal to 24% of the employees' base salaries.

NOTE 7 – REAL ESTATE HELD IN TRUST

Under guidelines established by the Board of Directors, the Program 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 during occupancy the family is responsible for the payment of utilities, general maintenance of the home, and certain other similar obligations. The real estate is valued at the lower of cost or market value. The adjustment to market value is reflected in claim cost for each year.

* * * * *

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Balance Sheets

A S S E T S

	December 31 1997	December 31 1996
Current assets		
Cash and cash equivalents	$ 6,554,614	$ 3,286,426
Interest receivable	727,501	1,018,609
Other receivables	2,280	2,280
Total current assets	7,284,395	4,307,315
Investments	58,878,842	62,111,640
Real estate held in trust	3,958,210	2,293,729
Property and equipment		
Office furniture and fixtures	13,384	6,279
Computer equipment and software	37,021	37,021
	50,405	43,300
Less accumulated depreciation and amortization	37,227	33,505
	13,178	9,795
	$70,134,625	$68,722,479

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

	1997	1996
Current liabilities		
Accounts payable	$ 3,848	$ 2,047
Accrued expenses	8,823	7,282
Deferred revenue, participant assessments	949,221	994,040
Total current liabilities	961,892	1,003,369
Estimated claims reserve	24,700,000	20,500,000
Unrestricted net assets	44,472,733	47,219,110
	$70,134,625	$68,722,479

See Notes to Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statements of Revenue, Expenses and Changes in Net Assets

	Years Ended December 31 1997	1996
Revenue		
Participating doctors	$ 743,081	$ 658,623
Participating hospitals	461,628	367,169
Interest income	3,809,706	3,873,954
Dividend income	11,699	-
(Increase) reduction in estimated claims reserve	(4,200,000)	16,800,000
Gain on sale of investments	113,980	24,115
Unrealized gain (loss) on investments	822,085	(1,082,342)
Total revenue	1,762,179	20,641,519
Expenses		
Investment fees	181,634	105,083
Salaries	93,812	86,530
Postage and mailing	9,347	13,854
Rent	18,718	13,140
Reimbursed claims cost	4,015,113	1,682,819
Computer services	18,607	3,720
Professional fees	106,050	24,950
Office	3,460	2,296
Payroll taxes	7,138	7,043
Depreciation and amortization	3,722	4,844
Telephone	11,600	3,403
Travel	3,515	2,682
Meals and entertainment	24	78
Education	2,011	1,547
Occupancy costs	3,894	7,980
Brochures	13,459	15,046
Equipment rental	695	-
Board retreat	4,906	14,180
Miscellaneous	8,373	375
Insurance	2,478	-
Total expenses	4,508,556	1,989,570
Change in unrestricted net assets before change in accounting principle	(2,746,377)	18,651,949
Change in accounting principle (Notes 1 and 6)	-	1,460,837
Change in unrestricted net assets	(2,746,377)	20,112,786
Unrestricted net assets, beginning of year	47,219,110	27,106,324
Unrestricted net assets, end of year	$44,472,733	$47,219,110

See Notes to Financial Statements

VIRGINIA BIRTH-RELATED NEUROLOGICAL INJURY COMPENSATION PROGRAM

Statements of Cash Flows

	Years Ended December 31	
	1997	1996
Cash flows from operating activities		
Change in net assets	($ 2,746,377)	$20,112,786
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	3,722	4,844
Amortization of discounts and premiums on investments, net	30,620	112,077
Gain on sale of investments	(113,980)	(24,115)
Unrealized (gain) loss on investments	(822,085)	143,848
(Increase) decrease in		
Accounts receivable	-	(2,280)
Accrued interest receivable	291,108	187,242
Increase (decrease) in		
Accounts payable	1,801	(24,741)
Accrued expenses	1,541	1,353
Estimated claims reserve	4,200,000	(16,800,000)
Deferred revenue, participant assessments	(44,819)	65,998
Total adjustments	3,547,908	(16,335,774)
Net cash provided by operating activities	801,531	3,777,012
Cash flows from investing activities		
Purchase of property and equipment	(7,106)	(5,720)
Purchases of investment securities	(33,571,357)	(21,929,918)
Proceeds from sale and maturity of investment securities	37,709,601	19,984,590
Purchases of real estate	(1,664,481)	(2,293,729)
Net cash provided by (used in) investing activities	2,466,657	(4,244,777)
Net increase (decrease) in cash and cash equivalents	3,268,188	(467,765)
Cash and cash equivalents, beginning of year	3,286,426	3,754,191
Cash and cash equivalents, end of year	$ 6,554,614	$ 3,286,426

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.

Concentration of Credit Risk

The Program's financial instruments subject to concentration of credit risk consist of cash and cash equivalents. At times the Program has cash in excess of insured limits. Cash and cash equivalents are deposited in several financial institutions whose credit ratings are monitored by management. This policy mitigates the concentration of credit risk.

Property and Equipment

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

Assets	Estimated Useful Life
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. Such estimates also affect the reported amount of revenue 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 revenue, 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 unrestricted 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 unrestricted 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, which increased to $1,579 in August 1997, and may be terminated upon three months' written notice. Rent for 1997 and 1996, respectively, was $18,718 and $13,140.

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, 1997 and 1996, is as follows:

	1997			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
U.S. Government obligations	$27,599,569	$ 269,368	$ 47,788	$27,821,149
Corporate bonds	19,801,998	161,692	46,452	19,917,238
Stocks	10,799,038	631,214	289,797	11,140,455
	$58,200,605	$1,062,274	$ 384,037	$58,878,842

	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	26,288,203	135,366	221,574	26,201,995
	$62,255,489	$ 359,880	$ 503,729	$62,111,640

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 1997, the estimated claims reserve was increased, based on the actual experience of the Program. The result was to recognize $4,200,000 in expense from the increase in estimated claims expense for 1997. In 1996, $16,800,000 was recognized as revenue due to a decrease in estimated claims expense.

NOTE 5 - SALARIES AND BENEFITS

Included in salaries expense on the statements of revenue, expenses and changes in net assets for 1997 and 1996, 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 1997 and 1996, 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.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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 years ended December 31, 1997 and 1996, and have issued our report thereon dated August 6, 1998. We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Program's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements of Virginia Birth-Related Neurological Injury Compensation Program for the years ended December 31, 1997 and 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 internal control 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 internal control 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 controls, and additional enhancements will be investigated.

A material weakness is a reportable condition in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that misstatements 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 August 6, 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.

August 6, 1998